

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



CONSOLIDATED FINANCIAL STATEMENTS
For year ended on
December 31, 2021

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

SUMMARY:**PAGE:**

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S.P.E.E.H. HIDROELECTRICA S.A. a two-tier company
CONSOLIDATED STATEMENT OF THE FINANCIAL POSITION
ON DECEMBER 31, 2021
(All amounts are expressed in RON, unless otherwise stated)

	Note	31 December 2021	31 December 2020
Assets			
Fixed assets			
Tangible assets			
Intangible assets	5	18,097,930,261	13,950,681,039
Investments in branches	6	44,155,452	4,598,459
Loans to branches		-	10,257,471
Long-term restricted cash	16	15,081,440	-
Other assets	9	219,920,208	220,278,961
Total fixed assets		18,377,087,361	14,185,815,930
Assets			
Fixed assets	7	65,304,652	68,255,027
Tangible assets		34,781,138	-
Intangible assets	8	662,693,754	361,526,411
Investments in branches	10	2,561,467,287	1,730,071,123
Loans to branches	11	1,104,890,224	354,845,179
Long-term restricted cash		10,257,471	-
Other assets	9	45,819,600	15,933,548
Total assets		4,485,214,126	2,530,631,288
Assets		22,862,301,487	16,716,447,218
Equity and liabilities			
Equity			
Share capital	12	4,484,474,670	4,484,474,670
Adjustment of inflation to share capital	12	1,028,872,000	1,028,872,000
Unpaid subscribed capital	12	120,150	-
Public patrimony		45,324,243	45,285,243
Revaluation reserve	12	9,675,586,950	6,094,876,693
Other reserves	12	962,074,418	780,501,341
Retained earnings		3,035,211,627	2,084,633,002
Total equity		19,231,664,058	14,518,642,949
Liabilities			
Long-term liabilities			
Loans	13	483,918,626	3,394,622
Leasing		8,913,718	14,630,302
Deferred income	15	141,846,100	144,943,438
Deferred tax liabilities	16	1,211,793,996	692,352,657
Employees' benefits	17 B	122,949,208	117,136,550
Provisions	19	670,560,971	620,019,785
Trade receivables	14	2,506,493	5,642,745
Other liabilities	18	18,880,911	30,849,610
Total long-term liabilities		2,661,370,023	1,628,969,709

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S.P.E.E.H. HIDROELECTRICA S.A. a two-tier company
CONSOLIDATED STATEMENT OF THE FINANCIAL POSITION
ON DECEMBER 31, 2021
(All amounts are expressed in RON, unless otherwise stated)

	Note	31 December 2021	31 December 2020
Current liabilities			
Current long-term loans	13	93,876,520	28,527,674
Current leasing		3,592,402	6,383,664
Trade payables	14	171,420,566	172,745,871
Debts related to contracts with clients	20	93,330,569	73,660,217
Tax on current profit		123,394,200	81,406,169
Deferred revenues	15	5,723,557	5,528,446
Employees' benefits	17 A	54,456,481	77,260,225
Provisions	19	117,752,272	88,497,822
Other current liabilities	18	305,720,839	34,824,472
Total current liabilities		969,267,406	568,834,560
Total liabilities		3,630,637,429	2,197,804,269
Total equity and liabilities		22,862,301,487	16,716,447,218

The accompanying notes represent integral part of these financial statements

Bogdan BADEA	Marian BRATU	Radu POP	Cristian VLADOIANU	Razvan PATALIU
Chairman of Directorate	Member of Directorate	Member of Directorate	Member of Directorate	Member of Directorate

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
CONSOLIDATED STATEMENT ON PROFIT OR LOSS AND OTHER ELEMENTS OF THE OVERALL RESULT
FOR THE YEAR ENDED ON DECEMBER 31, 2021
(All amounts are expressed in RON, unless otherwise stated)

	Note	2021	2020
Revenues			
Sales of electricity	20	6,489,296,814	3,841,442,936
Other operating revenues	22	209,426,445	35,326,056
Total Revenues		6,698,723,259	3,876,768,992
Operating expenses			
Expenses with turbinated water		(540,144,911)	(307,076,999)
Salaries and other emoluments	17 C	(586,965,182)	(500,354,532)
Expenses with repairs and maintenance, materials and consumables		(97,811,366)	(61,649,063)
Transport and distribution of electricity	21	(90,120,575)	(15,383,268)
Purchased electricity		(52,184,051)	(13,950,890)
Expenditure on green certificates	5, 6	(760,503,040)	(766,581,129)
Depreciation of tangible and intangible assets	5, 6	(408,180,913)	(177,106,070)
Adjustments for impairment of tangible and intangible assets, net	8, 9	(19,555,101)	(18,109,960)
Adjustments for impairment of trade and other receivables, net		(5,053,078)	(27,279,875)
Depreciation adjustments, net		(65,621,900)	(103,812,103)
Movements in provisions	19	(30,448,263)	(33,400,270)
Other operating expenses	23	(469,728,363)	(158,376,875)
Total operating expenses		(3,126,316,743)	(2,183,081,034)
Operating Profit		3,572,406,516	1,693,687,958
Financial income	24	68,467,795	82,240,693
Financial expenses	24	(42,445,953)	(2,364,575)
Net financial result		26,021,842	79,876,118
Profit before income tax		3,598,428,358	1,773,564,076
Income tax	16	(512,812,341)	(330,397,323)
Net profit		3,085,616,017	1,443,166,753
Other elements of the overall result			
Revaluation of tangible fixed assets		4,647,936,429	-
Deferred tax related to revaluation reserve		(728,678,333)	-
Remeasuring employee benefit obligations, net of tax		(5,640,912)	-
Revaluation reserve adjustments, net of tax	12	-	(24,357,466)
Other elements of the overall result		3,913,617,184	(24,357,466)
Total overall result		6,999,233,201	1,418,809,287

The accompanying notes represent integral part of these financial statements.

Bogdan BADEA Chairman of Directorate	Marian BRATU Member of Directorate	Radu POP Member of Directorate	Cristian VLADOIANU Member of Directorate	Razvan PATALIU Member of Directorate
Marian Fetita Manager of Accounting Department			Prepared by, Gabriela Vasilescu Head of Reporting, Control and Planning	

S.P.E.E.H. HIDROELECTRICA S.A. two-tier company
CONSOLIDATED STATEMENT ON PROFIT OR LOSS AND OTHER ELEMENTS OF THE OVERALL RESULT
FOR THE YEAR ENDED ON DECEMBER 31, 2021
(All amounts are expresses in RON, unless otherwise stated)

Department

S.P.E.E.H. HIDROELECTRICA S.A. two-tier company
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED ON DECEMBER 31, 2021
(All amounts are expressed in RON, unless otherwise stated)

	Share capital	Adjustment of share capital to inflation	Public patrimony	Reserves from revaluation	Other reserves	Retained earnings	Total
Balance on 1 January 2020	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
Overall result							
Profit of the year	-	-	-	-	-	1,443,166,753	1.443.166.753
Other elements of the overall result							
Revaluation reserve adjustments	-	-	-	(24,357,466)	-	-	(24.357.466)
Total other elements of the overall result	-	-	-	(24,357,466)	-	-	(24.357.466)
Total overall result	-	-	-	(24,357,466)	-	1,443,166,753	1.418.809.287
Transactions with the Company's shareholders							
Dividends distributed	-	-	-	-	-	(2,003,281,336)	(2.003.281.336)
Increase of share capital	2,081,360	-	-	-	-	-	2.081.360
Total transactions with shareholders	2,081,360	-	-	-	-	(2,003,281,336)	(2.001.199.976)
Other changes of equity							
Establishing legal reserves	-	-	-	-	92,554,607	(92,554,607)	-
Resume of the revaluation reserve to retained earnings because of depreciation and disposal of tangible assets	-	-	-	(339,201,479)	-	339,201,479	-
Increase of public patrimony	-	-	5,665,902	-	-	-	5.665.902
Balance on 31 December 2020	4,484,474,670	1,028,872,000	45,285,243	6,094,876,693	780,501,341	2,084,633,002	14.518.642.949

(to be continued on next page)

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S.P.E.E.H. HIDROELECTRICA S.A. two-tier company
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED ON DECEMBER 31, 2021
(All amounts are expresses in RON, unless otherwise stated)

	Share capital	Adjustment of share capital to inflation	Unpaid share capital	Public patrimony	Reserves from revaluation	Other reserves	Retained earnings	Total
Balance on January 1, 2021	4,484,474,670	1,028,872,000		45,285,243	6,094,876,693	780,501,341	2,084,633,002	14,518,642,949
The overall result								
<i>Profit of the year</i>	-	-	-	-	-	-	3,085,616,017	3,085,616,017
<i>Other elements of the overall result</i>								
Revaluation of tangible fixed assets	-	-	-	-	4,647,936,429	-	-	4,647,936,429
Deferred tax related to the revaluation reserve	-	-	-	-	(728,678,333)	-	-	(728,678,333)
Remeasurement of obligations regarding employee benefits, net of tax	-	-	-	-	-	-	(5,640,912)	(5,640,912)
<i>Total other elements of the overall result</i>	-	-	-	-	3,919,258,096	-	(5,640,912)	3,913,617,184
Total overall result	-	-	-	-	3,919,258,096	-	3,079,975,105	6,999,233,201
Transactions with the Company's shareholders								
Dividends distributed	-	-	-	-	-	-	(2,286,371,242)	(2,286,371,242)
Increase of share capital			120,150	-	-	-	-	120,150
Total transactions with shareholders	-	-	120,150	-	-	-	(2,286,371,242)	(2,286,251,092)
Other changes of equity								
Establishing legal reserves	-	-	-	-	-	181,573,077	(181,573,077)	-
Resume of the revaluation reserve to retained earnings because of depreciation and disposal of tangible assets	-	-	-	-	(338,547,839)	-	338,547,839	-
Increase of public patrimony	-	-	-	39,000	-	-	-	39,000
Balance on 31 December 2021	4,484,474,670	1,028,872,000	120,150	45,324,243	9,675,586,950	962,074,418	3,035,211,627	19,231,664,058

The accompanying notes represent integral part of these financial statements.

Bogdan BADEA
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Marian Fetita
Manager of Accounting Department

Gabriela Vasilescu
Head of Reporting, Control and Planning Department

S.P.E.E.H. HIDROELECTRICA S.A. two-tier company
CONSOLIDATED STATEMENT ON CASH FLOWS
FOR THE YEAR ENDED ON DECEMBER 31, 2021
(All amounts are expressed in RON, unless otherwise stated)

	Note	2021	2020
Cash flows from operating activities:			
Net profit		3.085.616.017	1.443.166.753
<i>Adjustments for non-cash items:</i>			
Depreciation of tangible assets	5	756.924.051	765.347.092
Depreciation of intangible assets	6	3.578.989	1.234.037
Impairment adjustments for tangible assets, net	5	408.180.913	177.106.070
Adjustments for depreciation of financial fixed assets, net	8, 9	19.555.101	18.109.960
Adjustments for impairment of trade and other receivables, net		5.053.078	27.279.875
Depreciation adjustments, net	24	26.205.706	-
Updating long-term provisions	22	(31.530.319)	(13.008.588)
Loss from disposals of tangible fixed assets	23	19.179.293	19.066.074
Resumption of income from investment subsidies	22	(5.765.503)	(5.499.579)
Unrealized losses due to exchange rate differences		8.167.711	1.086.834
Interest income	24	(67.383.565)	(61.986.558)
Interest expenses	24	5.215.324	679.690
Income tax expense	16	512.812.341	330.397.323
		4.745.809.137	2.702.978.983
Changes in:			
Trade receivables		(316.199.805)	(29.664.582)
Other assets		(484.838)	(925.829)
Inventories		(2.044.207)	(7.441.124)
Trade payables		30.641.395	(12.728.358)
Deferred revenues		2.902.276	(31.451.530)
Employees' benefits		(22.811.476)	25.538.504
Provisions		28.099.518	22.665.383
Other liabilities		270.761.682	61.905.581
Cash generated from operating activities		4.736.673.682	2.730.877.028
Interest paid		(5.148.319)	(1.496.164)
Income tax paid		(675.888.674)	(453.295.179)
Net cash from operating activities		4.055.636.689	2.276.085.685
Cash flow from investment activity:			
Acquisitions of tangible assets		(184.958.147)	(166.733.496)
Acquisitions of intangible assets		(2.385.439)	(2.390.734)
Proceeds from the sale of intangible assets		-	493.765
Payments for deposits with an initial maturity of more than 3 months		(5.013.000.000)	(3.210.000.000)
Receipts from deposits with an initial maturity of more than 3 months		4.430.000.000	3.215.000.000
Payments for the purchase of government securities		(235.410.000)	-
Interest received		53.916.681	63.770.721
Payments for the acquisition of subsidiaries, net of the acquired cash		(598.254.816)	9.426.314
Net cash used in investment activity		(1.550.091.721)	(90.433.430)

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S.P.E.E.H. HIDROELECTRICA S.A. administrata in sistem dualist
SITUATIA CONSOLIDATA A FLUXURILOR DE NUMERAR
 PENTRU ANUL INCHEIAT LA 31 DECEMBRIE 2020
(Toate sumele sunt exprimate in RON, daca nu este indicat altfel)

	Note	2021	2020
Cash flow from financing activity:			
Cash contributions to share capital	12	23,970	415,110
Loan's reimbursement	13	635,219,000	-
Leasing payments	13	(97,579,712)	(44,302,955)
Dividends paid	13	(6,791,939)	(6,614,371)
Cash flow from financing activity:	12	(2,286,371,242)	(2,003,281,336)
Net cash from financing activity		(1,755,499,923)	(2,053,783,552)
Net increase in cash and cash equivalents		750,045,045	131,868,703
Cash and cash equivalents on 1 January	11	354,845,179	222,976,476
Cash and cash equivalents on 31 December	11	1,104,890,224	354,845,179

The accompanying notes represent integral part of these financial statements.

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Manager of Accounting Department

Gabriela Vasilescu
Head of Reporting, Control and Planning Department

1. REPORTING ENTITY AND GENERAL INFORMATION

a. General information on the Group

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

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

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 01.06.2030.

On December 31, 2021, the Company's shareholders are the Romanian State which holds through the Ministry of Energy 80.06% of the share capital, and *Fondul Proprietatea* which holds 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.

The Company is considering making an initial public offering ("IPO"). At this moment, the schedule of the IPO has not been established, but will be decided together with the consultants (after the completion of their selection) and the shareholders of the Company.

On 31 December 2021 and 31 December 2020 Hidroelectrica SA holds the following investments:

Subsidiary	Activity	Registered office	% participation as on 31 December 2021	% participation as on 31 December 2020
Hidroserv S.A. (under insolvency)	Services in the energy sector (maintenance, repairs, construction)	Bucharest, Romania	100%	100%
Crucea Wind Farm S.A.	Renewable electricity production	Constanta, Romania	100%	-
Hidroelectrica Wind Services S.R.L.	Engineering and technical consulting	Constanta, Romania	100%	-

Hidroserv S.A., entered the insolvency proceedings in October 2016. In 2020, the Creditors' Meeting approved the reorganization plan of the branch in the meeting on 10.06.2020, a plan which was confirmed, according to the law, by the syndic judge with the interim decision pronounced at the term on 24.06.2020. Following the confirmation of the reorganization plan by the syndic judge, the OGMS Decision no. 2 / 08.09.2020, appointed the Special Director of Hidroserv S.A., thus the Company regained control over the subsidiary.

On December 23, 2020, Hidroelectrica S.A. and STEAG GmbH have signed an agreement to purchase Crucea Wind Farm S.A. and Hidroelectrica Wind Services S.R.L. (former STEAG Energie Romania S.R.L.) by Hidroelectrica S.A. According to the agreement between the parties, the Company acquired 100% of the shares of the above mentioned companies. The date of obtaining control over these two companies is March 2021.

The main activity of Crucea Wind Farm S.A. is the production of electricity in wind farms. Developed by STEAG GmbH and put into commercial operation on October 1, 2014, the Crucea Wind Farm, located in Crucea city, Constanta County, has an installed electric power of 108 MW, consisting of 36 3MW Vestas turbines.

Hidroelectrica Wind Services S.R.L. is an operation, maintenance (O&M) and management company that offers its services exclusively to Crucea wind farm.

