S.P.E.E.H. HIDROELECTRICA S.A.
Two-tier system company

HIDROELECTRICA

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended on
December 31, 2018

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

Content: **Page:**

	Note	31 December 2018	31 December 2017 restated*	1 January 2017 restated *
Assets				
Fixed assets				
Tangible assets	5	15,287,336	14,336,581	14,862,572
Intangible assets		4,315	5,314	3,736
Other assets	26	2,704	9,452	28,890
Total fixed assets		**15,294,355**	**14,351,347**	**14,895,198**
Current assets				
Inventories	6	70,001	75,143	61,231
Clients and assimilated accounts	7	445,823	346,781	397,088
Other current assets	8	222,613	240,873	252,586
Bank deposits	9	2,496,667	1,687,518	1,479,163
Restricted cash		10,257	-	-
Cash and cash equivalents	10	75,764	114,950	220,787
Total current assets		**3,321,125**	**2,465,265**	**2,410,855**
Total assets		**18,615,480**	**16,816,612**	**17,306,053**
Equity and liabilities				
Own equity				
Share capital	11	4,482,393	4,482,393	4,481,650
Inflation adjustment to share capital	11	1,028,872	1,028,872	1,028,872
Public patrimony		39,619	39,347	39,347
Revaluation reserve	11	6,859,132	6,038,203	6,316,333
Other reserves	11	583,885	482,516	402,392
Retained earnings		3,565,623	3,184,599	3,332,120
Total own equity		**16,559,524**	**15,255,930**	**15,600,714**
Liabilities				
Long-term debts				
Loans	12	68,316	110,726	199,040
Deferred revenues	14	161,187	166,935	191,957
Deferred tax liabilities	15	744,502	573,072	622,604
Employees' benefits long-term obligations	16	92,801	85,435	78,314
Provisions	18	286,555	-	-
Trade payables	13	15,249	7,458	-
Other non-current liabilities	17	8,126	4	26,452
Total long-term liabilities		**1,376,736**	**943,630**	**1,118,367**

(to be continued on next page)

**See Note 2.7.*

	Note	31 December 2018	31 December 2017 restated*	1 January 2017 restated *
Current liabilities				
Short-term loans		-	12,804	12,776
Current portion of long-term loans	12	42,509	89,397	136,481
Trade payables	13	155,933	165,848	167,150
Other trade payables	17	296,882	206,685	178,755
Deferred revenues	14	25,833	24,262	10,110
Current portion of long-term obligations regarding employees' benefits	16	10,316	5,925	4,184
Provisions	18	147,747	112,131	77,516
Total current liabilities		**679,220**	**617,052**	**586,972**
Total liabilities		**2,055,956**	**1,560,682**	**1,705,339**
Total own equity and liabilities		**18,615,480**	**16,816,612**	**17,306,053**

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

Bogdan BADEA	**Marian BRATU**	**Florentina SUSNEA**	**Bogdan ȘOȘOACĂ**	**Razvan PAȚALIU**
President of Directorate	Member of Directorate	Member of Directorate	Member of Directorate	Member of Directorate

Marian Fetita Manager of Accounting Department

Prepared by
Bogdan Pribeagu
Head of Reporting, Control and Planning Department

**See Note 2.7.*

	Note	2018	2017 restated*
Revenues			
Sales of electricity	**19**	4,252,015	3,246,956
Other operating revenues	**21**	56,119	18,916
Total Revenues		**4,308,134**	**3,265,872**
Operating Expenses			
Electricity purchased	**20**	(126,926)	(88,162)
Depreciation and impairment of tangible and intangible assets, net	**6**	(538,638)	(739,804)
Salaries and other emoluments	**18**	(374,480)	(377,032)
Other operating expenses	**22**	(567,545)	(470,728)
Materials and consumables		(8,108)	(24,660)
Maintenance and repairs		(89,309)	(3,870)
Changes in provisions	**18**	(356,519)	(50,900)
Total Operating Expenses		**(2,061,525)**	**(1,755,156)**
Operating Profit		**2,246,609**	**1,510,716**
Financial income	**23**	77,629	28,864
Financial expenses	**23**	(628)	(8,570)
Net financial result		**77,001**	**20,294**
Profit before income tax		**2,323,610**	**1,531,010**
Income tax	**15**	(349,983)	(234,517)
Net profit		**1,973,627**	**1,296,493**
Result per share		4.4	2.89
Other elements of the comprehensive income			
Revaluation of tangible assets		1,371,943	-
Impact of deferred tax on revaluation reserve		(220,820)	-
Other elements of the comprehensive income		**1,151,123**	**-**
Total comprehensive income		**3,124,750**	**1,296,078**

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**See Note 2.7.*

S.P.E.E.H. HIDROELECTRICA S.A. two-tier system company
CONSOLIDATED STATEMENT OF CHANGES IN OWN EQUITY
FOR THE YEAR ENDED ON DECEMBER 31, 2018
(All amounts are expresses in RON, unless otherwise stated)

	Share capital	Adjustment of share capital to inflation	Public patrimony	Reserves from revaluation	Other reserves	Retained earnings	Total
Balance on1 January 2017 previously reported	**4,481,650**	**1,028,872**	**39,347**	**6,316,333**	**402,392**	**4,979,985**	**17,248,579**
Result of restatement*	-	-	-	-	-	(1,647,864)	(1,647,864)
Balance on 1 January 2017 restated	**4,481,650**	**1,028,872**	**39,347**	**6,316,333**	**402,392**	**3,332,121**	**15,600,715**
Comprehensive income							
Profit of restated year	-	-	-	-	-	1,296,078	1,296,078
Other elements of the comprehensive income	**-**	**-**	**-**	**-**	**-**	**1,296,078**	**1,296,078**
Total comprehensive income							
Transactions with the Company's shareholders	-	-	-	-	-	(1,690,686)	(1,690,686)
Dividends declared	743	-	-	-	-	-	743
Other changes	**743**	**-**	**-**	**-**	**-**	**(1,690,686)**	**(1,689,943)**
Total transactions with shareholders							
Other changes of equity	-	-	-	-	80,124	(80,124)	-
Establishing legal reserves	-	-	-	(336,798)	-	336,798	-
Resume of the revaluation reserve to retained earnings as a result of depreciation and disposal of tangible assets				58,668	-	(47,222)	11,446
Deferred tax related to reserve from transferred revaluation	-	-	-	-	-	37,635	37,635
Other changes	**4,482,393**	**1,028,872**	**39,347**	**6,038,203**	**482,516**	**3,184,600**	**15,255,931**
Balance on 31 December 2017 restated							

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

**See Note 2.7.*

CONSOLIDATED STATEMENT OF CHANGES IN OWN EQUITY

FOR THE YEAR ENDED ON DECEMBER 31, 2018

(All amounts are expresses 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 2018 restated*	**4,482,393**	**1,028,872**	**39,347**	**6,038,203**	**482,516**	**3,184,600**	**15,255,931**
Comprehensive income							
Profit for the year	-	-	-	-	-	1,973,627	1,973,627
Other elements of the comprehensive income							
Revaluation of tangible assets	-	-	-	1,371,943	-	-	1,371,943
Deferred tax related to the revaluation reserve	-	-	-	(220,820)	-	-	(220,820)
Total other elements of the comprehensive income	**-**	**-**	**-**	**1,151,123**	**-**	**-**	**1,151,123**
Total overall result	**-**	**-**	**-**	**1,151,123**	**-**	**1,973,627**	**3,124,750**
Transactions with Company's shareholders							
Declared dividends	-	-	-	-	-	(1,821,429)	(1,821,429)
Total transactions with shareholders	**-**	**-**	**-**	**-**		**(1,821,429)**	**(1,821,429)**
Other changes of equity							
Establishing legal reserves	-	-	-	-	114,463	(114,463)	-
Resume of the revaluation reserve to retained earnings as a result of depreciation and disposal tangible assets	-	-	-	(324,928)	-	324,928	-
Deferred tax related to reserve from transferred revaluation	-	-	-	44,105	-	(44,105)	-
Other changes	-	-	-	(49,371)	(13,094)	62,465	-
Balance on 31 December 2018	-	-	272	-	-	-	272
Balance on 1 January 2018 restated*	**4,482,393**	**1,028,872**	**39,619**	**6,859,132**	**583,885**	**3,565,623**	**16,559,524**

**See Note 2.7.*

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Marian Fetita Manager of Accounting Department

Prepared by **Bogdan Pribeagu**

Head of Reporting, Control and Planning Department

	Note	2018	2017 restated*
Cash flows from operating activities:			
Net profit		**1,973,627**	**1,296,078**
Adjustments for non-cash items:			
Depreciation of tangible assets	**5**	664,456	660,337
Depreciation of intangible assets		1,331	1,223
Value adjustments of tangible assets, net	**5**	(127,149)	78,244
Expenses from revaluation of tangible assets, net	**5**	5,434	-
Net provision movement	**18**	356,519	50,900
Expenses with the value adjustments of trade receivables and other receivables		21,238	35,283
Expenses for value adjustments of inventories		570	199
Loss / (profit) from sales of tangible assets		651	17,391
Resumption of investment subsidies		(5,477)	(5,622)
Unrealized losses from exchange rate variation	**23**	98	5,746
Interest income	**21**	(34,350)	-
Interest expenses	**23**	(58,377)	(12,879)
Income tax	**23**	322	2,824
	15	349,983	234,517
		3,148,876	**2,364,241**
Changes in:			
Commercial receivables			
Other assets		(122,924)	15,024
Inventories		47,503	31,151
Restricted cash		(2,331)	(14,111)
Trade payables and assimilated accounts		(10,257)	-
Other liabilities		23,283	29,691
Cash generated from operating activities		(27,448)	(997)
		3,056,702	**2,424,999**
Interest paid		(322)	(2,824)
Income tax paid		(336,134)	(268,284)
Net cash from operating activities			
		2,720,246	**2,153,891**
Cash flow used in the investment activity:			
Acquisitions of tangible assets			
Acquisitions of intangible assets		(167,726)	(230,437)
Loans (granted) / repaid		(334)	(2,768)
Proceeds from the sale of tangible assets		771	12
Interest earned		35,467	12,879
Payments for deposits with an initial maturity of more than 3 months		(5,916,000)	(208,355)
Proceeds from deposits with original maturities longer than 3 months		5,071,385	-
Net cash used in investment activity		**(976,437)**	**(428,669)**

(to be continued on next page)

**See Note 2.7.*

	Note	2018	2017 restated*
Cash flow from financing activity:			
Loan repayments	**12**	(89,212)	(140,373)
Dividends paid	**11**	(1,684,411)	(1,690,686)
Net cash used for financing activity		**(1,773,623)**	**(1,831,059)**
Net decrease in cash and cash equivalents		**(29,814)**	**(105,837)**
Cash and cash equivalents on 1 January	**10**	114,950	220,787
Result of losing control over the subsidiary	**21**	(9,372)	-
Cash and cash equivalents on 31 December	**10**	**75,764**	**114,950**

**See Note 2.7*

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

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Marian Fetita Manager of Accounting Department

Prepared by **Bogdan Pribeagu**
Head of Reporting, Control and Planning Department

1. REPORTING ENTITY

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

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

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

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.

At 31 December 2018 and 31 December 2017 Hidroelectrica SA holds the following shares in other companies:

Subsidiary	Activity	Registered office	% participation as on 31 December 2018	% participation as on 31 December 2017
Hidroserv S.A.	Energy services (maintenance, repair, construction)	Bucharest, Romania	100%	100%
Hidroelectrica Trading D.o.o.	Trading energy	Belgrade, Serbia	100%	100%

Hidroserv SA entered the insolvency proceedings in October 2016. Hidroelectrica SA lost control of Hidroserv SA in February 2018 as a result of the decision of the syndic judge to wave the management right over Hidroserv SA and assign it to the official receiver. Hidroelectrica SA deconsolidated this subsidiary starting February 2018.

In November 2018, Hidroelectrica SA decided to liquidate Hidroelectrica Trading Doo. On 31 December 2018, the winding-up of the subsidiary was not completed. Hidroelectrica SA consolidates this subsidiary to liquidation.

Legal framework

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

- Implementing the mandatory national regulatory system for the energy sector in order to guarantee efficiency, competition, transparency in this sector, and consumers’ protection;
- Issuing or suspending operating licenses for existing entities involved in the energy sector or those that will occur, aiming at creating a competitive environment within the electricity markets;

- Elaboration the methodology and criteria for calculating tariffs in the energy sector and the framework contracts for the sale, purchase and delivery of electricity to final consumers.