The company intends to start in the near future the procedure of integration (merger) of the activities of the two companies (Crucea Wind Farm S.A. and Hidroelectrica Wind Services S.R.L.) within Hidroelectrica S.A.

b. 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, together with 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 rates 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 delivered to electricity suppliers of last resort at a regulated price between January 1, 2020 - December 31, 2020. The price of energy delivery and the regulated quantity are determined by ANRE, according to its own methodology. In 2020, the Company delivered a quantity of 3.1 TWh electricity at the regulated average price of RON 108.15 / MWh, representing approximately 21% of the total electricity produced during the year. In 2021, the Company has not delivered last instance energy at a regulated price.

c. Group's main activities

Production of electricity and ancillary services

The Group produces electricity by operating a total of 187 hydroelectric and micro hydropower plants, the main production capacity being Portile de Fier I, representing approximately 30% of the total electricity produced and operation of the Crucea wind farm.

The electricity produced is sold mainly to electricity suppliers and entities that trade electricity on wholesale electricity markets.

Hidroelectrica SA provides ancillary services to the national energy system operator, Transelectrica. Ancillary services mean providing Transelectrica with production capacity in a certain period of time, so as to allow the system operator to achieve permanent balancing of the energy system. The market transactions of the ancillary services are concluded following the auctions organized by Transelectrica

Providing electricity to final consumers

The Group, as supplier of electricity, operates on the competitive market (wholesale or retail). Trading on the wholesale competitive market is transparent, public, centralized and non-discriminatory. Wholesale market participants can trade electricity based on bilateral contracts concluded on the OPCOM (Market Operator) markets.

Prices can be freely negotiated by the parties on the competitive retail market.

Green certificates

As producer of electricity from renewable sources (hydroelectric production in refurbished micro hydropower plants with an installed capacity of at most 10MW and an operating life of at least 15 years from the date of commissioning), Group benefits from green certificates from the support scheme.

Thus, the Group benefits from 0.34 green certificates for each MWh notified for the production of eligible micro power plants (14 in 2021). At the end of 2021, 8 accredited micro hydropower plants remained in the support scheme.

As a supplier of electricity, the Company is obliged to purchase a number of green certificates equal to the rate between the value of the mandatory annual quota for the purchase of green certificates for respective year and the amount of electricity supplied to final consumers. ANRE establishes the mandatory annual quotas for the acquisition of green certificates based on the quantities of electricity from renewable sources and the final consumption at national level

d. COVID-19 Impact

Group's financial performance and financial position were not significantly affected by the COVID-19 pandemic. Based on the information available, the Group does not anticipate a significant negative impact on its operations due to the COVID-19 pandemic.

2. BASES FOR PREPARATIONS

(i) Business combinations

The Group accounts for business combinations using the acquisition method when it gains control over the acquired entity (see Policy 3 (a) (ii)). The equivalent value transferred during the acquisition is generally measured at fair value, similar to the identifiable assets acquired and liabilities assumed. Any goodwill resulting from the acquisition is tested annually for impairment. Any gain from an advantageous purchase is recognized immediately in profit or loss.

The equivalent value transferred during the acquisition does not include the amounts related to the settlement of the pre-existing relations. These amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value from the date of acquisition. When the contingent consideration that meets the definition of a financial instrument is classified as equity, it is not revalued and its settlement is recognized as a change in equity. In other situations, the contingent value is revalued at fair value at each reporting date, and subsequent changes in fair value are recognized in profit or loss.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity if it is exposed or has the right to variable returns based on its participation in the entity and has the ability to use its authority over the entity in which it has invested to influence the value of the return. The financial statements of the subsidiaries are included in the consolidated financial statements from the moment the exercise of the control begins and until the moment of its cessation.

(iii) Loss of control

In the event that the Group loses control of a subsidiary, the Group derecognises the assets and liabilities of the subsidiary and other components of equity. Any gain or loss resulting from loss of control is recognized in profit or loss. Any shareholding held in the former subsidiary is valued at fair value from the date of loss of control.

(iv) Transactions eliminated on consolidation

Balances and transactions within the Group, as well as any unrealized income or expenses resulting from transactions within the Group, are eliminated in the preparation of the consolidated financial statements.

2.2 Functional currency and presentation currency

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

(b) Tangible assets

(i) Recognition and evaluation

Tangible fixed assets are initially recognized at cost, which includes the acquisition price and other costs directly attributable to the acquisition and bringing of the asset to the location and condition necessary for its use. After initial recognition:

- land, constructions, equipment and other tangible assets are valued at revalued values, less any accumulated depreciation and any impairment losses; and
- intangible assets in progress are valued at cost less any impairment losses.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that require a substantial period of time to be used are capitalized as part of the cost of that asset. When determining the amount of borrowing costs eligible for capitalization over a period of time, any investment income generated by such funds is deducted from the cost of borrowing incurred. All other costs related to the loan are registered as expenses during the period in which they are incurred. Financing costs represent interest and other financial costs related to loans contracted by an entity.

The initial cost of an item of tangible assets is also included in the initial estimated costs of dismantling and relocating it, as well as restoring the site on which the asset is located, when these amounts can be estimated reliably and the Group has a dismantling obligation, relocation of tangible assets and restoration of the site.

The revaluations are performed with sufficient regularity so that the carrying amount does not differ substantially from that which would be determined using fair value at the end of the reporting period.

When revaluing an item of tangible assets, the accumulated 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 over a period of time or may be used only in connection with an item of tangible assets.

Any gain or loss on the disposal of tangible assets is recognized in profit or loss.

(ii) Subsequent expenses

Subsequent expenses are capitalized only if it is probable that future economic benefits associated with the expenses will be included in the Group.

(iii) Depreciation

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

The assets related to the usage rights resulting from the leasing contracts are depreciated for the shortest period between the leasing period and the useful life of the underlying asset. Land and fixed assets in progress are not depreciated.

2.3 Comparative situations

The financial statements prepared on December 31, 2021 show comparability with the financial statements of the previous financial year. The Group has made certain changes in the presentation / detailing of the elements of the profit or loss statement and other elements of the overall result.

2.4 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 Group 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 to the local authorities which can lease or give for 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 (currently the Ministry of Energy) has leased to the Company, in the name of the State, the hydroelectric installations (dams, piers, locks, water luster) and the lands on which they are located. Thus, in December 2004, the concession agreement no. 171 / 27.12.2004 between the Ministry of Economy and Trade (concession provider) and the Company (concessionaire) for all tangible assets from the public patrimony in balance on December 31, 2003 for a period of 49 years.

The main terms of the concession agreement no. 171 / 27.12.2004 amended with addenda 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, currently Ministry of Energy, holds the property right over the assets that represent the object of the agreement;
- The Company has the right to use these assets for a period of 49 years, starting with the date of signing the concession agreement 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 agreement, certain assets that were used by the concessionaire during 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 agreement 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. In the Company's interpretation, "updated carrying amount" represents the net carrying amount at the date of takeover, and given that the Company uses the revaluation model, this amount represents the net revalued amount on that date. The goods that belonged to the concessionaire and were used during the concession are the takeover goods. These assets are depreciated over the minimum period between the remaining term of the concession agreement and the useful life of the respective assets.
- 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 instruments and control devices, 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 taken over assets; these assets are amortized throughout the concession contract.

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:

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

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

a2) Leasing and modernization of return goods

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

- a) The lessee has the right to obtain 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 Energy 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 depreciates these assets for the remaining term of the concession contract.

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 Energy, 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 modernizations are carried out at the risk and responsibility of the Company and are not available to the grantor until the end of the agreement.

a3) 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 performed, the Group concluded that the assets related to the main object of activity (assets related to power plants licensed to produce electricity) represent a single cash-generating unit, mainly based on the following:

- The company holds a single license for electricity production, these operating on the market as a whole;
- The license stipulates the obligation of the Company to maintain the availability of these production capacities;
- The decision to produce electricity in a hydroelectric power plant is made according to the technical operating conditions of the other power plants;
- The balancing of the contracted electricity and products is carried out at Company level;
- The contracts are concluded based on the total electricity estimated to be produced in a certain period by all the power plants, and the prices are established for the entire production.

The Group also concluded that each decommissioned plant, as well as each investment objective regarding hydropower schemes with complex functions that has been approached since the design concept as having these functions, represent separate cash generating units.

a4) Obligations regarding the disassembly and restoration of the site

Order no. 119 on 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 company has no other legal or contractual obligations to disassemble and restore the site than those arising from Order no. 119, presented in the paragraphs below.

The owners of dams are defined by the Emergency Ordinance no. 244 on 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 is 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.

Beginning 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 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, currently Ministry of Energy, 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 representing the object of the concession contract mentioned above. The Company has the right to use these assets for a period of 49 years.

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.

The works and costs of switching to post-use or abandonment are subject to significant uncertainties due to the fact that the rate of degradation and lifespan of a dam varies significantly from case to case (some can reach more than 100 years), complexity and variety, works that may be required for transition to post-use or abandonment, which depend on the actual situation of each dam at the time of post-use or abandonment, the sharing of costs between operator and post-user, and the time lag between present moment and the moment of carrying out the abandonment works. There are also significant uncertainties regarding the evolution of the degree of degradation and establishing 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.

The Company estimates that until the end of the concession contract (32 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 Group 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 ancillary 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 excludes from this rule the 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 final goal the balancing of 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.

It is not the practice or intent of the Company to make net cash settlements and the Company also uses these contracts for the purpose of delivering electricity, thus fulfilling the conditions to apply 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 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 19 and 26.1 - recognition and measurement of provisions and contingent liabilities;
- Note 9 - assessment of the recoverability of the receivables in dispute;
- Note 17 - assessment of defined benefit and other long-term employee benefit obligations: main actuarial assumptions;
- Note 3 e), 8 and 28b) determining the expected credit losses for trade receivables - estimates regarding the calculation of usage rights;
- Note 19 - estimates regarding the calculation of provisions for decommissioning.

Determining fair values

Group's certain accounting policies and the disclosure requirements are necessary to establish fair value for both financial and non-financial assets and liabilities.

In determining the fair value of an asset or liability, the Group 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 Group 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.

3. SIGNIFICANT ACCOUNTING POLICIES

The Company has consistently applied the following accounting policies for all periods presented in these financial statements.

(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, constructions, equipment and other tangible assets are measured at revalued amounts less cumulative depreciation and any impairment losses
- tangible fixed assets under construction are valued at cost less 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 regularly 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.

The estimated useful lives for intangible assets are as follows:

Category	Duration of useful life (years)
Construction and special installations	65 - 97
Special constructions and installations that represent return goods according to the concession contract	the remaining duration of the concession contract
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 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) Investments in subsidiaries

Investments in subsidiaries are valued at cost, less impairment losses.

(d) 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 Group becomes part of a contractual arrangement relating to an instrument.

Cash and cash equivalents include balances of cash, demand deposits and deposits with a maturity of up to three months from the date of incorporation that have a insignificant exposure to the risk of changes in fair value, being used by the Group 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 are 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

At 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 Group 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) Derecognition

Financial assets

The Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership, nor does it retain control over the financial asset.

The Group may conclude 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 Group derecognizes a financial liability when its contractual obligations are terminated, canceled, or expires. Also, the Group 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 Group 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.

(e) 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 being approved by the General Meeting of Shareholders and registered at the Trade Register.

(f) Depreciation

(i) Non derivative financial assets

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

Trade receivables loss adjustments are always valued at an equal ECL value in a lifetime.

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

The Group considers that the credit risk increases significantly with the payment deadline by 30 days, as well as that the partners' inability to pay appears with the payment deadline by approximately 90 days.

Lifetime ECL represents the ECL that results from all possible events of non-fulfillment of the expected lifetime obligations of a financial instrument.

The 12-month ECL is the part of the ECL that results from events in default of a financial instrument that may occur within 12 months of the reporting date (or a shorter period if the expected life of the instrument is 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 shortfall (the difference between the cash flows due to the entity under the contract and the cash flows the Group expects to receive).

Impaired financial assets due to credit risk

At each reporting date, the Group 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 Group under conditions that the Group 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 Group no longer has any means of recovering it (usually at the debtor's bankruptcy).

(ii) Non-financial assets

At each reporting date, the Group 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 would had not been recognized.

(g) 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.

(h) 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.

(i) Public Patrimony

The public patrimony represents the value of the assets that belong to the public domain and that have been financed from budgetary sources (public funds). The value financed from budgetary sources of these assets is recognized initially in deferred revenues, and later as an element assimilated to the own capitals in the public patrimony at the moment of reception and commissioning of the assets. According to GD 1705/2006, these assets will be transferred to the inventory of the institutions from whose sources they were financed, at the end of the economic life, based on a normative act adopted in this respect. According to OMFP 2844/2016, the entities that have not completed the legal procedures for the transfer of assets of the nature of the public patrimony, are highlighted separately in their equity, in accounts of elements assimilated to equity.

(j) 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 registered 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.

(k) Dividends

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

(l) Provisions

A provision is recognized if, following a prior event, the Group 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 from 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's value 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 not unlikely.

A contingent asset is a potential asset that arises from 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 Group.

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

(n) Leasing

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

The company as a lessee

At the beginning of a leasing contract, the Group recognizes an asset related to the right of use and a debt arising from the leasing contract. The cost of the right-to-use asset is initially measured at cost, which includes the initial amount of the debt arising from the lease, adjusted for any lease payments made on or before the commencement of the lease, less any incentives received under the lease.

Subsequent to initial recognition, rights to use assets are measured at cost less accumulated depreciation and any accumulated impairment losses. Use rights assets are depreciated on a straight-line basis over the term of the lease, unless the lease transfers ownership of the asset before the end of the lease term or the cost of the use right asset reflects that the Group will exercise a purchase option. In this case, the asset related to the right of use is depreciated over the useful life, determined similarly by tangible assets. Also, the asset related to the right of use is periodically depreciated, if applicable, and adjusted for certain revaluations of the debt arising from the leasing contract.

The debt arising from the leasing contract is initially recognized at the updated value of the lease payments at the beginning of the contract. Lease payments are updated using the default interest rate in the lease if this rate can be determined immediately. If this rate cannot be determined immediately, the Group uses the marginal lending rate.

Leasing payments included in the valuation of the debt arising from the leasing contract include :

- Fixed lease payments, including fixed fund payments, less any lease incentives receivable;
- Variable payments that depend on an index or a rate, initially evaluated based on the index or rate at the beginning of the contract;
- The amounts expected to be payable by the Group based on guarantees related to the residual value;
- The exercise price of a call option if the Group has reasonable assurance that it will exercise the option;
- Leasing payments related to an optional contract extension period if the Group has reasonable certainty that it will exercise the extension option;
- Payments of penalties for terminating the leasing contract if the Group has the reasonable certainty that it will terminate the leasing contract.

The debt arising from the lease is subsequently measured at amortized cost using the effective interest method and is revalued when there is a change in future lease payments resulting from a change in an index or rate used to determine those payments, changes in the Group's estimates of the amounts expected to be due in accordance with the residual value, when the Group changes its assessment of the likelihood of exercising a purchase, extension or termination option or when a review of a fixed lease payment in substance.

When the debt arising from the lease is revalued, the Group recognizes the amount of the debt's revaluation as an adjustment of the asset related to the right of use. If the carrying amount of the asset is reduced to zero and there is a further reduction in the valuation of the liability, the Group recognizes any amount remaining from revaluation in profit or loss.

The company presents the assets related to the use rights in the tangible assets' category, and the debts deriving from the leasing contracts at the Leasing category in the statement of financial position.

Short-term contracts and leases of low-value assets

The Group does not recognize any assets with respect to the right to use the assets and any liabilities arising from leases related to short-term contracts (with a lease term less than or equal to 12 months) and leases of low value assets (less than 5,000 USD). For these leases, the Group recognizes the lease payments for operating expenses on a straight-line basis over the term of the lease.

(o) Income

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

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 Group expects to be entitled to receive in exchange 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 entity performance. The determining factor is the fact that the production and delivery of electricity is simultaneous because the electricity is not stored. Advance payments received from customers for future energy sales obligations are recognized in customer contracts.
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.	Revenues are recognized as time goes by, as the client simultaneously receives and consumes the benefits provided by the entity, as the entity provides. The determining factor is the fact that the production and consumption of electricity is simultaneous because the electricity is not stored.