Based on the responsibilities described above, ANRE issued Decision no. 93/2000, for granting the "Electricity Supply License No. 18/2000" to Hidroelectrica. This license allows Hidroelectrica to operate on the wholesale electricity market, selling electricity to distribution companies and eligible consumers. The license was renewed in 2008, by ANRE Decision no. 916/2008, and later in 2010 by Decision no. 1387 / 27.05.2010 was obtained the license no. 932/2010. The Company is also authorized to provide ancillary services under Decision no. 851/2005 issued by ANRE, granting to Hidroelectrica the "License for Ancillary Services No. 333/2001".

Regarding the production of electricity, Hidroelectrica operates based on the "Production License no. 332/2001" (ANRE Decision No. 1624/2014).

1. BASES FOR PREPARATIONS

2.1 Accounting bases

The consolidated financial statements were prepared in accordance with the Order of the Minister of Public Finance no. 2844/2016 for the approval of the Accounting Regulations in accordance with the International Financial Reporting Standards, as amended ("OMFP No. 2844/2016"). According to OMFP no. 2844/2016, International Financial Reporting Standards are standards adopted according to the procedure presented in European Commission Regulation No 1606/2002 of the European Parliament and of the Council dated 19 July 2002 regarding the application of international accounting standards.

The consolidated financial statements were authorized for issue by the Directorate and endorsed by the Supervisory Board on May 27, 2019. These statements will be submitted to shareholders for approval in the general meeting scheduled for May 29, 2019.

The details of the Company's accounting policies are included in Note 3. This is the first set of the Company's annual financial statements for which IFRS 15 "Revenue from contracts with customers" and IFRS 9 "Financial Instruments" were applied. Changes in significant accounting policies are described in Note 2.6.

2.2 Functional currency and presentation currency

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

2.3 Use professional estimates and judgments

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

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

a) Significant professional considerations

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

Concession

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

The main terms of the concession contract are as follows:

- The Ministry of Energy holds the ownership title over the assets subject to the agreement;
- The Company has the right to use these assets for a period of 49 years, from 1 January 2005 to 31 December 2053;
- The annual fee paid by the Company for the use of these assets is set out in the concession agreement; The company pays an annual fee of 1/1000 of the total revenues from the sale of electricity and the provision of ancillary services;
- Assets will be in the possession of the Ministry of Energy upon termination or expiration of the agreement;
- The Company has the obligation to use the assets in accordance with the provisions of the concession agreement and the operating license.

In analyzing the application of IFRIC 12, the Company took into account the following features of public-private service concession agreements concluded with the Ministry of Energy:

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

The Company concluded that it is not within the scope of IFRIC 12 because it does not meet the above-mentioned (a) characteristic.
The Company recognizes the royalty for the concession agreement as expenses in profit or loss calculated based on the income registered by the Company during the period.

Return assets

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 represented 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;

- Taking-over assets - assets of the public domain nature (lands and buildings, technical installations and cars, as well as in progress immobilizations 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 payment of a compensation equal to the current book value. Takeover goods are assets that belong to the concessionaire and were used by the concessionaire;

- Own assets - the assets which, upon termination of the concession agreement, remain the property of the concessionaire. There are considered own assets (constructions, technological equipment, machines, machines and work installations, measuring and control devices and instruments, means of transport, furniture, office equipment, equipment for protection of human and material values and other tangible assets) assets which belonged to the concessionaire and were used by the concessionaire during the concession, with the exception of the takeover assets;

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

Taking over assets and own assets are amortized over the estimated useful life.

Lossing control in Hidroserv
Hidroserv SA entered insolvency proceedings in October 2016.
In February 2018, the syndic judge decided to raise the right of administration of Hidroserv SA by the Special Administrator and to assign it to the Official receiver, appointed by the syndic judge. Consequently, the Company has derecognised this subsidiary because it no longer has control over it.

b) Significant estimates

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

- Note 3 (a) and (b) - estimates of the useful lives of tangible and intangible assets;
- Note 5 - assumptions regarding the revaluation of tangible assets;
- Note 5 - assumptions on determining the recoverable amount of current assets;
- Notes 18 and 25.1 - recognition and measurement of provisions and contingent debts;
- Notes 3 q) and 9 - recognition and calculation of profit tax and estimation of tax exposures;
- Note 12 - assessments of obligations regarding defined benefit plans and other long-term employee benefits: Main actuarial assumptions;
- Notes 2.6, 3 d), 7 and 27.b) - determination of expected credit losses for trade receivables.

Establishing the fair values

Certain Company accounting policies and disclosure requirements require that fair value should be determined for both financial assets and liabilities and for non-financial assets.

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

• Level 1: Quoted (unadjusted) prices on active markets for identical assets or debts;
• Level 2: Inputs other than quoted prices included in Level 1 that are observable for an asset or liability, either directly (e.g. prices) or indirectly (e.g. derived from prices);
• Level 3: Entry data for an asset or liability that is not based on observable market data (unobservable input data).

If the inputs used to determine 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 ranked in the hierarchy of the fair value corresponding to the lowest value at which the input data significant for the whole evaluation is registred.

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

Detailed information about the assumptions used to determine fair values are included in Note 5 - Tangible Assets. The fair values of tangible assets are classified as Levels 3.

2.5 Basics of evaluation

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

2.6 Significant Changes in Accounting Policies

The Company has initially applied IFRS 15 and IFRS 9 as of 1 January 2018. A number of other new standards are also applicable as of 1 January 2018.

The effect of initial application of these standards was not material to the consolidated financial statements of the Company. For this reason, comparative information has not been restated.

IFRS 15 *Revenue from contracts with clients*

IFRS 15 sets out a comprehensive framework to determine whether and when revenues are recognized. This Standard has replaced IAS 18 *Revenues*, IAS 11 *Construction Contracts and Related Interpretations*. In accordance with IFRS 15, income is recognized when the customer acquires control of the assets or services. Determining the moment of transfer of control - at a time or as time passes - requires professional reasoning.

The Company has adopted IFRS 15 using the cumulative effect method (without practical solutions) with the effect of the initial application of this standard recognized at the date of initial application (namely January 1st, 2018). Consequently, the information for 2017 have not been restated - and are presented as reported in accordance with IAS 18, IAS 11 and Related Interpretations. In addition, disclosure requirements under IFRS 15 were not generally applied for comparative information.

IFRS 15 did not have a significant impact on the Company's financial position and performance.

IFRS 9 *Financial instruments*

IFRS 9 establishes requirements for the recognition and measurement of financial assets, financial liabilities and certain contracts for the purchase or sale of non-monetary items. This Standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

Following the adoption of IFRS 9, the Company did not adopt the amendments to IAS 1 *Presentation of Financial Statements,* which require the presentation of adjustments for impairment of financial assets in a separate row in the profit or loss account, and other items of comprehensive income, because adjustments for impairment of financial assets are not significant. The Company's approach is to include adjustments for impairment of trade receivables in other operating expenses and to present them separately in Note 22.

The Company adopted the subsequent amendments to IFRS 7 *Financial Instruments: information to be provided* when reporting information in the explanatory notes for the financial year ended 31 December 2018 but not generally applied for comparative information.

(i) Classification and measurement of financial assets and liabilities

IFRS 9 contains three main classification categories of financial asset: measured at amortized cost, measured at fair value through other comprehensive income ("FVOCI") and measured at fair value through profit or loss ("FVTPL"). The classification of financial assets in accordance with IFRS 9 is generally based on the business model that manages a financial asset and the characteristics of its contractual cash flows. IFRS 9 removes the previous categories of IAS 39: held-to-maturity, loans and receivables and availability for sale. In accordance with IFRS 9, derivatives embedded in contracts in which the host is a financial asset are never separated. Instead, the hybrid financial instrument is evaluated for classification as a whole.

Trade receivables, deposits, cash and cash equivalents that have been classified as loans and receivables in accordance with IAS 39, are now classified as financial assets at amortized cost.

IFRS 9 maintains to a large extent the requirements of IAS 39 for the Classification and Valuation of Financial Liabilities. The adoption of IFRS 9 did not have a material effect on the Group's accounting policies related to financial liabilities.

For an explanation of how the Company classifies and evaluates financial instruments and related profit and losses under IFRS 9, see Note 3 (c) and (d).

The effect of initial application of IFRS 9 was not important to the Group's consolidated financial statements.

(i) Impairment of financial assets

IFRS 9 replaces the "Losses" chapter of IAS 39 with an "expected credit loss" model ("ECL"). The new depreciation model applies to financial assets measured at amortized cost. In accordance with IFRS 9, credit losses are recognized earlier in accordance with IAS 39 - see Note 3 (d).

For the assets to which the depreciation model IFRS 9 applies, it is generally estimated that impairment losses will increase and become more volatile. Additional information about how the Company assesses impairment adjustments is described in Note 3 (d).

(i) Transition

The Company has used an exemption to not retrieve comparative information for prior periods regarding classification and measurement requirements (including depreciation). However, the Company assessed the effect of the initial application of IFRS 9 as being insignificant for the consolidated financial statements.

2.7 Restating comparative figures

In the financial year ended 31 December 2018, the Company conducted a detailed analysis of the current assets, which include investment projects that have begun long ago and for which there are indications that the economic benefits are significantly lower than the value of the investment and their execution has been suspended by the Group in previous years (see Note 5).

Due to the fact that these fixed assets were already impaired in prior periods, the Company determined and recorded the value losses for both the current financial year and the previous periods and, consequently, restated the comparative figures.

The following tables summarize the impact on the consolidated financial statements of the Group in this respect:

Individual situation of financial position

	The Impact of Accounting Errors		
1 January 2017	**Previously reported**	**Adjustment**	**Restated**
Tangible assets	16,500,732	(1,638,160)	14,862,572
Total tangible assets	**16,533,358**	**(1,638,160)**	**14,895,198**
Total assets	**18,944,213**	**(1,638,160)**	**17,306,053**
Retained earnings	4,979,985	(1,647,865)	3,332,120
Total equity	**17,248,579**	**(1,647,865)**	**15,600,714**
Other current liabilities	169,050	9,705	178,755
Total current liabilities	**577,267**	**9,705**	**586,972**
Total liabilities	**1,695,634**	**9,705**	**1,705,339**
Total equity and liabilities	**18,944,213**	**(1,638,160)**	**17,306,053**
31 December 2017			
Intangible assets	16,026,791	(1,690,210)	14,336,581
Total intangible assets	**16,041,557**	**(1,690,210)**	**14,351,347**
Total assets	**18,506,822**	**(1,690,210)**	**16,816,612**
Retained earnings	4,884,930	(1,700,331)	3,184,599
Total equity	**16,956,261**	**(1,700,331)**	**15,255,930**
Other current liabilities	196,564	10,121	206,685
Total current liabilities	**606,931**	**10,121**	**617,052**
Total liabilities	**1,550,561**	**10,121**	**1,560,682**
Total equity and liabilities	**18,506,822**	**(1,690,210)**	**16,816,612**

The individual situation of profit or loss and other items of comprehensive income

	The Impact of Accounting Errors		
For year ended on 31 December 2017	**Previously reported**	**Previously reported**	**Previously reported**
Depreciation and impairment of tangible and intangible assets, net	(687,754)	(52,050)	(739,804)
Total operating expenses	**(1,703,106)**	**(52,050)**	**(1,755,156)**
Profit before tax	**1,583,060**	**(52,050)**	**1,531,010**
Income tax	(234,101)	(416)	(234,517)
Net profit	**1,348,544**	**(52,466)**	**1,296,078**
Total comprehensive income	**1,348,544**	**(52,466)**	**1,296,078**

Also, in the financial statements for the year ended 31 December 2018, the Company changed the presentation in the individual situation of the financial position and in the individual situation of the profit or loss and of other items of the comprehensive income of certain categories as compared to the previous years as follows:

- Separate presentation of non-distributable reserves in "Other reserves", previously presented in "Retained earnings", in the individual situation of financial position;
- Separate presentation of the short-term portion regarding long-term employee benefit obligations in "Current portion of long-term employee benefit obligations" previously presented in" Long Term Employee Benefits", in the individual situation of financial position;
- Presentation of value adjustments of tangible assets in "Depreciation and impairment of tangible and intangible assets, net", previously presented in "Other operating expenses";
- Presentation of expenses on provisioning and reversals of provisions in "Provisional Movements", previously presented in "Other operating expenses".

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Tangible assets

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 required for its use. Subsequent to initial recognition, land, plant, equipment and other tangible assets are measured at revalued amounts, less cumulative depreciation and any impairment losses.

Debt 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 cost of the borrowing. 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 relocation when erased from the records, as well as restoring the location on which immobilisation is located when these amounts can be reliably estimated and the Group has an obligation with regard to dismantling, relocation of the tangible assets and restoration of the site.

The Group used fair value as the cost assumed for tangible assets in the opening position of the financial position at the application of OMPF 2844.

Revaluations are performed with sufficient regularity so that the carrying amount should not differ from that which will be determined 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.