	Nature and fulfillment of contractual obligations	Recognition of income under IFRS 15
		<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 Group 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	<p>The ancillary services are made available by the Company to the system operator, Transelectrica, of some production capacities for a certain interval. The rate charged for these services is variable and depends on the production capacity provided and the duration of the interval in which they are provided.</p> <p>Invoices for ancillary services are issued monthly, for services provided in the previous month.</p>	<p>Income is recognized as time passes because the client receives and consumes the benefits provided by the entity performance as the Company entity.</p>
Sales of green certificates	<p>The group sells to other suppliers part of the green certificates from its own production</p>	<p>The income is recognized at the time of invoicing, which is the time of transfer of rights and obligations).</p>
Construction and maintenance services	<p>The group performs construction and maintenance works in the hydro-energy field. In general, projects do not exceed 12 months.</p> <p>Invoices are issued based on partial and final estimates of works.</p>	<p>Revenue is recognized based on partial and final estimates of works. Advances received are included in debts on contracts with customers.</p>

(p) Financial income and expenses

The Group's financial income and expenses mainly include:

- interest income;
- interest expenses;
- dividend income;
- exchange rate gains or losses on financial assets and liabilities;
- impairment gains or losses on financial assets (other than trade receivables);
- updating long-term provisions.

Borrowing costs that are not directly attributable to the acquisition, construction or production of long-lived assets are recognized in profit or loss, using the effective interest method.

(q) Employees' benefits

- (i) *Short-term employees' benefits*

Employees' short-term benefits are valued on an unupdated 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 Group has a present legal, constructive, or implicit obligation to pay the 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 Group 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 because 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 Group 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 Group'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.

(iv) 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 Group no longer has any real possibility of giving up the offer and the date on which the Group 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 Group 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 Group 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 reduced 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.

(s) 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 Group 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 grants).

(t) Green certificates

The Group recognizes the green certificates received based on the support scheme for producers of renewable energy at cost (which is 0) at the time of obtaining the right to green certificates (when electricity is produced).

The company recognizes green certificates purchased at cost.

The electricity suppliers are obliged according to the law to purchase annually a number of green certificates, which they subsequently invoice to the final consumers based on the quantities of energy supplied. The Group uses both green certificates from its own production and purchased to cover the mandatory quota. The equivalent value of the green certificates purchased for the fulfillment of the obligatory quota is registered in the Expenses with the green certificates.

If the Group acquires green certificates above the mandatory quota, they are registered in the statement of financial position, following that at the legal terms to be registered in profit or loss.

If the Group would acquire the required number of green certificates to reach the required quota in the period following the date of the financial position, the Group estimates and recognizes the necessary amount to acquire the green certificates in order to meet the mandatory quota in Provisions at the end of the reporting period.

The value of the green certificates invoiced to the final consumers is registered in Revenues from the supply of electricity (Revenues from contracts with customers).

Green certificates from own production sold to other suppliers are registered in Revenues from the sale of green certificates (Revenues from contracts with customers).

u) Related parties

A related 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 related 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 related 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 related 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 controlled or jointly 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 related because the same government has control, joint control, or significant influence both on the reporting entity and on the other entity.

v) 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.

4. ADOPTION OF NEW STANDARDS AND AMENDMENTS TO EXISTING STANDARDS

A. Initial application of amendments to the standards in force for the current reporting period

The following amendments to the existing standards are in force for the annual period beginning on 1 January 2021:

- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and

Measurement”, IFRS 7 “Financial Instruments: Disclosures” and IFRS 16 “Leases” - Reform of the interest rate benchmark (applicable to periods beginning on or after January 1, 2021);

- Amendments to IFRS 16 “Leases” - “COVID-19 Lease Concessions” after June 30, 2021 (effective for annual periods beginning on or after April 1, 2021)

The adoption of the new amendments to the existing standards did not have a significant impact on the Company's individual financial statements.

B. New standards not yet in force

The following standards, amendments to the standards and interpretations have been issued, but are not yet in force for the annual period beginning on January 1, 2020. The Group does not intend to adopt these standards before entering into force.

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

(i) EU Standards and Interpretations

- Amendments to IFRS 16 Leases “COVID-19 Lease Concessions” after June 30, 2021 (effective for annual periods beginning on or after April 1, 2021; which were not authorized for publication on March 31, 2021). The amendments extend the period of application of the optional practical solution by one year, which simplifies the way in which a tenant accounts for lease concessions that are a direct consequence of the COVID-19 pandemic.
- Amendment to IAS 16 Tangible Assets - Receipts before intended use (Effective for annual periods beginning on or after 1 January 2022; prior to that date is permitted). The amendments to IAS 16 require that proceeds from the sale of items produced during the bringing of an tangible asset item to the location and condition necessary for it to function as intended - be recognized, together with the cost of those items, in profit or loss and the entity to measure the cost of those items that apply the provisions from evaluation of IAS 2.
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts - Cost of Fulfilling a Contract (Effective for annual periods beginning on or after 1 January 2022; prior to that date is permitted). In order to determine the costs of performing a contract, the amendments require an entity to include all costs that directly relate to a contract. Paragraph 68A clarifies that the cost of performing a contract includes: marginal costs related to the performance of that contract and an allocation of other costs directly related to the performance of the contract.

- Annual improvements to IFRS 2018-2020 (Effective for annual periods beginning on or after January 1, 2022; prior to that date is permitted).

o Amendment to IFRS 9 Financial Instruments. The improvements clarify that when assessing whether an exchange of debt instruments between an existing debtor and a creditor takes place on substantially different terms, the fees to be included together with the present value of cash flows under the new terms include only the fees paid or received between the debtor and the creditor, including the commissions paid or received by the debtor or the creditor on behalf of the other one.

o Amendment to Illustrative Examples Accompanying IFRS 16 Leasing - Improvements remove from Illustrative Example 13 - which accompanies IFRS 16 - the reference to the lessee's reimbursement to the lessee for asset upgrades, as well as an explanation of the lessee's accounting for such reimbursement.

The Group anticipates that the adoption of these new standards and changes to existing standards will not have

a material impact on the Group consolidated financial statements during the initial application period.

(i) New or amended standards and interpretations of standards in force for annual periods beginning on or after 1 January 2021, not yet approved by the EU

At present, EU-adopted IFRS do not differ materially from the regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards and amendments to existing standards, which have not been approved for use in the EU:

- Amendments to IAS 12 Income Tax - Deferred tax on assets and liabilities arising from a single transaction (effective for annual periods beginning on or after 1 January 2023; prior to that date is permitted). The amendments restrict the scope of the exemption from initial recognition to exclude transactions that give rise to equal and compensatory temporary differences - for example, leases and debts arising from decommissioning. For leases and liabilities arising from decommissioning, deferred tax assets and liabilities shall be recognized at the beginning of the first comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other equity at that date. For all other transactions, the amendments apply to transactions that take place after the beginning of the first reporting period.
- Amendments to IFRS 10 and IAS 28 - Sale or assets input between an investor and the associate or joint venture (European Commission has decided to defer approval indefinitely - it is unlikely to be approved by the EU in the foreseeable future). The amendments clarify that in a transaction involving an associate or joint venture, the degree of recognition of the gain or loss depends on the extent to which the assets sold or contributed constitute an enterprise, so that:
 - o a gain or loss is fully recognized when a transaction between an investor and the associate or joint venture involves the transfer of an asset or assets that constitute a business (whether or not it is incorporated into a subsidiary), thus:
 - o a gain or loss is partially recognized when a transaction between an investor and the associate or joint venture involves assets that do not constitute an enterprise, even if those assets are incorporated in a subsidiary.
- Amendments to IAS 1 Presentation of Financial Statements - Classification of debts into current or long-term debt (effective for annual periods beginning on or after 1 January 2023; prior to that date is permitted). The amendments clarify that a classification of current or long-term debt is based solely on the Company's right to defer settlement at the end of the reporting period. The Group's right to defer settlement for at least twelve months after the reporting date must not be unconditional but must have an economic fund. The classification is not affected by the intentions or expectations of the management regarding the measure and the moment when the Group will exercise its right. The amendments also clarify the situations that are assimilated to a debt settlement.
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practical Statement no. 2 Carrying out some reasoning regarding the significance threshold (in force for the annual periods starting on or after January 1, 2023; this application is allowed before this date). Amendments to IAS 1 require companies to disclose accounting policy information on materiality rather than significant accounting policies.
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Effective for annual periods beginning on or after 1 January 2023; prior to that date is permitted). The amendments introduced a definition of "accounting estimates" and included other amendments to IAS 8 that clarify how to distinguish between changes in accounting policies and changes in estimates. The distinction is important because changes in accounting policies are generally applied retroactively, while changes in estimates are accounted for in the period in which the change occurs.

4. Tangible fixed assets

	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 2020	747,181,198	10,263,557,746	2,730,606,144	5,002,779,977	18,744,125,065
Additions	8,082,199	41,608,511	39,214,137	3,377,277	92,282,124
Transfers from tangible assets in progress	1,666,805	1,454,794	6,511,730	182,509,804	192,143,133
Transfers from tangible assets in progress in intangible assets	-	406,460,972	182,769,475	(589,230,447)	-
Reclassification spare parts	-	-	-	(1,114,421)	(1,114,421)
Decrease of revaluation reserve	-	-	12,732,331	(23,260,257)	(10,527,926)
Outputs	-	(22,962,340)	(1,395,125)	-	(24,357,465)
Balance on 31 December 2020	(371,959)	(588,827)	(230,872)	(17,905,615)	(19,097,273)
GROSS ACCOUNTING VALUE	756,558,243	10,689,530,856	2,970,207,820	4,557,156,318	18,973,453,237
CUMULATED DEPRECIATION					
Balance on 1 January 2020	46,309	397,149,337	338,217,290	-	735,412,936
Depreciation expense	-	1,389,143	29,017,994	-	30,407,137
Cumulative depreciation of outflows	-	431,417,759	333,929,333	-	765,347,092
Balance on 31 December 2020	-	(8,098)	(224,797)	-	(232,895)
CUMULATED DEPRECIATION	46,309	829,948,141	700,939,820	-	1,530,934,270
CUMULATED VALUE ADJUSTMENTS					
Balance on 1 January 2020	46,992	23,389,824	67,685,628	3,222,083,318	3,313,205,762
The impact of taking control of subsidiaries	-	-	-	1,491,841	1,491,841
Value adjustments made in profit or loss	-	6,181,385	4,136,336	373,403,060	383,720,781
Reverse value adjustments in profit or loss	(46,992)	(85,268)	(2,906,959)	(203,541,237)	(206,580,456)
Balance on 31 December 2020	-	29,485,941	68,915,005	3,393,436,982	3,491,837,928
NET ACCOUNTING VALUE					
Balance on 1 January 2020	747,087,897	9,843,018,585	2,324,703,226	1,780,696,659	14,695,506,367
Balance on 31 December 2020	756,511,934	9,830,096,774	2,200,352,994	1,163,719,336	13,950,681,039

S.P.E.E.H. HIDROELECTRICA S.A. two-tier company
EXPLANATORY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED ON DECEMBER 31, 2021
(All amounts are expresses in RON, unless otherwise stated)

	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 2021	756,558,243	10,689,530,856	2,970,207,820	4,557,156,318	18,973,453,237
Additions	5,982,250	215,262,693	326,477,973	-	547,722,916
Transfers from tangible assets in progress	96,785	1,089,028	1,131,725	145,531,402	147,848,940
Transfers from tangible assets in progress in intangible assets	-	332,365,311	68,694,681	(401,059,992)	-
Outflows	(327,477)	(9,785,144)	(1,901,183)	(18,429,630)	(30,443,434)
Revaluation recognized in other items of comprehensive income, net	-	-	-	(1,952,854)	(1,952,854)
Revaluation recognized in profit or loss, net	(55,526,990)	3,928,289,672	775,173,747	-	4,647,936,429
Cumulative depreciation canceled from gross revaluation	(74,767,172)	(442,142,260)	(141,289,763)	-	(658,199,195)
Balance on 31 December 2021	(31,345)	(1,219,087,236)	(1,032,615,461)	-	(2,251,734,042)
GROSS ACCOUNTING VALUE	631,984,294	13,495,522,920	2,965,879,539	4,281,245,244	21,374,631,997
CUMULATED DEPRECIATION					
Balance on 1 January 2021	46,309	829,948,141	700,939,820	-	1,530,934,270
Depreciation expense	338,618	409,964,823	346,873,376	-	757,176,817
Cumulative depreciation of outflows	(14,964)	(35,111)	(1,479,136)	-	(1,529,211)
Cumulative depreciation canceled from gross revaluation	(31,345)	(1,219,087,236)	(1,032,615,461)	-	(2,251,734,042)
Balance on 31 December 2021	338,618	20,790,617	13,718,599	-	34,847,834
CUMULATED VALUE ADJUSTMENTS					
Balance on 1 January 2019	-	29,485,941	68,915,005	3,393,436,982	3,491,837,928
Value adjustments made in profit or loss	-	1,843	742,487	218,219,418	218,963,748
Transferred value adjustments	-	303,418,340	-	(303,418,340)	-
Reverse value adjustments in profit or loss	-	(332,906,124)	(69,657,492)	(66,384,158)	(468,947,774)
Balance on 31 December 2021	-	-	-	3,241,853,902	3,241,853,902
NET ACCOUNTING VALUE					
Balance on 1 January 2021	756,511,934	9,830,096,774	2,200,352,994	1,163,719,336	13,950,681,039
Balance on 31 December 2021	631,645,676	13,474,732,303	2,952,160,940	1,039,391,342	18,097,930,261

Tangible fixed assets put into operation

The Company's tangible assets include mainly special constructions, respectively hydropower plants, pumping stations, micro hydropower plants, locks, as well as hydro units, equipment, and installations. The Group manages a number of 187 production capacities with an installed capacity of 6,372.172 MW, a value that includes 5 pumping stations with an installed capacity of 91.5 MW and 36 wind turbines with an installed capacity of 108MW.

During 2021, part of the Racovita HPP investment was put into operation. Following this, the adjustments related to the Racovita HPP in the amount of RON 303,418,340 were transferred from the depreciation adjustments of the investments under execution to the depreciation adjustments of the tangible fixed assets.

During 2020, investments that were operational were commissioned but were not received HEA Movileni, HEA Retezat, HPP Subcetate, HEA Robesti. Consequently, the amount of RON 42,188,781 was transferred from depreciation adjustments for investments in progress in cumulative depreciation of tangible assets. The transfer of this amount was made by affecting the profit and loss accounts "Depreciation expense" and "Value adjustments reversed in profit or loss", the effect on net profit being zero.

Also, during 2020, the company performed a detailed technical analysis on HPP Izvoarele, determined by the deterioration of the adduction, based on which it was concluded that the hydropower plant can no longer be operated. Consequently, the Company adjusted the value of the hydropower plant in its entirety by decreasing the revaluation reserve related to the assets of HPP Izvoarele by RON 24,357,465 and by value adjustments constituted as profit or loss in the amount of RON 7,367,032.

Impairment adjustments for land, buildings, installations, and equipment registered up to December 31, 2021, and existing in the balance sheet before revaluation in the amount of RON 402,563,616 were resumed as a result of bringing the fixed assets to fair value.

Use rights in connection with leasing contracts

Tangible fixed assets include assets related to use / use rights, mainly in connection with land, the Group's headquarters and the car park in the amount of RON 12,292,758 as of December 31, 2021 (RON 20,689,017 as of December 31, 2020) classified in Land, Constructions and special installations and machines, equipment and other fixed assets.

Revaluation of tangible fixed assets

Tangible fixed assets were revalued by an independent appraiser on December 31, 2021, the results meaning a net increase in the revaluation reserve in the amount of RON 4,647,936,429 and a net loss in the amount of RON 256,379,909 in the profit or loss account. Thus, the book value of the tangible fixed assets subject to revaluation increased to RON 17,058,538,919.