When significant parts of a tangible asset have different useful lives, they are accounted for as separate components (major components) of tangible assets.

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 Group.

(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 Group 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 on useful life (years)**
Buildings	65 - 97
Equipment	25 - 47
Equipment and systems of measurement and control	15 - 23
Means of transport	16 - 24
Other fixed assets	15 - 23

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

(b) Intangible assets

(i) Recognition and evaluation

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

(ii) Subsequent expenditure

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

(iii) Amortization

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

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

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

(c) Financial instruments

(i) Recognition and Initial evaluation

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

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

(ii) Classification and subsequent evaluation

Financial assets – applicable policy as of January 1, 2018

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

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

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

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

All financial assets that are not classified at amortized cost as described above are valued at FVTPL.

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 and impairment adjustments are recognized in profit or loss account. Any profit or loss on derecognition is recognized in profit or loss account.

Financial assets - policy applicable before January 1, 2018

The Group classified non-derivative financial assets as loans and receivables.

Loans and receivables

These assets were initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they were measured at amortized cost using the effective interest method.

Loans and receivables included trade receivables, deposits, cash and cash equivalents.

Financial liabilities

The Group classifies non-derivative financial liabilities as other financial liabilities.

Non-derivative financial liabilities are initially recognized at fair value less costs directly attributable to trading. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities include bank loans, leasing and commercial debt.

(iii) Derecognition

Financial assets

The Group derecognizes a financial asset when the contractual rights of the financial asset to cash flows expires or the rights to receive contractual cash flows in a transaction in which substantially all the risks and rewards of the ownership of the financial asset are transferred or when Group does not transfer or substantially does not conserve all the risks and rewards of ownership and does not retain control of the financial asset.

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 book 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.

(d) Depreciation

(i) Non-derivative financial assets

Applicable policy from January 1, 2018

Financial instruments

The Company recognizes adjustments for expected losses on credit for financial assets measured at amortized cost. Adjustments for losses on trade receivables are always measured based on the loss of expected credit loss ("ECL") over the lifetime.

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

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

The Company considers that a financial asset is unable to be paid when:

- the debtor is unlikely to pay all his obligations to the Company without the Company resorting to actions such as the performance of the guarantee (if any); or
- the financial asset has a maturity of more than 360 days.

ECL over the lifetime represents the expected credit losses that will result from all implicit events during the expected life of a financial instrument. The maximum period considered in the ECL assessment is the maximum contractual period for which the Company is exposed to risk of credit.

ECL measurement

ECL is an estimate based on probability of credit losses. Credit losses are measured at the present value of all cash deficits (i.e. the difference between the cash flows due to the entity under the contract and the cash flows that the Company expects to receive). ECLs are updated at the effective interest rate of the financial asset.

Presentation of the ECL adjustment for the financial position

Adjustments for losses on financial assets measured at amortized cost are deducted from the assets’ gross carrying amount.

Derecognition

The gross carrying amount of a financial asset is derecognized if the Group has no expectations of recovering the full financial asset or part of it. The Group does not expect a significant recovery from the derecognised amount. However, financial assets that are derecognised may still be subject to recovery activities in order to comply with the Group’ s recovery procedures.

Applicable policy until January 1, 2018

Financial assets were reviewed at each reporting date to determine whether there was objective evidence of impairment.

The objective evidence that the financial assets were impaired included:

- non-fulfillment of payment obligations by a debtor;
- restructuring an amount owed to the Group under terms that the Group would not accept in other conditions;
- evidence that a debtor or an issuer would enter into insolvency or bankruptcy;
- unfavorable changes in the payment status of borrowers or issuers;
- disappearance of an active market for an instrument; or
- observable data indicating that there is a quantifiable decrease in the expected cash flows for a group of financial assets.

Financial assets measured at amortized cost

The Group analyzed the indices of impairment for these assets both individually and collectively. All financial assets that were considered individually significant were individually analyzed for impairment. Assets for which no impairment was found were then tested collectively to determine the existence of impairment that was not individually identified. Assets that were not individually significant have been tested collectively for impairment. Collective testing was conducted for groups of assets with similar risk characteristics.

In order to test collective depreciation, the Group used historical information about the period of recoveries and the amount of losses incurred, and made an adjustment if the current economic and credit conditions indicated that actual losses could be higher or lower than those indicated by historical trends.

An impairment loss was calculated as the difference between the carrying amount of the asset and the present value of the expected future cash flows, updated with the effective interest rate of the asset. Losses were recognized in profit or loss account and reflected in an adjustment account of respective asset. When the Group had considered that there were no realistic asset recovery expectations, the corresponding amounts were derecognized. If the amount of the impairment loss subsequently decreased and the decrease could be objectively related to an event occurring after the impairment was recognized, the previously recognized impairment loss was reversed through profit or loss.

(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.

For impairment testing, assets are grouped into the smallest asset group that generates cash inflows from continuing use, which are independent of cash inflows generated by other assets or cash generating units.

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

An impairment loss is recognized if the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount. Impairment losses are recognized in profit or loss, except for tangible assets measured at revalued amount, in which case the impairment loss is recognized in other comprehensive income and decreases the revaluation reserve in equity to the extent that it reverses a surplus of revaluation previously recognized in respect of the same asset.

An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the net carrying amount of the depreciation that would have been determined if impairment loss had been recognized. Reversal of an impairment loss is recognized in profit or loss account, except for tangible assets measured at revalued amount, in which case reversal of the loss is recognized in profit or loss to the extent that it reverses an impairment loss on the same asset previously recognized as expense in profit or loss. Any further increase in the carrying amount of an asset is treated as a revaluation increase.

(e) Transactions in foreign currency

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 translated 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.

(f) Inventories

Stocks 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.

(g) Share capital

Ordinary shares are classified in equity. The Company recognizes the changes in the share capital under the conditions provided by the legislation in force and after their approval by the General Meeting of Shareholders and registration with the Trade Register. Incremental costs directly attributable to the issue of shares, net of any fiscal effects, are recognized as a decrease in equity.

(h) Public patrimony

Public patrimony includes the counterpart of public assets transferred from various state agencies.

(i) Revaluation reserves

The difference between the revalued amount and the net book 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 a revaluation, that increase is recorded and accrued in equity to revaluation reserves. However, the increase is recognized in profit or loss to the extent that it offsets a decrease with the same amount of the asset previously recognized in profit or loss.