Fair value measurement

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

Category	Evaluation method	Significant unobservable input data	The correlation between the main unobservable input data and the fair value assessment
Lands	<i>The direct comparison approaches</i> The fair value is estimated based on the price per square meter for land with similar characteristics (e.g. property rights, location, physical characteristics, area, best use). The market price is based on the most recent transactions.	Liquidity adjustments (trading margin between -25% and -5%), area (between -65% and 0%)	The estimated fair value would increase (decrease) if: - Adjustments for liquidity, location, area would be smaller (larger)

S.P.E.E.H. HIDROELECTRICA S.A. two-tier company
EXPLANATORY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON DECEMBER 31, 2021

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

Category	Evaluation method	Significant unobservable input data	The correlation between the main unobservable input data and the fair value assessment
Special constructions and installations	<i>Cost Approach - The method of net reconstruction cost / net replacement cost</i>	The gross replacement cost was determined as follows: - for the hydrographic constructions was used the Catalog 125 Meteorological, hydrotechnical, water supply and sewerage constructions and the Catalog 128 Hydrotechnical constructions and outbuildings for energy arrangements, 1964 editions, republished by Matrix Rom Publishing House, and for updating until the revaluation date used the Technical Bulletin of Technical Expertise 157, September 2021, published by the Romanian Authority of Technical Experts - for other construction categories was used the catalog Reconstruction Costs - Replacement Costs, Industrial, Commercial and Agricultural Buildings, Special Constructions and Reconstruction Costs, published by IROVAL Publishing House - Research in Evaluation, Bucharest, 2016 -Physical depreciation (average -35%) -Functional depreciation (0%) -External depreciation (depending on the use of production capacity)	The estimated fair value would increase (decrease) if: - Physical, functional, and external depreciation would be lower (higher)
	This method has been applied to specialized assets for which there is no market in which they could be capitalized. The valuation model based on the cost method is based on determining the cost of replacing the asset, from which are deducted elements of impairment that lead to the loss of value of the asset as a result of physical, functional, or external impairment.		
Machines, equipment and other intangible assets	<i>The direct comparison approaches</i>	Price adjustments based on trading availability and current market conditions (between -20% and -5%), the comparability of the technical characteristics at the level of each identified comparable	Estimated fair value would increase (decrease) if price adjustments were lower (higher)
	<i>Cost approach - The net replacement cost method</i>	Adjustments for physical depreciation (between -100% and -3%, on average -37%), and external (depending on the use of production capacity)	Estimated fair value would increase (decrease) adjustments for physical, functional, and external depreciation would be lower (higher)
	The net replacement cost method was applied to specialized assets for which there is no market in which they could be capitalized. The cost of replacing the asset was determined based on the historical cost, updated with price indices according to the catalogs published by specialized institutions.		

Tangible fixed assets in progress

On December 31, 2021, the Company has investments in progress with a gross accounting value of RON 4,281,245,244 (December 31, 2020: RON 4,557,156,318) for which it has registered impairment adjustments in the amount of RON 3,241,853,902 (December 31, 2020): RON 3,393,436,982).

The main investment objectives registered in ongoing fixed assets refer to the following investment projects - hydropower facilities: Bumbesti - Livezeni, Siriu - Surduc, Rastolita, Cornetu-Avrig, Pascani, Cerna Belareca, Cosmesti-Movileni, Valea Sadului, Fagaras Hoghiz, Runcu Firiza, Cerna-Motru-Tismana, Bistra.

These ongoing investments mainly include investments with complex functions, represented by historical investment objectives regarding hydropower development schemes with social functions (described below) which have been approached since the design concept as having only in the background an energy function.

At these investment objectives, the most important are the complex functions regarding the rational and safe management of water, including:

- Attenuation of the flood trance;
- Protection of the population, cities and agricultural lands;
- Water supply of the riparian cities;
- Ensuring the water reserve to supply the population and the industry
- Ensuring the flow for irrigation, during dry periods;
- Retention of 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 make a profit. In fact, many of these investments belonged over time to the National Agency "Apele Romane", the government agency whose object of activity is land use planning and water management. Hidroelectrica SA is a commercial company established on the basis of Law 31/1990 on Commercial Companies and which is not a non-profit organization. In addition, Hidroelectrica no longer benefits from public funds for the completion of such social investments which, by continuing their financing, violate the ultimate goal of maximizing shareholders' wealth.

The "historic" hydropower projects were initiated, mainly, in the period 1982-1989, following a succession of Decrees of the State Council and the financing was done with public money, through the ministries involved, the investment holders. After 1989, some of these projects were further carried out by Apele Romane, financed with public money, until the takeover by Hidroelectrica SA. Economic and energy conditions have changed substantially compared to those of 1980 - 1990, especially due to the disappearance of the centralized investment fund of the state, the beneficiaries of works with complex uses have stopped financing specific works within hydropower projects, the costs of these works remaining only in charge of Hidroelectrica SA.

After Hidroelectrica S.A insolvency, in June 2012, and in view of the future listing of the Company's shares (see Note 1), the official receiver chose as a priority the Company's strong profit orientation and judicious use of funds.

In 2017, the Company contracted services for estimating the costs of abandonment, conservation and safety of the works performed on investments with complex functions, in accordance with the provisions of the Supervisory Board Decisions issued in 2016 (see Note 19).

In 2018, after receiving answers from the Ministry of Public Finance regarding the fiscal implications of the abandonment of some investment works in progress that had financing from the Special Fund for the Development of the Energy System, by internal decision, it was appointed a new working committee that resumed the financial analysis and drafted a substantiation note in order to present to Hidroelectrica's management the results and conclusions of this analysis, based on which the management decided to abandon

certain investment objectives, as presented below in the Note 19.

The Group performed a detailed analysis of ongoing investments and determined and registered impairment losses both on December 31, 2021 and in previous periods. The net adjustments for impairment losses registered for fixed assets in progress in 2021 in value of RON 152,265,797. The balance of value adjustments on December 31, 2021 is in the amount of RON 3,240,792,599 and refers mainly to:

- a) unprofitable investment objectives for which the abandonment decision was taken and for which value adjustments was registered at total gross value. The gross value of the abandoned investments is RON 590,822,988 as of December 31, 2021 (December 31, 2020: RON 591,786,338). On December 31, 2021 and December 31, 2020, the net accounting value of these assets is zero. For these, the Group has created provisions for decommissioning and site restoration (see Note 19).

Project	Objective	Gross accounting	
		value	Value adjustment
Borca - Poiana Teiului	Treapta Galu	9,022,347	9,022,347
Cosmesti – Movileni	Treapta Cosmesti	93,206,729	93,206,729
Surduc - Siriu	Treapta Ciresu-Surduc	17,345,275	17,345,275
Fagaras-Hoghiz	Fagaras - Hoghiz	174,949,578	174,949,578
Runcu – Firiza	Runcu Firiza	87,809,007	87,809,007
Dambovita – Clabucet	Dambovita - Clabucet	34,761,669	34,761,669
Valea Sadului-Vadeni	Valea Sadului-Vadeni	165,209,205	165,209,205
Others		8,519,179	8,519,179
Total		590,822,988	590,822,988

- b) investments for which the recoverable amount is less than the net accounting value (other than those in point a) above). For these, the adjustments for impairment on December 31, 2021 are in the amount of RON 2,641,152,566 (December 31, 2020: RON 2,775,733,578). The difference between the balance on 31 December 2021 and that on 31 December 2020 mainly represents the updating of the recoverable amounts for which the Company used the assumptions presented below, resulting in a net expense with value adjustments in the amount of RON 194,910,734, as presented in the table below, and the transfer of value adjustments in the amount of RON 303,418,340 from fixed assets in progress put into operation.

- c) During 2020, the Company received functional assets with a gross accounting value of RON 311,231,508, by disposing functional assets in value of RON 15,227,824. Thus, on December 31, 2020, the Company no longer registers functional and unreceived assets. During 2020, the Company registered until the moment of receiving / scrapping the assets value adjustments related to the amortization in the amount of RON 7,745,537. Thus, the total value of the value adjustments reversed at the time of commissioning / disposal of functional assets is RON 57,416,606. The value adjustments in the amount of RON 42,188,781 related to the assets transferred to the assets put into operation were transferred to the accumulated depreciation by affecting the profit and loss accounts "Depreciation expense" and "Reversed value adjustments in profit or loss", the effect in the net profit being zero. The value adjustments in the amount of RON 15,227,824 related to the scrapped assets were reversed, at the same time the Company registered a scrapping expense in "Other operating expenses", the effect on net profit being zero.

The investment objectives from point b) above include, among others, the Bumbesti - Livezeni hydropower development, with a net accounting value of RON 459,399,639 on December 31, 2021 (December 31, 2020: RON 554,313,269), for which the works were suspended in 2017 due to the cancellation of building and the environment permits following the loss of the dispute with non-profit environmental protection organizations based on the need to reassess the effects of the project in relation to the protected natural area status of the area. The project was started in 2003, and later in 2005 the Jiu National Park protected area was established.

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 procedure, environmental impact assessment, so that the legal procedures specific to the re-authorization of the project can be followed later.

During 2021, the following steps were completed:

- Agreement no. 106 / 28.07.2021 for safe operation of the dam Livezeni issued by the Ministry of Environment, Waters and Forests. Safe operation agreement conditions the obtaining of the Building Permit;

- the “Adequate assessment study” was submitted to ANPM and the “Study on the impact on water bodies” was submitted to ANAR; The Urbanism Certificates were obtained both from Gorj County Council and from Hunedoara County Council.

The company followed all the necessary legal procedures and obtained the approvals required by the town planning certificates.

The company expects from ANPM and ANAR the point of view on the submitted documents, as well as the establishment of the Calendar for the final stages of the authorization, prior to obtaining the Environmental Agreement.

The management considers that so far, no problems have been identified that would lead to the conclusion that the authorizations have not been obtained. Consequently, the recoverable amount of the project was determined considering that the project will be completed in 2024.

Establishing recoverable amounts

The recoverable amounts of the ongoing investments mentioned in point b) above 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 both historical data and available information on future prices, and management's assessment of future trends:

- the estimated costs for the completion of the projects and the distribution in time of the cash flows and the date of commissioning;
- the capacities related to each investment used to determine the forecasted revenues;
- the estimated production in the impairment test related to these capacities is based on the history of electricity production from the last 10 years of the Company, estimated at an average percentage of 85% of the project energy;
- for the HEA Bumbesti - Livezeni and HEA Rastolita projects, the company reduced the project energy as a result of the decisions taken in 2021;
- due to the accentuated increase of the price of the construction materials as well as to the increase of the inflation, an indexation of the rest to be executed by 17% was taken into account;
- information on electricity prices in the period 2022 - 2050 based on internal estimates and reports prepared by external consultants;
- EBITDA margin based on the Company's historical performance of 72%,
- the payback period of 50 years;
- average discount rate before tax of 9.7%.

The results of the impairment test are shown in the table below:

Project	Gross accounting value on 31 December 2021	Accumulated value adjustment on 31 December 2021	Value adjustment established / (reversed) in 2021
AHE Bumbesti-Livezeni	770,212,083	310,812,444	94,980,163
CHE Racovita	65,491,991	65,491,991	8,534,034
AHE Rastolita	690,683,233	674,256,124	68,434,697
AHE Siriu-Surduc	739,469,905	457,910,039	(22,848,054)
AHE Pascani	369,974,320	369,974,320	1,332,022
AHE Cerna-Belareca	318,082,997	318,082,997	193,398
AHE Cornetu-Avrig	106,929,037	105,471,846	-
Cerna Motru Tismana - etapa II	72,942,551	72,942,551	5,143
Lac redresor Sebes	56,138,185	56,138,185	-
Bistra	45,274,970	45,274,970	44,073,960
Retehnologizare Portile de Fier II	45,265,051	45,265,051	-
Movileni	34,754,176	34,754,176	111,405
Others	86,088,592	84,777,872	93,966
Total	3,401,307,090	2,641,152,566	194,910,734

The value adjustments made in 2021 were mainly determined by the updating of the estimated costs for the completion of certain projects, as well as by the updating of the outflow schedule of cash flows related to costs until completion and the estimated date of commissioning of investments.

Thus, in the impairment test on 31 December 2021, the Company estimated that approximately 85% of the additional production capacity will be installed by the end of 2028. Also, during 2021, the Company used estimated costs in the impairment test for the completion of the revised projects based on the contracts concluded with the works suppliers. The Company's estimates regarding the costs necessary to complete the projects in progress used in the impairment test, as well as the annual production capacities to be installed per year, are presented as follows:

Year	Estimated costs required to complete projects	Project energy installed (GW / Year)
2022	29,033,550	-
2023	228,969,000	-
2024	383,473,706	207
2025	220,586,068	238
2026	114,936,361	25
2027	70,200,000	-
2028	36,595,128	45
Total	1,083,793,812	515

The reversed value adjustments were mainly determined by the updating of the assumptions used regarding the future electricity prices, with an impact on reversals of value adjustments in the amount of RON 22,848,054.

4. INTANGIBLE ASSETS

	Licenses and other rights	Computer programs and other intangible assets	Total
GROSS ACCOUNTING VALUE			
Balance January 1, 2020	2,336,291	33,011,490	35,347,781
The impact of taking control of subsidiaries	142,892	1,313,020	1,455,912
inputs	1,211,331	-	1,211,331
Transfers from property, plant and equipment			
in progress	-	1,114,421	1,114,421
Sold 31 December 2020	3,690,514	35,438,931	39,129,445
CUMULATED DEPRECIATION			
Balance January 1, 2020	358,832	30,736,355	31,095,187
The impact of taking control of subsidiaries	142,892	1,282,300	1,425,192
Depreciation expense	91,575	1,142,462	1,234,037
Sold 31 December 2020	593,299	33,161,117	33,754,416
CUMULATED VALUE ADJUSTMENTS			
Balance January 1, 2020	810,831	-	810,831
Reverse value adjustments	(34,261)	-	(34,261)
Sold 31 December 2020	776,570	-	776,570
NET ACCOUNTING VALUE			
Balance on January 1, 2020	1,166,628	2,275,135	3,441,763
Sold on 31 December 2020	2,320,645	2,277,814	4,598,459
GROSS ACCOUNTING VALUE			
Balance January 1, 2021	3,690,514	35,438,931	39,129,445
The impact of the acquisition of subsidiaries	38,291,912	2,458,631	40,750,543
inputs	122,767	-	122,767
Transfers from property, plant and equipment			
in progress	28,614	1,947,994	1,976,608
outputs	(178,178)	(5,975,181)	(6,153,359)
Sold 31 December 2021	41,955,629	33,870,375	75,826,004
CUMULATED DEPRECIATION			
Balance January 1, 2021	593,299	33,161,117	33,754,416
Depreciation expense	1,664,205	1,662,982	3,327,187
Exit amortization	(178,179)	(5,975,181)	(6,153,360)
Sold 31 December 2021	2,079,325	28,848,918	30,928,243
CUMULATED VALUE ADJUSTMENTS			
Balance January 1, 2021	776,570	-	776,570
Reverse value adjustments	(34,261)	-	(34,261)
Sold 31 December 2021	742,309	-	742,309
NET ACCOUNTING VALUE			
Balance on January 1, 2021	2,320,645	2,277,814	4,598,459
Sold on 31 December 2021	39,133,995	5,021,457	44,155,452

The Group's intangible assets mainly include the value of the technical approval for the connection of the wind farm in a net value of RON 36,864,755 at December 31, 2021, valued at fair value at the date of the acquisition of the wind farm.

Other intangible assets mainly include the SAP computer system and operating system licenses.

5. INVENTORIES

	31 December 2021	31 December 2020
Spare parts	39,525,613	42,230,959
Additional materials	7,547,557	8,393,052
Consumables	3,288,954	4,038,774
Other stocks	14,942,528	13,592,242
Total	65,304,652	68,255,027

8. TRADE RECEIVABLES

	31 December 2021	31 December 2020
Trade receivables	776,424,830	454,297,229
Adjustments for impairment of trade receivables	(113,731,076)	(92,770,818)
Total	662,693,754	361,526,411

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:

	2021	2020
Balance on 1 January	92,770,818	77,423,037
Impact of taking control of subsidiaries	-	1,359,489
Constituted adjustments	21,318,528	14,900,209
Reverse adjustments	(358,270)	(911,917)
Balance on 31 December	113,731,076	92,770,818

On 31 December 2021 the adjustments for the impairment of trade receivables mainly refer to :

- Transenergo Com: RON 22,251,775 (December 31, 2020: RON 22,251,775);
- CET Brasov: RON 18,724,742 (December 31, 2020: RON 18,724,742);
- Romelectro: RON 14,775,965 (December 31, 2020: RON 14,775,965);
- KDF ENERGY: RON 10,619,368 (December 31, 2020: RON 10,619,368);
- Arelco Power: RON 8,122,968 (December 31, 2020: RON 8,374,194);
- Termoficare 2000 Pitesti: RON 4,192,674 (December 31, 2020: RON 4,192,674).

The analysis by seniority of the trade receivables is presented in Note 28.