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

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

(j) Dividends

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

(k) Provisions

A provision is recognized if, following a prior event, the 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 as a result of previous events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not entirely controlled by the Company; or

b) a current obligation arising from previous events, but not recognized because:

   i. it is unlikely that the settlement of the obligation will require resource outflows incorporating economic benefits; or

   ii. obligation cannot be measured with sufficient reliability.

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

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

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

(m) Leasing

(i) Determining the extent to which an arrangement contains a leasing operation

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

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

(ii) Assets acquired under leasing

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

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

(iii) Leasing payments

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

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

(iv) Income from rents

Rental income from intangible assets, other than real estate investments, is recognized in other income. Rental income is recognized on a straight-line basis over the lease period.

(n) Income

Income is calculated based on the reward specified in a contract concluded with a client. Income is recognized when the Company transfers control over the goods or services to a client.

	Nature and fulfillment of contractual obligations	Recognition of income under IFRS 15 (applicable after 1 January 2018)	Income recognition under IAS 18 (applicable until 1 January 2018)
Sale of electricity	Invoices for sales of electricity produced or purchased are issued monthly for the energy sold in the previous month, respectively at the end of the month for the current month.	Income is recognized when the significant risks and rewards of ownership have been transferred to the customer. The transfer of risks and benefits takes place simultaneously with production and delivery, because the electricity is not stored.	Revenue is recognized when the significant risks and benefits of ownership have been transferred to the customer, the recovery of the consideration is probable, the related costs and the possible returns of the goods can be estimated reliably, the entity is no longer involved in the management of the sold goods, and the amount of income should be credibly evaluated. Revenue is recognized net of trade discounts or volume and returns. The transfer of risks and benefits is simultaneously with production and delivery, because the electricity is not stored.
Ancillary services	Invoices for ancillary services are issued monthly, for services rendered in the previous month.	Income is recognized as time passes because the client receives and consumes the benefits provided by the entity's performance as the entity performs.	Revenue from the services rendered is recognized in the profit or loss account proportional to the execution stage of the transaction at the reporting date. The execution stage is evaluated in relation to the analysis of the executed works (monthly).

(o) Income and financial expenses

Financial income and expenses of the Group include mainly:

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

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

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

(p) Employees' Benefits

(i) Short-term employees' benefits

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

(ii) Defined contribution plans

The obligations of the defined contribution plans are recognized as expense as the related services are rendered. Contributions paid in advance are recognized as an asset to the extent that is possible a cash refund or a reduction in future payments.

(iii) 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 to 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 comprehensive income. The Group determines net interest expense (income) with the 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 that date, taking into account any changes in net debt on defined benefit over the period as a result of contributions and benefits payments. Net interest expense and other expense related to defined benefit plans are recognized in profit or loss account.

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

(iv) Other Long-Term Employees' Benefits

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

(v) Benefits on terminating the employment contract

The benefits on the termination of the employment contract are recognized as expense at the earliest date when the 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 comprehensive income, case when the tax is recognized directly in equity or other comprehensive 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 basic tax 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 diminished to the extent that the related tax benefit is no longer probable.

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

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

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

(r) Grants

Subsidies 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 grant conditions, if any. Grants are recognized in profit or loss at the time of recognition of related costs (for example, depreciation of fixed assets from subsidies or consumption of inventory acquired from subsidy).

(s) Affiliated parties

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

(a) A person or close member of the family of that person is affiliated to an entity that reports whether that person:
   - i) Owns control or joint control over the reporting entity;
   - ii) Has significant influence on the reporting entity; or
   - iii) is a member of management of the reporting entity or a parent-company of the reporting entity;

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

A reporting entity is exempted from the disclosure requirements as in IAS 24.18 on related party transactions and open balances, including engagements, with:
a) Government, which has control, joint control or has significant influence on the reporting entity; and
b) Another entity that is affiliated because the same government has control, joint control or significant influence both on the reporting entity and on the other entity.

(t) 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 consolodated 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 going concern assumption is no longer appropriate during or after the reporting period, the financial statements are not prepared on a going concern basis.

(u) Basis for consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity if it is exposed or has the right over the variable return based on its participation in the entity and it has the ability to use the authority over the entity in which it invested in order to influence the profitability. The subsidiaries' financial statements are included in the consolidated financial statements from the moment they start exercising their control until the moment they cease.

(ii) Loss of control

When the control is lost, the Group derecognizes the subsidiary's assets and liabilities, unqualified interests, and other equity components of the subsidiary. Any surplus or deficit resulting from the loss of control is recognized in profit or loss account. If the Group retains interests in the subsidiary, then those interests are measured at fair value at the time the control is lost. Subsequently, that retained interest is accounted for as an investment using the equity method or as an available-for-sale financial asset, depending on the level of influence retained.

(iii) Transactions eliminated on consolidation

Balances and transactions within the Group, as well as any unrealized income or expense arising from transactions within the Group, are not included in the preparation of the consolidated financial statements.

4. NEW STANDARDS NOT YET IN FORCE

The following standards, amendments to standards and interpretations have been issued but are not yet in force for the annual period beginning on 1 January 2018. Those that may be relevant to the Group are presented below. The company does not intend to adopt these standards before their entry into force.

The Group expects the adoption of the financial reporting standards below in future periods should have no material effect on the Group’s financial statements, except for IFRS 16 *Leasing*.

(i) Standards and Interpretations adopted by the EU

- IFRS 16 *Leasing* (effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the Group also applies IFRS 15).

- IFRIC 23 *Uncertainties regarding the treatment of income tax* (effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted).
- Amendments to IFRS 9 *Advance Payment Charges with Negative Compensation* (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IFRS 10 and IAS 28 Sale or Income of Assets between an Investor and Associate entity or Joint Venture (The European Commission has decided to postpone approval for an indefinite period).

Preliminary Impact of IFRS 16 Leasing on the Company

The Group must adopt IFRS 16 *Leasing* as of 1 January 2019. The Group assessed the estimate of the impact that the initial application of this Standard will have on its individual financial statements. The actual impact of adopting the Standard on 1 January 2019 may change, as the new accounting policies can be amended until the Group presents the first individual financial statements that include the date of initial application ("DIA”).

IFRS 16 should replace existing leasing provisions, including IAS 17 *Leasing*, IFRIC 4 *Determining the extent to which a commitment contains a lease agreement*, SIC-15 *Operating Leasing*, *Incentives* and SIC-27 *The assessment of the economic substance of transactions involving the form of a leasing contract*. IFRS 16 introduces a sole balance sheet accounting model for tenants.