9. OTHER ASSETS

	31 December 2021		31 December 2020	
	Current	Long-term	Current	Long-term
Payments made in connection with disputed amounts	-	214,385,212	-	214,385,212
Income tax receivables	-	19,214,124	-	19,214,124
Adjustments of income tax receivables	-	(19,214,124)	-	(19,214,124)
Amounts to be recovered from the state representing insurance contributions	9,857,543	-	6,774,833	-
Guarantees paid to customers	-	5,232,971	-	5,870,749
Prepayments	10,525,960	-	2,838,457	-
Other assets	36,485,611	302,025	17,684,185	23,000
Adjustments for impairment of other assets	(11,049,514)	-	(11,363,927)	-
Total	45,819,600	219,920,208	15,933,548	220,278,961

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

	2021	2020
Balance on 1 January	30,578,051	27,837,895
Constituted adjustments	-	938,231
Reverse adjustments	-	1,856,924
Balance on 31 December	(314,413)	(54,999)
Balance on 1 January	30,263,638	30,578,051

Payments made in connection with disputed amounts

The amount of RON 214,385,212 resulted from the execution performed by the National Agency for Fiscal Administration ("ANAF") in 2016 of the letter of bank guarantee issued by ING Bank in favor of the Company for suspending the execution of the amounts resulting from the fiscal inspection report no. F-MC 7 / 21.01.2014 and of the taxation decision no. F-MC 851 / 21.01.2014 issued by ANAF. The company took legal action for the reimbursement of this amount both against ING Bank and ANAF. The main aspects of the disputes are presented in points i. – v. below.

The company estimates that it is likely to win the dispute against ING Bank based on the reasoning presented in point v. below. Also, ANAF lost the right to the tax receivable based on the settlement within the insolvency file of Hidroelectrica presented at point ii. below. Consequently, on December 31, 2021 and 2020, the Company did not register any debts or provisions in connection with the mentioned litigations, nor did it make any adjustments in connection with this amount paid.

The litigation with ING Bank is in the re-judging phase. After taking a decision in the substantive phase (estimated in 2022), the stages of appeal and recourse will follow; thus, the management estimates that a final and irrevocable decision on this litigation will most likely be taken after 31 December 2022. Consequently, this amount is presented on long term.

i. Fiscal 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 F_MC851/21.01.2014, it could be applied the enforcement procedure because the Tax Decision had 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.

ii. The litigation opened by Hidroelectrica against the Decision to settle 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 annulment of the Tax Decision no. F-MC 851 / 21.01.2014 and the FMC Fiscal Inspection Report 7 / 21.01.2014.

At present, file no. 3288/2/2015 instrumented by the Bucharest Court of Appeal is in the stage of administering the evidence, respectively the elaboration by the experts appointed by the court of the financial-accounting expertise report.

In 2021, respectively on 05.07.2021, in this litigation, the experts appointed by the court finalized and submitted the "expertise report" in which they established that out of the disputed amounts, ANAF would be entitled to receive an amount of RON 510,872, at which should be added interest and penalties.

The next trial date is April 15, 2022 in order for the designated experts to submit the answers to the objections raised by ANAF.

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

As 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 ANAF's claim for damages 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 solid.

iv. 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 letter of refusal to pay the request. On 06.09.2016, ANAF started the foreclosure against ING Bank because of its refusal to comply with the payment request. Following the summons of foreclosure, ING Bank paid to ANAF the amount of RON 214,385,212. Also, Hidroelectrica paid the amount of RON 214,385,212 to ING Bank as a result of the Bank crediting the Company's accounts with the amount of RON 214,385,212 due on the credit agreement no. 16271 / 09.02.2016, concluded to issue the letter of bank guarantee - as described in point v. below.

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 subject of file no. 18751/3/2019 pending before the Bucharest Tribunal. The court rejects the exception of the lateness of the request for review. Dismisses the request for review as inadmissible. Final.

v. *The litigation opened by Hidroelectrica against ING Bank regarding the recovery of the amount paid following the foreclosure execution performed by ANAF – file 25111/3/2019*

With the letter 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 availabilities 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 for the payment of the unauthorized credit. Following the notification of ING Bank, Hidroelectrica paid the amount of RON 214,385,212.

As a result of the Civil Decision no. 641, by which the court cancelled 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 14.09.2016 - 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 cancelling 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.

On 02.06.2020, the Bucharest Tribunal rejected the request to sue Hidroelectrica as unfounded with sentence no. 481 / 02.06.2020. Hidroelectrica filed an appeal.

On 01.02.2021, the Bucharest Court of Appel admitted the appeal, cancelled the appealed sentence, and sent the case for retrial. According to the decision of the Court of Appeal, the sentence from June 2020 was cancelled because this sentence was not motivated, thus:

- The court of first instance, the Bucharest Tribunal, did not perform an analysis of Hidroelectrica's arguments and did not consider all the evidence submitted by Hidroelectrica.
- On the occasion of the retrial, the Court of Appeal instructed the court of first instance to analyze each claim in the Hidroelectrica action all the arguments, defenses and evidence submitted by each party in the case.

ING appealed against the decision of the Court of Appeal, and the High Court of Cassation and Justice ruled in its admission, quashing the appealed decision, and sending the case for a new retrial to the Bucharest Court of Appeal. The High Court of Cassation and Justice held that the court had illegally ordered the case to be

remanded to the first instance, provided that neither party had made a request to that effect.

The Court of Appeal is to examine all the claims and rule on the merits of the claims

At the moment, the first retrial term has not been set.

vi. The litigation opened by ING Bank against Hidroelectrica and ANAF regarding the return of the execution

As a result of the final winning by ING Bank in the file 38194/299/2016 of the right to return the writ of execution ordered in file 803895 / 06.9.2016, in 2021 through the file 51487/299/2021 ING requested ANAF to reimburse to Hidroelectrica S.A. the amount of RON 214,385,212 updated with the inflation index, together with the penalizing legal interest. The file is in the regularization procedure with a deadline of April 20, 2022

10. SHORT TERM INVESTMENTS

	31 December 2021	31 December 2020
Bank deposits with a maturity of more than 3 months and less than 1 year	2,320,325,277	1,730,071,123
Government securities with a maturity of less than 1 year	241,142,010	-
Total	2,561,467,287	1,730,071,123

The average interest rate on term deposits in 2021 was 2.06% per year (in 2020 the average interest rate was 2.91% per year).

In 2021, government securities with maturity were purchased both in 2021 and in 2022. In the balance on December 31, 2021, there are government securities with maturity in March 2022 amounting to RON 235,410,000 with the related interest amounting to 5,732.010 RON.

The annual yield of government securities is in the range of 1.74% - 2.25%.

11. CASH AND CASH EQUIVALENTS

	31 December 2021	31 December 2020
Bank accounts	1,028,341,072	343,306,432
Cash	48,556	96,174
Cash equivalents	6,642	7,092
Total cash and cash equivalents	1,028,396,270	343,409,698

12. EQUITY

(a) Share capital

	31 December 2021	31 December 2020
Subscribed and paid-in share capital	4,484,474,670	4,484,474,670
Restatement differences in accordance with IAS 29	1,028,872,000	1,028,872,000
Unsubscribed share capital	120,150	-
Share capital	5,513,466,820	5,513,346,670

On December 31, 2021, the authorized, subscribed and fully paid-in share capital of the Company is divided into 448,447,467 (448,447,467 in 2020) ordinary shares with a par nominal value of RON 10 / share. Shareholders are entitled to dividends and each share confers a voting right at shareholders' meetings.

	31 December 2021		31 December 2020	
Shareholders	Number of shares	%	Number of shares	%
Ministry of Energy	359,009,551	80.0561%	359,009,551	80.0561%
Fondul Proprietatea	89,437,916	19.9439%	89,437,916	19.9439%
Total	448,447,467	100%	448,447,467	100%

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.

By the Shareholders' Decision of 12.10.2021, the increase of the share capital was approved with the amount of RON 120,150, of which RON 96,180 in-kind contribution representing lands that were valued at RON 96,176 and RON 23,970 cash contribution. The increase of the share capital was registered at the Trade Register and in the constitutive act of the Company in 2022, fact for which on 31 December 2021 this amount was not presented in the subscribed and paid-in share capital.

(a) Reserve from revaluation

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

	2021	2020
Balance on 1 January	6,094,876,693	6,458,435,638
The transfer of the revaluation reserve to the result carried forward because of depreciation and losses on tangible assets, net of tax	(338,547,839)	(339,201,479)
The movement of the revaluation reserve as a result of the depreciation of tangible assets	-	(24,357,466)
Establishment of the revaluation reserve as a result of the revaluation of tangible assets	4,622,863,209	-
Deferred tax related to the revaluation reserve	(724,666,618)	-
Balance on 31 December	9,654,525,446	6,094,876,693

(b) Other reserves

Other reservations include:

- legal reserves in the amount of RON 856,988,722 (December 31, 2020: RON 680,064,462), constituted annually in quota of 5% of the profit before tax, until the reserves reach 20% of the value of the paid-in share capital of the group, in accordance with the legal provisions. These reserves are deductible when calculating corporate income tax and are not distributable; and
- non-distributable reserves in the amount of RON 97,000,000 (December 31, 2020: RON 97,000,000), established in 2006 on the basis of Emergency Ordinance 89/2004. These reserves were set up to finance works aimed at modernizing and developing energy targets.

(c) Dividends

In 2021, the Company distributed dividends in the amount of RON 2,286,371,242 (RON 5.10 / share) from the profit of 2020 and from the result carried forward representing the revaluation reserve made as the depreciation or cancellation of tangible assets.

	Dividends distributed in 2021
Dividends distributed from the profit of 2020	1,286,371,242
Dividends distributed from retained earnings representing revaluation reserves transferred	1,000,000,000
Total	2,286,371,242

In 2020, the Company distributed dividends in the amount of RON 2,003,281,336 (RON 4.47 / share) from the profit of 2019 and from the result carried forward representing the revaluation reserve made as the depreciation or scrapping of tangible assets.

	Dividends distributed in 2020
Dividends distributed from the profit of 2019	1,253,281,336
Dividends distributed from retained earnings representing revaluation reserves transferred	750,000,000
Total	2,003,281,336

In 2021, were paid dividends in the amount of RON 2,286,371,242 (2020: RON 2,003,281,336).

According to the Fiscal Code, the revaluation reserve registered before 2004 transferred to the result carried forward as the related depreciation and disposal of the related tangible assets was taxed due to change of destination.

13. BANK LOANS

Description	31 December 2021	31 December 2020
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 guaranty agreement concluded between the IBRD and the Romanian State.	-	26.944.219
Reimbursement: half-yearly between March 15, 2010 - September 15, 2021.		

Description	31 December 2021	31 December 2020
BRD Groupe Societe Generale from 04.03.2021, in amount of RON 1,250,000,000. The contract is intended to finance the acquisition of participations and goods related to the production of renewable energy. The amount drawn from the loan: RON 635,219,000	574,400,041	-
Banca Transilvania - Credit line of Hidroserv S.A. classified on a long-term basis in accordance with the provisions of the reorganization plan; Repayment: quarterly installments until the second quarter of 2023.	3,395,105	4,978,077
Total loans	577,795,146	31,922,296
The current portion	93,876,520	28,527,674
The long-term portion	483,918,626	3,394,622

In 2021, the Group repaid loans in the amount of RON 97,579,712 (2020: RON 44,302,955).

The credit agreement with BRD specifies as financial indicators the debt service coverage rate - the minimum imposed threshold is 1.1 and the indebtedness rate - the maximum imposed threshold is 3.0. On December 31, 2021, the Group met the aforementioned financial indicators.

Reconciling the debt movement with the cash flows from the financing activity

	Liabilities		Total
	Loans	Leasing	
Balance on 1 January 2021	31,922,296	21,013,966	52,936,262
Changes generated by cash flows from the financing activity			
Withdrawals	635,219,000	-	635,219,000
Repayments of loans	(97,579,712)	-	(97,579,712)
Leasing payments	-	448,049	448,049
Total changes in cash flows from the financing activity	-	(6,791,939)	(6,791,939)
The effect of changes in exchange rates	537,639,288	(6,343,890)	531,295,398
Other changes	8,167,711	-	8,167,711
<i>For liabilities</i>			
Increasing debts arising from leasing contracts			
Interest expenses	-	(9,734,932)	(9,734,932)
Interest paid	-	7,570,976	7,570,976
Total other liabilities changes	4,526,929	688,395	5,215,324
Balance on 31 December 2021	(4,461,078)	(688,395)	(5,149,473)
Balance on 1 January 2021	65,851	(2,163,956)	(2,098,105)
Changes generated by cash flows from the financing activity	577,795,146	12,506,120	590,301,266

	Liabilities		Total
	Loans	Leasing	
Balance on 1 January 2020	70,006,725	19,594,386	89,601,111
Changes generated by cash flows from the financing activity			
Repayments of loans	(44,302,955)	-	(44,302,955)
Leasing payments	-	(6,614,371)	(6,614,371)
Total changes in cash flows from the financing activity	(44,302,955)	(6,614,371)	(50,917,326)
The effect of changes in exchange rates	1,086,834	-	1,086,834
Other changes			
<i>For liabilities</i>			
Increasing debts arising from leasing contracts	-	8,033,951	8,033,951
Interest expenses	5,948,166	-	5,948,166
Interest paid	679,690	-	679,690
Total other debt changes	(1,496,164)	-	(1,496,164)
Balance on 31 December 2020	5,131,692	8,033,951	13,165,643
Balance on 1 January 2020	31,922,296	21,013,966	52,936,262

14. TRADE RECEIVABLES

	31 December 2021	31 December 2020
Suppliers of energy	24,885,152	9,847,585
Providers of immobilizations	39,822,152	87,295,192
Debts for turbinated water	73,374,314	55,433,230
Supplier of repair works	9,245,656	3,855,218
Other suppliers	26,599,785	21,957,391
Total	173,927,059	178,388,616
Current	171,420,566	172,745,871
Long-time	2,506,493	5,642,745

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

Other suppliers include service providers, materials, and consumables.

15. DEFERRED INCOME

	31 December 2021	Termen scurt Sub 1 an	Termen lung Peste 1 an
Investment grants	147,453,569	5,676,277	141,777,292
Others	116,088	47,280	68,808
Total	147,569,657	5,723,557	141,846,100

	31 December 2020	Termen scurt Sub 1 an	Termen lung Peste 1 an
Investment grants	150,308,203	5,475,459	144,832,744
Others	163,681	52,987	110,694
Total	150,471,884	5,528,446	144,943,438

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

	2021	2020
Balance on 1 January	150,308,203	161,135,354
Increases during the year	-	296,476
Transfers in public patrimony	2,949,869	13,725
Revenues on income	(39,000)	(5,665,902)
Balance on 31 December	(5,765,503)	(5,471,450)
Balance on 1 January	147,453,569	150,308,203

Transfers in the public patrimony refer to the commissioning of the objective of the Racovita power plant financed also from special funds.

16. INCOME TAX

To determine the current and deferred tax, the Group 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 Group 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 Group 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

	2021	2020
Current income tax expense	717,833,451	353,025,196
Deferred income tax income	(205,021,110)	(22,627,873)
Total	512,812,341	330,397,323

(b) Reconciliation of the effective tax rate

		2021		2020
Profit before profit tax		3,598,428,358		1,773,564,076
Tax calculated by applying the Company's tax rate	16.0%	575,748,537	16.0%	283,770,252
The fiscal effect of:				
- Non-deductible expenses	0.03%	1,121,660	1.8%	32,430,184
- Non-taxable income	-1.82%	(65,583,100)	-0.3%	(4,601,157)
- Deduction of legal reserves	-0.92%	(32,970,436)	-2.7%	(47,676,465)
- Fiscal incentives	-0.81%	(29,051,692)	-0.8%	(14,808,737)
- Changing the destination of revalued reserves				
deducted for tax purposes	3.41%	122,752,608	4.6%	81,283,246
Others	-1.65%	(59,205,236)	0.0%	-
Income tax	14.3%	512,812,341	18.6%	330,397,323

In 2021, the fiscal incentives were obtained for the reinvested profit, positive equity (according to GEO 153/2020) and sponsorships granted. In 2020, the fiscal incentives were obtained for the timely payment of the profit tax in the first three quarters of 2020 according to GEO 99/2020, for the reinvested profit and sponsorships granted.