In accordance with IFRS 16, a contract is or contains a lease if it transmits the right to control the use of an asset, identified for a period of time, in exchange for consideration. In the case of this type of contract, the new model requires a lessee to recognize an asset with the right to use the underlying asset and a lease liability. Asset on the right of use is amortized and debt accrues interest. This will result in a pattern of greater expense recognition at the beginning of contracts for most leases, even when the lessee pays constant annual rent.

The new standard introduces a number of exceptions from the scope for lessee that include:

- Leases with a rental period of 12 months or less and not including acquisition options, and
- Leases where the underlying asset has a low value (low value leasing transactions).

Lessor's accounting will remain largely unaffected by the introduction of the new standard, and the distinction between operating and financial leases will be retained.

It is expected that the new standard, when applied for the first time, will have an impact on the financial statements, since it will require the Group to recognize in the statement of financial position assets and liabilities related to operating leases in which the Group is lessee.

The Company will recognize new assets and liabilities for its operating leasing contracts. The nature and expense of these leasing agreements will change as the Group recognizes expense for the use of leased assets and financial interest on the lease. In prior periods, the Group recognized operating leasing costs on a straight-line basis over the lease term and recognized assets and liabilities only to the extent that there was a time difference between actual lease payments and recognized expenses.

No significant impact on the Group’s financial leasing contracts is expected.

Based on currently available information, the Group estimates that it will recognize an additional leasing liability in amount of RON 25,603,566 on 1 January 2019.

The Group intends to apply IFRS 16 for the first time on 1 January 2019, using the amended retrospective approach without restating comparative information.

The Group intends to apply the practical solution to exempt the definition of the lease during the transition period. This means applying IFRS 16 to all contracts concluded before 1 January 2019 and identified as leasing contract in accordance with IAS 17 and IFRIC 4.

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

- IFRS 17 Insurance Contracts (effective for annual periods beginning on or after January 1, 2021, applicable prospectively).
- Amendments to IAS 28 Long-Term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2019).
- Annual Improvements to IFRS Cycle 2015-2017 (effective for annual periods beginning on or after January 1, 2019).
- Amendments to IAS 19 Employee Benefits (effective for annual periods beginning on or after January 1, 2019).
- Amendments to IFRS 3 Business Combinations (effective for annual periods beginning on or after January 1, 2020).
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (in effect for annual periods beginning on or after January 1, 2020).

5. Intangible assets

	Land and landscaping	Construction and special equipment	Machines, equipment and other fixed assets	Tangible fixed assets in progress	TOTAL
GROSS ACCOUNTING VALUE					
Balance on 1 January 2017	**759,810**	**10,078,180**	**2,974,865**	**5,130,447**	**18,943,302**
Additions	735	321	1,621	228,540	231,217
Transferrers	543	126,499	87,254	(214,296)	-
Outflows	(38)	(306)	(36)	(17,036)	(17,416)
Balance on 31 December 2017	**761,050**	**10,204,694**	**3,063,704**	**5,127,655**	**19,157,103**
CURRENT AMORTIZATION					
Balance on 1 January 2017	**63**	**373,855**	**306,716**	**-**	**680,634**
Depreciation expense	48	366,977	294,535	-	661,560
Cumulative depreciation of outflows	-	(7)	(5)	-	(12)
Balance on 31 December 2017	**111**	**740,825**	**601,246**	**-**	**1,342,182**
VALUE ADJUSTMENTS					
Balance on 1 January 2017 restated*	**461**	**17,832**	**1,442**	**3,380,361**	**3,400,096**
Adjustments in value, restated *	46	(627)	161	82,366	81,946
Reversed value adjustments	-	(606)	(64)	(3,032)	(3,702)
Balance on 31 December 2017 restated *	**507**	**16,599**	**1,539**	**3,459,695**	**3,478,340**
NET ACCOUNTING VALUE					
Balance on 1 January 2017 restated *	**759,286**	**9,686,493**	**2,666,707**	**1,750,086**	**14,862,572**
Balance on 31 December 2017 restated *	**760,432**	**9,447,270**	**2,460,919**	**1,667,960**	**14,336,581**

**See Note 2.7.*

	Land and landscaping	Construction and special equipment	Machines, equipment and other fixed assets	Tangible fixed assets in progress	TOTAL
NET ACCOUNTING VALUE					
Balance on 1 January 2018	**761,050**	**10,204,694**	**3,063,704**	**5,127,655**	**19,157,103**
Additions	-	2	-	193,037	193,039
Transfers	109	179,358	63,206	(242,673)	-
Outputs	(1)	(554)	(905)	-	(1,460)
Revaluation recognized in other comprehensive income, net	10,791	986,545	374,607	-	1,371,943
Revaluation recognized in profit or loss, net	(19,508)	15,622	(1,552)	-	(5,438)
Gross value compensated by the revaluation accumulated depreciation	(159)	(1,122,647)	(859,852)	-	(1,982,658)
Loss of control over the subsidiary	(7,660)	(42,427)	(39,430)	(6,337)	(95,854)
Balance on 31 December 2018	**744,622**	**10,220,593**	**2,599,778**	**5,071,682**	**18,636,675**
CURRENT AMORTIZATION					
Balance on 1 January 2018	**111**	**740,825**	**601,246**	**-**	**1,342,182**
Depreciation expense	63	385,446	278,948	-	664,457
Cumulative depreciation of outflows	-	-	(38)	-	(38)
Gross value compensated by the revaluation accumulated depreciation	(159)	(1,122,647)	(859,852)	-	(1,982,658)
Loss of control over the subsidiary	-	(3,624)	(19,527)		(23,151)
Balance on 31 December 2018	**15**	**-**	**777**	**-**	**792**
VALUE ADJUSTMENTS					
Balance on 1 January 2018 restated*	**507**	**16,599**	**1,539**	**3,459,695**	**3,478,340**
Adjustments in value, constituted	1	42,492	2,211	60,229	104,933
Reversed value adjustments	-	(141)	(295)	(231,646)	(232,082)
Loss of control over the subsidiary	-	-	-	(2,644)	(2,644)
Balance on 31 December 2018	**508**	**58,950**	**3,455**	**3,285,634**	**3,348,547**
NET ACCOUNTING VALUE					
Balance on 1 January 2018 restated *	**760,432**	**9,447,270**	**2,460,919**	**1,667,960**	**14,336,581**
Balance on 31 December 2018	**744,099**	**10,161,643**	**2,595,546**	**1,786,048**	**15,287,336**

**See Note 2.7.*

Tangible fixed assets put into operation

Tangible assets consist mainly of special constructions, namely hydropower plants, pumping stations, micro-hydropower plants, locks, and hydro-aggregates, equipments and installations. The company manages 208 production capacities with an installed capacity of 6,394 MW and 5 pumping stations with an installed capacity of 91,5 MW.