(c) Changes in deferred tax balances

	Net balance on 1 January 2021	Recognized in profit or loss account	Recognized in other elements of the overall result	Impact of purchasing a branch	Net balance 31 December 2021	Deferred tax receivables	Deferred tax liabilities
Tangible and intangible assets	818,604,567	(180,065,339)	728,678,333	3,292,918	1,370,510,479	-	1,370,510,479
Provisions	(86,858,413)	(16,246,233)	-	(3,286,289)	(106,390,935)	(106,390,935)	-
Employees' benefits	(19,433,508)	(375,799)	(1,074,460)	-	(20,883,767)	(20,883,767)	-
Trade receivables	(15,121,329)	(2,904,313)	-	-	(18,025,642)	(18,025,642)	-
Inventories	(4,838,660)	(808,492)	-	-	(5,647,152)	(5,647,152)	-
Green certificates	-	(3,173,317)	-	8,738,299	5,564,982		5,564,982
Reported tax loss	-	(1,447,617)	-	(26,967,793)	(28,415,410)	(28,415,410)	
Debts (receivables) before compensation	692,352,657	(205,021,110)	727,603,873	(18,222,865)	1,196,712,555	(179,362,906)	1,376,075,461
Tax offsets						164,281,466	(160,269,751)
Debts (receivables) net of deferred tax						(15,081,440)	1,215,805,710

S.P.E.E.H. HIDROELECTRICA S.A. two-tier company
EXPLANATORY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED ON DECEMBER 31, 2021
(All amounts are expressed in RON, unless otherwise stated)

	Net balance on 1 January 2020	Recognized in profit or loss account	Recognized in other elements of the overall result	Impact of purchasing a branch	Net balance 31 December 2020	Deferred tax receivables
Tangible and intangible assets	820,264,713	(8,735,040)	7,074,894	818,604,567	-	818,604,567
Provisions	(80,927,127)	(5,931,286)	-	(86,858,413)	(86,858,413)	-
Employees' benefits	(17,715,925)	(1,094,676)	(622,907)	(19,433,508)	(19,433,508)	-
Trade receivables	(12,416,871)	(2,346,627)	(357,831)	(15,121,329)	(15,121,329)	-
Inventories	(212,822)	(4,520,244)	(105,594)	(4,838,660)	(4,838,660)	-
Total Liability / (Receivable) with deferred tax	708,991,968	(22,627,873)	5,988,562	692,352,657	(126,251,910)	818,604,567
Tax offsets					126,251,910	(126,251,910)
Debts (receivables) net of deferred tax					-	692,352,657

(d) Potential consequences of income tax

The company may have potential consequences on income tax that may result from the payment to shareholders of dividends from revaluation reserves previously transferred to retained earnings which, according to tax law, are taxed at the time of changing the destination, to the extent previously tax deducted. Thus, the distribution of dividends from such reserves may generate additional income tax. As of December 31, 2021, the Company has such reserves, which following the distribution would generate a profit tax in the amount of RON 53 million.

17. EMPLOYEES' BENEFITS

A. Short-term employees' benefits

	31 December 2021	31 December 2020
Payroll	14,301,828	23,694,236
Other debts to employees	9,052,831	10,653,064
The current portion of defined benefit and other long-term employee benefit obligations	13,087,802	16,314,678
Payroll contributions	14,852,833	22,029,451
Tax on income from salary	3,161,187	4,568,796
Total	54,456,481	77,260,225

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

In accordance with the Collective Labor Agreement, the Group provides cash benefits to employees depending on seniority of service and on retirement.

In accordance with Government Decisions no. 1041/2003 and no. 1461/2003, the Group provides in-kind benefits consisting of 1,200 kWh annually, as free electricity, to employees who have retired from the Company, respectively from the units that belonged to the former Autonomous Electricity Company "Renel" and met the conditions of seniority. In the event of the pensioner's death, the surviving spouse has the right to receive the same assistance until the moment he or she remarries, or the death occurs.

In 2021 and 2020, the obligations regarding the determined benefit plans and other 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 2021	31 December 2020
Debts on determined benefits	90,758,611	86,580,887
Other long-term employee benefits	39,764,929	34,878,535
Total	130,523,540	121,459,422
- The current portion	13,087,802	16,314,678
- The long-term portion	117,435,738	105,144,744

Other long-term benefits also include salary benefits due to Hidroserv employees, which have been staggered in payment, according to the reorganization plan..

(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	2021	2020
Balance on 1 January	86,580,887	74,505,459
The impact of taking control of the Hidroserv subsidiary	-	3,893,166
Included in profit or loss		
The cost of current seniority	3,113,421	2,834,289
Actuarial losses	11,339,985	12,606,255
Paid benefits	(16,991,055)	(7,258,283)
Included in other elements of the overall result		
Actuarial losses	6,715,373	-
Balance on 31 December	90,758,611	86,580,887
Other long-term employee benefits	2021	2020
Balance on 1 January	34,878,535	36,219,075
Included in profit or loss		
The cost of current seniority	2,934,070	1,649,443
Actuarial losses	9,192,432	5,339,355
Paid benefits	(7,240,108)	(8,329,338)
Balance on 31 December	39,764,929	34,878,535

ii) Actuarial assumptions

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

(a) Macroeconomic assumptions:

the inflation rate used on 31 December 2021 is based on the NBR forecast for the next 10 years starting with 2022 and the long-term inflation of the Eurozone for the rest of the period (31 December 2020: NBR forecast for the next 5 years and the long-term inflation of the Eurozone for the rest of the period);

Year	Date of evaluation 31 December 2021	Date of evaluation 31 December 2020
2021	n/a	2.5%
2022	7.2%	2.5%
2023	3.9%	2.5%
2024	2.5%	2.5%
2025	2.5%	2.5%
2026-2031	2.5%	1.7%
2032+	1.2%	1.7%

- the discount rate used on 31 December 2021 and 31 December 2020 is based on the interest rate curve in RON without adjustments provided by EIOPA for the month of December 2021, respectively December 2020;

Year	Date of evaluation 31 December 2021	Date of evaluation 31 December 2020
2021	n/a	2.285%
2022	3.931%	2.361%
2023	4.342%	2.435%
2024	4.520%	2.511%
2025	4.608%	2.581%
2026+	4.680%-4.022% (average 4.486%)	2.651% - 3.631% (average 3.386%)

- the increase in the price of electricity per KWh is considered in line with the inflation rate. The price of electricity used in the actuarial calculation is 0.6600 RON / KWh as of December 31, 2021 (December 31, 2020: 0.54678 RON / KWh);
- the mortality rate used on 31 December 2021 is the rate published by the National Institute of Statistics for the period 2011-2020 (31 December 2020: the rate published by the National Institute of Statistics for the period 2010-2019).
- taxes and social contributions are those in force at the reporting date.

(b) Company's specific assumptions:

- the growth rate of gross salaries used on December 31, 2021 was 7.2% for 2022, 3.9% for 2023, 2.5% for the period 2024-2031 and a rate equal to the inflation rate in the following years (31 December 2020: 5% in 2021 and a rate equal to the inflation rate in the following years);
- the staff turnover rate used on 31 December 2021 represents the annual averages of the last 5 years differentiated by age groups and gender (31 December 2020: the annual averages of the last 4 years differentiated by age groups). The weighted average turnover rate used on 31 December 2021 is 1.44% (31 December 2020: 2.17%).
- 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

Seniority	Number of monthly gross salaries	
	31 December 2021	31 December 2020
20 years	1	1
25 years	2	2
30 years	3	3
35 years	4	4
40 years	5	5
45 years	6	6

P Retirement benefits depending on seniority within the Company

Seniority	Number of monthly gross salaries	
	31 December 2021	31 December 2020
Up to 10 years	1	1
Between 10 to 25 years	3	3
More than 25 years	6	6

(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.

	31 December 2021		31 December 2020	
	Increase/ (Decrease) debt		Increase/ (Decrease) debt	
Update rate (10%)	(5,114,071)	5,501,266	(3,021,781)	3,177,623
Employee rotation (10%)	(765,645)	774,716	(718,078)	728,404
Annual salary increase (1%)	6,190,059	(5,578,326)	6,362,705	(5,714,125)

The sensitivity analysis presented above may not be representative of the actual change in the benefits' 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 benefits was calculated using the unit credit method projected at the end of the reporting period, which is the same as the one applied to calculate the benefits recognized in the statement of financial position.

C. Employee benefits' expenses

	2021	2020
Average number of employees	4,398	3,719
Employees on 31 December	4,518	4,551
	2021	2020
Salaries and other emoluments	563,105,137	477,809,966
Contributions to social insurance	12,505,165	11,219,834
Lunch vouchers	11,354,880	11,324,732
Total	586,965,182	500,354,532

18. OTHER LIABILITIES

	31 December 2021		31 December 2020	
	Current	Long-term	Current	Long-term
Debts to the state	178,637,707	8,860,605	20,464,409	20,341,593
Guarantees of good execution	9,947,778	9,768,046	12,362,587	10,449,189
Other liabilities	117,135,354	252,259	1,997,476	58,828
Total	305,720,839	18,880,910	34,824,472	30,849,610

Long-term debts to the state represent the debts of Hidroserv S.A. to the state budget that have been rescheduled according to the approved reorganization plan.

Debts to the state include the amount of RON 113,220,087 tax calculated according to GEO 118/2021 approved according to Law 259/2021 and amended according to GEO 27/2022, which provides that the income generated by electricity producers resulted from the difference between the average monthly selling price of the electricity from which the costs with the acquisition of electricity are deducted as well as the costs of administration of the markets, and the price of 450 RON / MWh is taxed by 80%.

As of December 31, 2021, the balance of other debts includes amounts remaining to be paid to Andritz Hydro GMBH Ravensburg, in value of RON 114,468,865 following the completion of some litigations (see Note 23).

19. PROVISIONS

	31 December 2021		31 December 2020	
	Current	Long-term	Current	Long-term
Provisions for litigation	75,446,608	-	49,341,727	-
Provisions for decommissioning tangible assets	-	577,750,934	-	520,739,193
Provisions for tax issues	-	92,810,037	-	99,280,592
Other Provisions	42,305,664	-	39,156,095	-
Total	117,752,272	670,560,971	88,497,822	620,019,785

	Provisions for litigation	Provisions for decommissioning tangible assets	Provisions for tax issues	Other Provisions	Total
Balance on 31 December 2020	49,341,727	520,739,193	99,280,592	39,156,095	708,517,607
The impact of the acquisition of subsidiaries	-	25,490,412	-	-	25,490,412
Recognized provisions	69,702,681	3,796,171	-	41,858,783	115,357,635
Provisions used	(43,597,800)	-	-	(35,508,009)	(79,105,809)
Reversed provisions	-	(4,951,103)	-	(3,201,205)	(8,152,308)
Update on long - term provisions (Note 24)	-	32,676,261	(6,470,555)	-	26,205,706
Balance on 31 December 2021	75,446,608	577,750,934	92,810,037	42,305,664	788,313,243

I. Updating long-term provisions (Note 19)

On December 31, 2021, the provisions for litigation refer mainly to the litigation against the association Romelectro SA, Hidroconstructia SA and ISPH Project Development SA (file no. 40314/3/2013 *) in the amount of RON 67,618,460.

The object of the dispute is the execution contract no. 21DI / 26.01.2004 regarding the achievement of the investment objective *The hydropower development of the Jiu river on the Livezeni-Bumbesti sector*.

The association asked the court for the following:

- (i) pronouncing a court decision to be used as an additional act to the execution contract, an additional act having as object additional works executed by the Association starting with 2010 until the beginning of the litigation and establishing the equivalent value of the respective works in the amount of RON 88.4 million ; and
- (ii) the obligation of Hidroelectrica to pay the amount of RON 88.4 million representing the debit resulting from the execution of the works.

Subsequently, the claims from point (ii) were disjointed, being definitively resolved in the case regarding the insolvency of Hidroelectrica, where the syndic judge decided to reject them. Consequently, the object of the case is represented only by the pronouncing of a court decision replace the additional act.

In November 2015, the trial court rejected the Association's request, the decision being challenged by the Association.

In December 2016, the Court of Appeal admitted the appeal filed by the Association and sent the case for retrial.

Following the retrial on the merits, in April 2018 the court rejected the Association's request.

By Decision no. 1571 / 29.03.2019, the Bucharest Court of Appeal quashed with retention the decision of April 2018. As a consequence of the solution of quashing with detention, currently the Court of Appeal solves the issue in fact and in law. During 2020, the Court approved the administration of the written evidence, mutual interrogations and expertise in the field of hydrotechnical construction.

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

- in case the final decision of the court is unfavorable to the Company, an additional act will be concluded according to the request mentioned in point (i) mentioned above;

- the association Romelectro - Hidroconstructia - ISPH will initiate the foreclosure procedure;
- The company will challenge the enforcement procedure, arguing that the Association has been deprived of the right to request this claim by the decision of the syndic judge, as described above.

Considering the possibility that in case of pronouncing an unfavorable decision in this litigation, this decision will be considered related to the current period and not before the final closure of the insolvency of Hidroelectrica S.A., the Company constituted a provision for litigation in the amount of RON 67.61 million based on the expertise report issued on 17.02.2022.

In 2021, the Company used provisions in the amount of RON 42,832,490 following the sentences pronounced in the arbitration files no. ICC 20540 / MHM - arbitration opened by Hidroelectrica S.A. against Andritz Hydro and Voith Hydro, and no. ICC 22482 / MHM - arbitration opened by Andritz Hydro against Hidroelectrica S.A. (see Note 23).

II. Provisions for the decommissioning of tangible assets

In 2018, the Company's management took the decision to abandon certain investment projects in progress. Consequently, on December 31, 2018, the Company constituted 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 Dambovită Clabucet. In 2019 the Company constituted an additional provision in the amount of RON 263,041,907 for the decommissioning costs of HEA Valea Sadului for which the abandonment decision was approved in 2019. The decommissioning costs were estimated based on studies performed by an external technical expert.

In 2021, the Group registered a provision for the decommissioning of tangible assets at the time of the acquisition of Crucea Wind Farm S.A. in the amount of RON 20,539,309. The Crucea Wind Farm has an obligation to bring the leased land for the construction of wind turbines to its original state. The effects of the changes in the assumptions underlying the decommissioning costs are recognized prospectively by recording an adjustment of the decommissioning provision, as well as by a corresponding adjustment of the amount of tangible assets to which the decommissioning provision refers.

Annually, the provisions for the decommissioning of tangible assets are updated from the point of view of updating the estimated decommissioning costs until the estimated moment of making the expense, as well as from the point of view of the time value of the money. The effect of updating the decommissioning provision over time is presented in financial expenses).

III. Provisions for tax issues

Provisions for fiscal aspects in the amount of RON 92,810,037 represent the discounted value of the VAT adjustment deducted in connection with the capitalized costs related to the investment projects for which the abandonment decision mentioned in point II above was taken. According to the fiscal legislation, the Company will adjust the VAT deducted at the end of the abandonment activities and the disposal of the assets.

IV. Other provisions

Employee profit sharing	Variable remuneration of the members of the Management Board, the Supervisory Board and the management	Others	Total
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Balance on January 1, 2021	17,900,000	13,656,580	7,599,515	39,156,095
Recognized provisions	18,427,200	13,789,580	9,642,003	41,858,783
Provisions used	(17,900,000)	(10,455,375)	(7,152,634)	(35,508,009)
Reversed provisions	-	(3,201,205)	-	(3,201,205)
Sold on 31 December 2021	18,427,200	13,789,580	10,088,884	42,305,664

20. REVENUES FROM CLIENTS' CONTRACTS

A. Sources of income

The Group obtains income from the following sources:

	2021	2020
Electricity delivered	5,629,043,678	3,259,702,642
Supplying electricity to final consumers	418,531,426	223,416,275
Ancillary services	415,960,492	345,011,271
Sales of green certificates	23,218,172	-
Revenues from the provision of maintenance services	2,543,046	13,312,748
Total	6,489,296,814	3,841,442,936

During 2021, the Group produced 17,111 GWh (2020: 14,966 GWh), and the amount of electricity sold was 17,350 GWh (2020: 15,963 GWh). Of the amount of electricity sold, 1,029 GWh were delivered to final consumers (626 GWh in 2020).

According to the way of income recognition:

	2021	2020
Revenues recognized over time	6,463,535,596	3,828,130,188
Revenue recognized at the time of the transfer of the goods or services	25,761,218	13,312,748
Total	6,489,296,814	3,841,442,936

B. Debts related to contracts with clients

As of December 31, 2021, the Group registers debts related to contracts with clients in the amount of RON 93,330,569 (December 31, 2020: RON 73,660,217). These represent advance payments received from clients for contractual obligations to deliver energy in the future.

The amount of RON 73,660,217 included in debts related to contracts with clients on December 31, 2020 was recognized as income during the year 2021 (2020: RON 31,459,606).

Future electricity delivery obligations are part of contracts with customers that are expected to last no more

than one year.

PURCHASED ELECTRICITY

The Group purchases electricity mainly on the balancing market to cover the deficit between the electricity notified to be produced and the actual production of electricity.

During 2021, the Group acquired 638 GWh (2020: 1,380 GWh) at a total cost of RON 90,120,575 (2020: RON 15,383,268).

22. OTHER OPERATING INCOME

	2021	2020
Resumption of registered income in advance	5,804,646	5,499,579
Earnings from taking control of subsidiaries (Note 29)	31,530,319	13,008,588
Compensation income, fines and penalties	152,160,592	-
Other incomes	19,930,889	16,817,889
Total	209,426,445	35,326,056

Following the acquisition of Crucea Wind Farm S.A. and Hidroelectrica Wind Services S.R.L. In March 2021, the Group recorded a profit from controlling its subsidiaries of RON 31,530,319 (see Note 29).

As a result of the confirmation of the reorganization plan by the syndic judge from 24.06.2020, by the OGMS Decision no. 2 / 08.09.2020, the Special Administrator was appointed the debtor of Hidroserv S.A., thus the Company regained control over the Hidroserv subsidiary starting with September 2020 (see Note 29).

During 2021, the sentence was pronounced in the arbitration file no. ICC 20540 / MHM, as a result of which Hidroelectrica won the right to receive compensations in the amount of EUR 20,514,891, the equivalent of RON 101,487,165, value registered in compensation revenues (see Note 23). Also, as a result of the arbitral awards, the Company registered on revenue the amount of RON 49,980,354 representing trade debts with Andritz / Voith.

23. OTHER OPERATING EXPENSES

	2021	2020
Rent expenses	711,344	546,636
Fee expenses	1,135,889	2,923,006
Security expenses	16,113,914	16,277,498
Transportation costs	989,203	998,398
Local taxes and fees	52,522,337	50,152,846
Tax according to Law 259/2021	133,416,829	-
Contribution to ANRE	3,298,929	(10,528,462)
Compensation and penalty expenses	144,924,584	121,521
Impairment losses on tangible assets	19,179,292	19,066,074
Other expenses	97,436,042	78,819,358
Total	469,728,363	158,376,875

In 2021, a tax amounting to RON 113,220,087 was calculated according to GEO 118/2021 approved by Law 259/2021 and amended by GEO 27/2022, which stipulates that the income generated by electricity producers

resulted from the difference between the average monthly price of sale of electricity, minus the costs of electricity acquisition and administration costs, and the price of 450 RON / MWh, is taxed at 80%.

The expenses with compensations and penalties registered in 2021 mainly represent the compensations to Andritz Hydro and Voith Hydro following the sentences given in the arbitration files ICC 20540 / MHM, ICC 22482 / MHM and ICC 20901 / MHM, in total amount of RON 139,524,591.

As a result of the rulings given in the arbitration files mentioned above, the Company recorded at its expense the advances granted to Andritz Hydro in the amount of RON 15,617,953, the amount shown in the table above in losses from disposals of tangible assets.

Arbitral file no. ICC 20540 / MHM from 2014

Arbitration dispute regarding Contract no. 23.534 / H.700.116004 having as object the refurbishment of the hydropower plants located on the Lower Olt: Ipotesti, Draganesti, Frunzaru, Rusanesti and Izbiceni.

- Claimant: Hidroelectrica SA
- Defendants: Voith Hydro Holding GmbH & CO KG ("Voith") and Andritz Hydro GmbH ("Andritz")

The Arbitral Tribunal ruled:

- the total value of the amounts to be received by Hidroelectrica S.A. as a result of the settlement of the litigation, is the amount of RON 101,487,165. This amount can be found in Other operating income;
- the total value of the amounts to be paid by Hidroelectrica S.A. as a result of the settlement of the dispute, is as follows: principal in the amount of RON 24,279,417 and interest in the amount of RON 925,830, registered in Other expenses.

Arbitral file no. ICC 22482 / MHM from 2016

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

Applicant: Andritz Hydro GmbH, Germany and Andritz Hydro GmbH, Austria (together "Andritz")

Defendant: Hidroelectrica SA

The total value of the amounts to be paid by Hidroelectrica S.A. as a result of the settlement of the dispute, is as follows: principal in the amount of RON 43,145,060, interest in the amount of RON 16,930,229 and arbitration costs in the amount of RON 4,811,273.

Arbitral file no. ICC 22047 / MHM

Arbitral dispute regarding Contract no. 23.534 / H.700.116004 having as object the refurbishment of the hydropower plants located on the Lower Olt: Ipotesti, Draganesti, Frunzaru, Rusanesti and Izbiceni.

Applicant: Andritz Hydro GmbH, Germany and Andritz Hydro GmbH, Austria (together "Andritz")

Defendant: Hidroelectrica SA

The Arbitral Tribunal decided the total value of the amounts to be paid by Hidroelectrica S.A. as a result of the settlement of the dispute: principal in the amount of RON 35,933,572, interest in the amount of RON 9,739,324 and arbitral costs in the amount of RON 3,909,405.

In 2020, was calculated the regularization of the contribution based on the turnover paid to ANRE for 2019, based on which the Company has to recover from ANRE the amount of RON 17.7 million. The contribution to ANRE for 2020 is in the amount of RON 7.1 million (RON 65.9 million in 2019 after the correction registered in 2020), the decrease compared to 2019 is determined by the change of the percentage of the payment

contribution in accordance with ANRE order no. 1/2020 from 2% to 0.2%.

24. FINANCIAL RESULT

	2021	2020
Interest income	67,383,565	61,986,558
Income from late payment penalties	1,073,522	20,245,243
other incomes	10,708	8,892
Financial income	68,467,795	82,240,693
Interest expenses	(5,215,324)	(529,041)
Updating long-term provisions	(26,205,706)	-
Net loss on exchange rate differences	(8,777,509)	(1,835,534)
Other financial expenses	(2,247,414)	-
Financial expenses	(42,445,953)	(2,364,575)
Rezultat financiar, net	26,021,842	79,876,118

25. ANGAJAMENTE

25. COMMITMENTS

25.1. Contractual commitments

The Group has the following contractual commitments on 31 December 2021:

	RON
Acquisition of tangible and intangible assets	761,086,690

25.2 Guarantees granted and guarantees received.

a) Guarantees granted

On December 31, 2021, the Group granted performance bonds and good payment bonds in value of RON 46,518,130 mainly for guaranteeing the obligation to deliver electricity on the Centralized Market of Bilateral Contractors (PPCB) and the Centralized Market of Universal Service (PCSU), the guaranteed 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 268,222,733 - 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 593,039,154 - representing letters of bank guarantee for good payment received from the partners within the electricity sales contracts.

26. CONTINGENCIES

25.1 Litigations

The main litigations in which the Company is involved on December 31, 2021, with a potential exposure of RON 737.6 million, are the following:

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

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

Petitioner: Ministry of Economy, Energy and Business Environment

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 under concession.
- (ii) Subsequently, the Ministry of Energy supplemented the action in court, requesting Hidroelectrica to pay RON 373 million, which represents 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 an 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's. 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 assets 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.

In the case, the evidence with the accounting expertise was approved and administered, having as objective to determine the depreciation value, respectively the difference between depreciation and the royalty paid by the Company. The court also approved a party expert for Hidroelectrica.

Both the forensic expert and the party expert appointed by the Company concluded that the royalty calculated and paid between 2013-2018 by the Company was in accordance with the provisions of the concession contract no. 171/2004 and is correct, there being no other differences.

On 11.05.2021, the court of first instance rejected the request for a lawsuit filed by the Ministry of Energy as unfounded. Until the date of writing this information, the sentence was not communicated to the litigants, so

that the term of 15 days for the appeal of the Ministry of Energy did not start to run.

Based on the arguments presented above, as well as the conclusions of the expert report of the appointed expert, conclusions that are favorable to the Company, the management estimates that it will win this litigation and, consequently, has not registered a provision in connection with this litigation

b) Litigation against ANAF

The litigation opened by Hidroelectrica for the cancellation of 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.

Potential exposure: RON 214.4 million

As presented in note 9, points i. - ii., the Company was under general fiscal inspection, following which ANAF issued the Tax Decision no. F-MC 851/21.01.2014 regarding additional fiscal payment obligations in the amount of RON 232.6 million. The company challenged the taxation, 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 the decision F-MC 851/21.01.2014 were reduced to RON 214.4 million. The company requested in court the annulment of both decisions on May 29, 2015.

In 2021, in this litigation, the experts appointed by the court finalized and submitted the expertise report in which they established that from the disputed amounts, ANAF would be entitled to receive an amount of 510,872 RON, plus interest and penalties.

The next term is April 15, 2022, for appointing experts to submit the answers to the objections raised by ANAF.

The company analyzed possible future events taking into account 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 the tax claim generated by the taxation decision (more information is presented in note 9 - 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 final decision of the Bucharest Court of Appeal according to which ANAF is deprived of the right to request the payment of the tax claim generated by the taxation decision, the Company considers that it is likely that the dispute will end in favour of the Company and had not recorded any provision.

Considering the final decision of the Bucharest Court of Appeal according to which ANAF is deprived of the right to request the payment of the tax claim generated by the taxation decision corroborated with the litigation 51487/299/2021 by which ING Bank requested the return of the amount of 214, RON 4 million to Hidroelectrica, the Company considers that it is probable that the dispute will be settled in favor of the Company, and, consequently, it did not register any provision

c) Litigation regarding file 44443/3/2016 against Hidroconstructia SA

Petitioner: Hidroconstructia S.A.

Defendant: Hidroelectrica

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 cessation 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:

- Hidroconstructia's claims does not represent costs of preserving the works during the period of their ceasing, but the costs incurred by Hidroconstructia before the insolvency of the Company;
- thus, because it was a claim before the insolvency proceedings, it should have been 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 Hidroconstructia is losing the right to request the collection of the debt.

In March 2018, the court of first instance (Bucharest Tribunal) rejected Hidroconstructia's request, the decision being challenged by both parties. Hidroelectrica contested because it was obliged to pay administrative fees.

In April 2019, the Bucharest Court of Appeal admitted the appeals filed by the parties and sent the case for retrial to the Bucharest Tribunal.

Hidroelectrica filed appeal against this solution and an incidental appeal by Hidroconstructia. On November 3, 2020, the High Court dismissed the appeals as unfounded.

Therefore, the case was sent for retrial on the merits by the Bucharest Tribunal, the file 11314/3/2021 being registered, which is to be retrial on the merits by the Bucharest Tribunal. The next trial date has been set for April 26, 2022.

The company considers that the claims made by Hidroconstructia represent costs incurred before company's insolvency, costs that Hidroconstructia did not register in the credit group during the insolvency proceedings, thus losing its right to request payment of these amounts. Based on this argument, as well as based on the rejection of Hidroconstructia's request by the court in the first trial, the company estimates that it will win this dispute.

d) Litigation with Beny Alex S.R.L

Litigation regarding contracts:

- no. 129 / 02.09.2011 concluded by the company with HIDROSERV HATEG S.A., having as object the provision of deforestation services at HPD Raul Mare Retezat, Gura Apelor Dam: Ecologization and sanitation by deforestation of Gura Apelor reservoir; and
- the subcontracting contract concluded by HIDROSERV HATEG SA with Beny Alex no. 104 / 07.10.2011.

Petitioner: Beny Alex S.R.L.

Defendant: Hidroelectrica

Potential exposure: RON 43.6 million.

Beny Alex requested from the company the amount of RON 43.6 million representing additional works executed by this petitioner based on the contract concluded with Hidroserv subsidiary in 2011.

The court of first instance rejected the applicant's request as prescribed.

During 2020, the appeal declared by Benny Alex was admitted by the court of judicial control which cancelled in all the appealed sentence, rejected as unfounded the exception of the prescription of the material right to action and sent the case to the same court to continue the trial.

The file is found in the stage of administering the evidence and performing the expertise ordered with the next deadline on 07.06.2022.

The company considers that the claims made by Beny Alex represent costs incurred during company's

insolvency proceedings, costs which were not requested for payment during the insolvency proceedings, thus losing the right to request payment after termination of the insolvency. Based on this argument, the company estimates that the court's decision will be favorable to the company and, consequently, has not registered a provision in connection with this dispute.

e) Arbitral file 8/2021 with Romelectro S.A.

Litigation regarding the claims deriving from the Contract on the refurbishment of the Stejaru hydroelectric power plant.

Potential exposure: RON 73.8 million

Through the arbitration action, Hidroelectrica S.A. requested the Arbitral Tribunal to order the defendant Romelectro to pay the amounts below (cumulating RON 78.7 million, plus court expenses):

- RON 14,775,965, representing penalties for delay of works;
- the interests related to the amount of RON 14,775,965, calculated from the date of filing the arbitration request and until the date of the effective termination;
- court costs incurred by Hidroelectrica SA during the arbitration dispute;
- subsequently, the Company formulated an additional request by which it introduced a request consisting in obliging Romelectro to pay some estimated delay penalties (on 23.06.2021) to the amount of Euro 13,127,804, applied according to Clause 26 of the Conditions Special features of the contract and related to non-compliance with the deadlines for the receipt of works or parts of works corresponding to the units regulated by the Contract concluded by the parties.

The claims requested by Romelectro through the counterclaim on 15.11.2021 consist in obliging the Company to pay the following amounts (cumulating EUR 14,923,274, the equivalent of RON 73.8 million, plus interest and court costs):

- EUR 11,277,312, in RON equivalent at the date of the actual payment, representing the provisional estimate of the additional costs generated by Romelectro due to the delays registered in the execution of the Contract;
- EUR 1,537,098, in RON equivalent at the date of actual payment, representing the profit not realized by Romelectro due to delays in the execution of the Contract;
- EUR 535,672, in RON equivalent on the date of actual payment, representing general administration expenses calculated between 15.11.2021 - 16.08.2024;
- EUR 1,573,193, in RON equivalent on the date of actual payment, representing the value of the technical projects submitted to the Beneficiary;
- Legal interest at the amounts indicated above, starting with 19.04.2021 (date of introduction of the counterclaim), according to the provisions of art.3 paragraph 2 of GO no.13 / 2011, and until the effective date of payment;
- Payment of VAT applicable to the amounts indicated above, in accordance with the legal provisions in force;
- Payment of court costs incurred in resolving the arbitration dispute.

At the same time, Romelectro S.A. also formulated the following heads of claim without direct quantified pecuniary impact:

- To ascertain the non-existence of the Hidroelectrica's right to benefit from the assurance of a new life cycle of 30 years of the spiral chambers for the turbines type I and II in the absence of their replacement;
- To ascertain or, as alternative, to order the extension of the commissioning terms;
- To order the extension of some terms.

Romelectro also requested that the Arbitral Tribunal, in so far as both the principal and the counterclaim, be upheld in part, find that it operates in full as legal compensation for mutual debts up to the lowest competition and, by way of consequently, to oblige Hidroelectrica to pay the resulting difference.

On 10.03.2022, the Tribunal discussed with the parties Romelectro requests as a result of the opening the insolvency procedure, namely:

- (i) finding that the main claim and the additional claim against the specific provisions of the insolvency law have been terminated by law, and
- (ii) the disjunction of the counterclaim and the suspension of the newly formed file until the moment of elaboration by the judicial administrator of the report on the causes and circumstances that led to the occurrence of the insolvency according to art. 97 (1) of Law no. 85/2014.

Following the closing of the debates on these issues, the Tribunal ordered the postponement of the ruling for April 7, 2022, asking the parties to submit written conclusions regarding the requests made by Romelectro S.A. Given the incipient stage of the litigation, the Group presents this litigation as a contingent liability.

26.2 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.

26.3 Environmental issues

On December 31, 2021, the hydropower plants have an environmental permit within the validity period or are in the renewal procedure, respectively for all those in operation, less those out of use.

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 2021, annual visas were obtained for all authorizations that required this.

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 treated waters, of the wastewater, but also to measure the noise level at the site limit. During 2021, 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 carried out in the required terms.

26.4 Obligations regarding the disassembly and restoration of the site

Note 2.4 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 (32 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.

Consequently, the Group recognizes decommissioning provisions when management has decided to abandon an asset or switch 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.

The Group also recognized provisions for the dismantling and restoration of the site when the wind farm was put into operation.

27. RELATED PARTIES

a) Shareholders

The shareholders of the Group are the Romanian State which holds through the Ministry of Economy, Energy and Business Environment 359,009,551 shares, representing 80.06% of the share capital, and *Fondul Proprietatea* which holds 89,437,916 shares representing 19.94% in the share capital.

b) Remuneration of Directorate

Remuneration of Directorate

	2021	2020
Registered expenses		
Fix component	2,343,240	2,343,240
Estimate the variable component	8,201,340	8,201,340
Total	10,544,580	10,544,580
Payments made per year	2021	2020
Fix component	2,324,643	2,343,240
Variable component (corresponding to the previous year)	5,148,465	4,166,987
Total	7,473,108	6,510,227

The remuneration of the executive members consists of a fixed monthly indemnity which 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 national 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.

Financial and non-financial performance indicators based on which the variable component is determined include:

- Financial indicators: turnover, EBITDA margin, gross profit, current liquidity, current indebtedness rate and overdue payments to the state budget;

- Operational indicators: degree of achieving the investment program; achievement of the maintenance program and availability of hydro units;
- Indicators regarding services: performing ancillary services and fulfilling the obligations to supply / sale electricity;
- Indicators regarding corporate governance: timely elaboration of the revenue and expenditure budget; establishing risk management and monitoring policies and implementing the internal control system.

The variable component of the remuneration of the Directorate approved by the GMS decision no. 20 / 25.07.2019, is limited to 3.5 times the fixed indemnity according to the mandate contracts. The maximum value of the variable component is RON 8,201,340.

On December 31, 2021, the Group registered the amount of RON 8,201,340 (2020: RON 8,201,340) representing the variable component of the remuneration of the Management Board in "Provisions" - Note 19.

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

Remuneration of the members of the Supervisory Board

	2021	2020
Registered expenses		
Fix component	1,038,240	889,920
Estimate the variable component	1,038,240	1,038,240
Total	2,076,480	1,928,160
 Payments made per year	 2021	 2020
Fix component	889,920	889,920
Variable component (corresponding to the previous year)	889,920	804,588
Total	1,779,840	1,694,508

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. Consequently, 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. The financial and non-financial performance indicators based on which the variable component of the Supervisory Board is determined are the same as those for the Directorate.

On December 31, 2021, the Group registered the amount of RON 1,038,240 (2020: RON 1,038,240) representing the variable component related to the Supervisory Board, which is included in the line "Provisions" (Note 19).

No loans were granted to directors and administrators in 2021 and 2020. No guarantees were granted / received to / from Directors and members of the supervisory board.

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

In the normal course of business, the Group has transactions with other entities in which the State has

significant control or influence, relating primarily to the working water tax, the purchase of electricity, transportation and system services, and the sale of electricity, as follows:

Supplier

	Aquisitions (without VAT) 2021	Balance (without VAT) 31 December 2021
Administratia Nationala Apele Romane	524,274,745	71,671,146
Transelectrica	128,821,500	24,931,367
Hidroconstructia	23,524,410	13,215,365
OPCOM	10,409,546	572,129
Others	20,544,128	2,385,961
Total	707,574,329	112,775,969

Supplier

	Aquisitions (without VAT) 2020	Balance (without VAT) 31 December 2020
Administratia Nationala Apele Romane	299,242,390	53,847,711
Transelectrica	68,679,867	9,516,076
Hidroconstructia	39,005,852	18,737,578
Others	21,828,829	1,387,982
Total	428,756,938	83,489,347

Client

	Sale (without VAT) 2021	Balance, gross value (including VAT) 31 December 2021	Value adjustment	Balance, net value (including VAT)
Transelectrica	1,468,064,692	336,421,991		336,421,991
Electrica Furnizare	197,642,382	14,279,494		14,279,494
OPCOM	1,267,615,576	486,124		486,124
E.ON Energie Romania	151,197,508	10,412,464		10,412,464
STB Bucuresti	53,488,785	10,683,734		10,683,734
Metrorex	43,530,568	16,723,411		16,723,411
Engie Romania	368,663,712	2,594,382		2,594,382
CET Brasov	-	18,724,742	(18,724,742)	-
Others	14,474,827	7,980,698		7,980,698
Total	3,564,678,050	418,307,040	(18,724,742)	399,582,298

Client

	Sale (without VAT) 2020	Balance, gross value (including VAT) 31 December 2020	Value adjustment	Balance, net value (including VAT)
Transelectrica	561,202,868	73,620,678	-	73,620,678
Electrica Furnizare	453,484,532	34,423,902	-	34,423,902
OPCOM	392,862,076	7,795	-	7,795
E.ON Energie Romania	137,135,831	12,018,979	-	12,018,979
STB Bucuresti	40,249,153	30,085,368	-	30,085,368
Metrorex	35,235,527	-	-	-
CET Brasov	-	18,724,742	(18,724,742)	-
Others	21,957,746	18,579,255	(424)	18,578,831
Total	1,642,127,733	187,460,719	(18,725,166)	168,735,553

28. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

(a) Accounting classifications and fair values

The table below shows the accounting values and fair values of financial assets and liabilities. The table does not include fair value information for financial assets and liabilities that are not measured at fair value if the carrying amount represents a reasonable approximation of fair value.

31 December 2021

31 December 2021		Accounting value	
		Financial assets at amortized cost	Other financial debts
	Note		
Financial assets that are not measured at fair value			
Trade receivables	8	662,693,754	
Other receivables	9	219,920,208	
Cash and cash equivalents	11	1,104,890,224	
Restricted cash		10,257,471	
Short term investments	10	2,561,467,287	
		4,559,228,944	
Financial liabilities that are not measured at fair value			
Bank loans	13		(577,795,146)
Leasing			(12,506,121)
Financial liabilities that are not measured at fair value	14		(173,927,059)
			(764,228,326)

31 December 2020

31 December 2020		Accounting value	
		Financial assets at amortized cost	Other financial debts
	Note		
Financial assets that are not measured at fair value			
Trade receivables	8	361,526,411	
Other receivables	9	220,278,961	
Cash and cash equivalents	11	354,845,179	
Restricted cash		10,257,471	
Short term investments	10	1,730,071,123	
		2,676,979,145	
Financial liabilities that are not measured at fair value			
Bank loans	13		(31,922,296)
Leasing			(21,013,966)
Trade payables	14		(178,388,616)
			(231,324,878)

In accordance with IFRS 9, the Group'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.

b) Financial risk management

Credit risk

Credit risk is the risk when the Group 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.

	31 December 2021	31 December 2020
Trade receivables	662,693,754	361,526,411
Other receivables	219,920,208	220,278,961
Cash and cash equivalents	1,104,890,224	354,845,179
Restricted cash	10,257,471	10,257,471
Short-term investments	2,561,467,287	1,730,071,123
Total	4,559,228,944	2,676,979,145

Trade receivables

The exposure of the Group to credit risk is mainly influenced by the individual characteristics of each client. The Group 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.

The following table provides information on the exposure to credit risk and expected loss rates at 31 December 2021:

	Average losses	Gross value	Adjustment for depreciation	Net trade receivables
Not-past due	1,95%	145,616,462	(2,837,842)	142,778,620
Overdue - from 1 to 3 months	40,29%	8,728,720	(3,516,763)	5,211,957
Overdue - from 3 to 6 months	88,77%	3,710,078	(3,293,253)	416,825
Overdue - from 6 months to 1 year	100,00%	3,413,344	(3,413,344)	-
Overdue - more than 1 year	100,00%	100,669,874	(100,669,874)	-
Total		262,138,478	(113,731,076)	148,407,401
Individually analyzed customers *		514,286,353	-	514,286,353
Total trade receivables		776,424,831	(113,731,076)	662,693,754

* Represents clients with outstanding balances as of December 31, 2021 for which the Company considers that there is no risk of non-collection of debts.

The following table provides information on the exposure to credit risk and expected loss rates at 31 December 2020:

	Average losses	Gross value	Adjustment for depreciation	Net trade receivables
Not-past due	0,00%	322,324,396	-	322,324,396
Overdue - from 1 to 3 months	0,23%	23,717,558	(53,639)	23,663,919
Overdue - from 3 to 6 months	2,62%	13,968,956	(365,654)	13,603,302
Overdue - from 6 months to 1 year	91,40%	22,495,402	(20,560,608)	1,934,794
Overdue - more than 1 year	100,00%	71,790,917	(71,790,917)	-
Total		454,297,229	(92,770,818)	361,526,411

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 8.

Liquidity risk

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

The Group 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

Contractual cash flows					
31 December 2021	Accounting value	Total	< 12 months	1 - 5 years	> 5 years
Financial liabilities					
Suppliers and assimilated accounts	173,927,059	173,927,059	171,420,566	2,506,493	
Loans	577,795,146	577,795,146	93,876,520	369,052,019	114,866,607
Leasing	12,506,121	12,506,121	3,592,402	4,053,345	4,860,373
Total	764,228,326	764,228,326	268,889,488	375,611,857	119,726,980
Contractual cash flows					
31 December 2020	Accounting value	Total	< 12 months	1 - 5 years	> 5 years
Financial liabilities					
Suppliers and assimilated accounts	178,388,616	178,388,616	172,745,871	5,642,745	-
Loans	31,922,296	31,922,296	28,527,674	3,394,622	-
Leasing	21,013,966	21,013,966	6,383,664	14,630,302	-
Total	231,324,878	231,324,878	207,657,209	23,667,669	-

Market risk

Market risk is the risk that changes market prices - the exchange rate and interest rate - will affect the Group'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 Group has long-term loans with variable interest rates that may expose the Group to interest rate risk. The company considers the potential impact is low given the low level of loans.

	31 December 2021	31 December 2020
Fixed interest rate instruments		
Financial assets		
Restricted cash	10,257,471	10,257,471
Short-term investments	2,561,467,287	1,730,071,123
Total	2,571,724,758	1,740,328,594
Instruments with variable interest rate		
Financial liabilities		
Loans	(577,795,146)	(31,922,296)
Leasing	(12,506,121)	(21,013,966)
Total	(590,301,267)	(52,936,262)

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

The Group does not registers 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, to remain constant.

	Increase/decrease Profit before tax	
	increase by 50 basic points	decrease by 50 basic points
31 December 2021		
Instruments with variable interest rate	(883,666)	79,506
31 December 2020		
Instruments with variable interest rate	(264,681)	264,681

(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 2021				
- the RON equivalent of the currency				
	EUR	USD	CHF	HUF
Trade receivables	2,787,612	-	-	-
Loans to subsidiaries	99,503,227	224,670	333,869	199,733
Trade liabilities	(4,665,906)	(175,170)	-	-
Bank loans	(574,400,041)	-	-	-
Leasing	(8,667,831)	-	-	-
Net exposure to the statement of financial position	(485,442,939)	49,500	333,869	199,733

31 December 2020				
- the RON equivalent of the currency -				
	EUR	USD	CHF	HUF
Cash and cash equivalents	1,045,649	130,929	313,740	200,334
Trade receivables	(69,930,303)	(158,951)	-	(134)
Loans	(26,944,219)	-	-	-
Leasing	(16,059,680)	-	-	-
Net exposure to the statement of financial position	(111,888,553)	(28,022)	313,740	200,200

The following exchange rates were applied during the year:

	31 December 2021	31 December 2020
RON / EUR	4,9481	4,8694
RON / USD	4,3707	3,9660
RON / CHF	4,7884	4,4997
RON / 100 HUF	1,3391	1,3356

Sensitivity analysis:

A 5% appreciation of the RON against the following foreign currencies on 31 December 2021 and 2020 would have increased the profit by the amounts indicated below. This analysis assumes that all other variables remain constant.

	Increase/(decrease) Profit before tax 2021 (RON)	Increase/(decrease) Profit before tax 2020 (RON)
EUR	24,272,147	5,594,428
USD	(2,475)	1,401

S.P.E.E.H. HIDROELECTRICA S.A. two-tier company
EXPLANATORY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON DECEMBER 31, 2021

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

CHF	(16,693)	(15,687)
100 HUF	(9,987)	(10,010)
Total	24,242,992	5,570,132

A 5% depreciation of the RON against foreign currencies on December 31, 2021 and 2020 would have had a similar but opposite effect on the above amounts, assuming that all other variables remained constant.

	Increase/(decrease) Profit before tax 2021 (RON)	Increase/(decrease) Profit before tax 2020 (RON)
EUR	(24,272,147)	(5,594,428)
USD	2,475	(1,401)
CHF	16,693	15,687
100 HUF	9,987	10,010
Total	(24,242,992)	(5,570,132)

29. ACQUISITION OF SUBSIDIARIES

On December 23, 2020, Hidroelectrica S.A. and STEAG GmbH have signed an agreement to sell Crucea Wind Farm S.A. and Hidroelectrica Wind Services S.R.L. to Hidroelectrica S.A.

The total consideration for this acquisition was EUR 130 million, consisting of EUR 51.1 million related to the transferred shares and EUR 78.9 million related to the loans owed by Crucea Wind Farm S.A. to the former shareholders, which were taken over by Hidroelectrica S.A., there being no other contingent payments.

Other costs incurred by Hidroelectrica S.A. in relation to the acquisition, it referred to due diligence services and legal fees registered in other operating expenses. The value of these services is RON 1,362,207.

The fair value of the identifiable assets acquired and the liabilities assumed are presented as follows:

	RON
Tangible fixed assets	547,722,916
Intangible assets	40,750,543
Green certificates	54,614,369
Inventories	58,496
Clients and similar accounts	4,522,639
Other current assets	8,728,508
Cash and cash equivalents	36,964,184
Deferred tax assets	18,222,865
Total fair value assets	711,584,521
Loans	391,097,546
Leasing	7,570,976
Provisions	25,490,412
Suppliers and similar accounts	4,790,359
Current profit tax	43,254
Employee benefits	179,478
Other current debts	1,122,031
Total debt	430,294,056
Fair value of net assets acquired	281,290,465

The result of the transaction is as follows:

	RON
Fair value of net assets acquired	281,290,465
Purchase price	249,760,146
Earnings from the acquisition on advantageous terms	31,530,319

The valuation of the assets and liabilities of the acquired entities was performed by an appraisal expert.

For the tangible fixed assets, the cost approach and the market approach were used.

Significant unobservable input data were:

- The reconstruction cost was estimated using historical costs (acquisition costs) and indices used to index the costs at the valuation date published by INSSE.
- Physical depreciation (average 23%)
- Functional depreciation (18%)
- External depreciation has not been identified.

The market approach was used for intangible assets. Significant unobservable input data represent a physical depreciation of 21%.

In September 2020, the Company regained control of its subsidiary Hidroserv S.A. (see Note 1).

The fair value of assets and liabilities acquired in September 2020 was:

	RON
Tangible fixed assets	60,383,146
Other Fixed Assets	6,025,835
Inventories	17,210,736
Trade receivables	22,435,526
Other current assets	4,288,857
Cash and cash equivalents	9,426,314
Total assets	119,770,414
Obligations regarding employee benefits	35,632,420
Bank loans	5,948,166
Revenues recorded in advance	296,475
Deferred income tax	5,988,562
Trade debts	10,700,180
Provisions	4,534,837
Other debts	43,661,186
Total liabilities	106,761,826
Profit	13,008,588

30 . SUBSEQUENT EVENTS

Ceiling the sale prices of electricity

Based on the provisions of GEO 27/2022, for the period April 1, 2022 - March 31, 2023, for the electricity supply portfolio, the final supply prices (including distribution rates, transport, cogeneration, green certificates, VAT) to the final consumer are established at:

- maximum 0.68 RON / kWh, VAT included, in the case of household customers whose average monthly consumption achieved at the place of consumption in 2021 is less than or equal to 100 kWh;
- a maximum of 0.8 RON / kWh, VAT included, in the case of household customers whose average monthly consumption at the place of consumption in 2021 is between 100 kWh and 300 kWh inclusive;
- a maximum of 1 RON / kWh, VAT included, in the case of non-household customers.

Bogdan BADEA
Chairman of
Directorate

Marian BRATU
Member of
Directorate

Radu POP
Member of
Directorate

Cristian VLADOIANU
Member of
Directorate

Razvan PATALIU
Member of
Directorate

Marian Fetita
Manager of Accounting Department

Gabriela Vasilescu
Head of Reporting, Control and Planning Department