Impairment adjustments of land, buildings, installations and equipment in the balance on 31 December 2018 amounting to RON 62,833 thousand (31 December 2017: RON 18,645 thousand) represent mainly the value of the construction and technological equipment that were taken over from Electrica and from IRE Deva in 2002 based on GD 554/2002, having an inadequate technical condition for functioning, in an advanced state of physical and moral degradation and not included in the maintenance program or in the investment program for the following periods. Micro-power-plants for which value adjustments have been made are not operational or require major repairs. Also, these micro-power-plants are no longer included in the production license.

Revaluation of tangible assets

Land and land plots, buildings and special installations, as well as machinery, equipment and other fixed assets were revalued by an independent assessor on 31 December 2018, the results representing a net increase in the revaluation reserve amounting to RON 1,371,943 thousand and net expense in value of RON 5,437 thousand to the profit or loss account.

Evaluating the fair value

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

Category	Assessment Method	Significant unobservable input data	Correlation between unobservable main input data and fair value measurement
Lands	*Direct comparison approach* The fair value is estimated based on the price per square meter for land with similar characteristics (e.g. property rights, location, physical characteristics and the best use). The market price is based on the most recent transactions. *The plotting method* The fair value is estimated based on determining the number and size of the parcels of land through comparative analysis with similar lands and after necessary adjustments (direct and indirect costs related to the arrangement, marketing and sale of the property). *Income approach* The Income approach estimates the present value of the net cash flows that will be generated by a rental investment, taking into account the occupancy rate and the owner's expenses. The estimate of the discount rate takes into account, among other things, the quality of a building and location.	• Adjustments for liquidity, location, surface • Estimated annual net income • Update rates	The estimated fair value would increase (decrease) if: • Adjustments for liquidity, location, surface would be lower (higher) • Estimated annual net revenue would be higher (lower) • Update rates would be lower (higher)
Construction and special equipment **Machines, equipment and other fixed assets**	*Cost approach - The cost of net reconstruction / net replacement cost* The valuation model based on the cost method is based on determining the cost of replacing the asset, deducting impairment items that result in impairment of the asset as a result of physical, functional or external impairment.	• Physical depreciation • Functional depreciation • Foreign depreciation	The estimated fair value would increase (decrease) if: • Physical, functional and external depreciations would be lower (higher)

Tangible fixed assets in progress

On 31 December 2018, the Group has an ongoing investment in a gross value of RON 5,071,682 thousand (31 December 2017: RON 5,127,655 thousand) for which it has recorded impairment adjustments in the amount of RON 3,285,634 thousand (31 December 2017: RON 3,459,695 thousand) - see Note 2.7.

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

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

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

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

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

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

In 2017, the Company has contracted services to estimate the cost of abandoning, preserving, and safely executing works for complex investment, in accordance with the provisions of the Supervisory Board Decisions issued in 2016.

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

The Company conducted a detailed analysis of the ongoing investments and determined and incurred value losses both on 31 December 2018 and in prior periods (see Note 2.7).

Following this analysis, the Company decided:

- abandonment of unprofitable investment objectives for which there were provisions for decommissioning and site rehabilitation in the amount of RON 205,417 thousand as presented in Note 18,
- recording impairment adjustments for investments for which the recoverable amount was less than the net book value.

Evaluations of the recoverable amount of these investments made by the Company were based on a series of assumptions related to the projected cash flows.

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

- forecast prices for energy sales in the range of RON 170 / MWh - 220 RON / MWh,
- the production capacities associated with each investment used to determine the forecasted revenue,
- EBITDA margins based on historical performance of the Company within a range of 66% - 70%,
- the recovery period of 50 years,
- discount rate of 9%.

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

The hydro-energetic arrangement of the Jiu river in the Livezeni-Bumbesti sector has encountered a number of difficulties in its development as the building and environment permits were canceled in 2017 following the decision of the Bucharest Court of Appeal (Civil Sentence No. 5378/2017). The company has taken steps to obtain new building permits and develop an appropriate environmental assessment study.

In 2018, the net change in the adjustments for the depreciation of the current assets represented a resumption of the amount in value of RON 171,417 thousand (in 2017: the expense in the amount of RON 79,334 thousand).

As part of the ongoing investments, the Group has assets that are in operation but have not yet been received for procedural reasons of a gross value of RON 424,021 thousand (31 December 2017: RON 523,756 thousand) for which the Group recorded depreciation adjustments at the level of amortization of these assets in the amount of RON 42,626 thousand (31 December 2017: RON 46,982 thousand).

On 31 December 2018, advances for tangible assets in gross amount of RON 23,182 thousand (31 December 2017: RON 45,649 thousand) represent advances for HPP Portile de Fier II refurbishment in value of RON 14,365 thousand (31 December 2017: RON 14,365 thousand) and the amount of the advance granted to UCM Resita, a company under insolvency - RON 8,817 thousand (31 December 2017: RON 8,817 thousand), for which the Company has recorded depreciation adjustments in full.

6. INVENTORIES

	31 December 2018	31 December 2017
Additional materials	1,743	5,501
Spare parts	49,231	50,940
Consumables	11,991	12,064
Other stocks	7,034	6,530
Advance payments for stocks	2	108
Total	**70,001**	**75,143**

	31 December 2018	31 December 2017
Adjustments for depreciation of consumables	1,836	1,303
Adjustments for depreciation of other stocks	61	843
Total	**1,897**	**2,146**

7. TRADE RECEIVABLES

	31 December 2018	31 December 2017
Trade receivables	524,563	425,074
Adjustments for impairment of trade receivables	(78,740)	(78,293)
Total	**445,823**	**346,781**

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:

	2018	2017
Balance on 1 January	**78,293**	**43,010**
Expenditure on adjustments for impairment of trade receivables	2,034	37,383
Reverse adjustments	(48)	(2,100)
Balance on 31 December	(1,539)	-
Balance on 1 January	**78,740**	**78,293**

At 31 December 2018 and 2017, adjustments for impairment of trade receivables include mainly:

- Transenergo Com: RON 22,252 thousand;
- CET Brasov: RON 18,725 thousand;
- KDF ENERGY: RON 10,619 thousand;
- Arelco Power: RON 9,720 thousand;

- Termoficare 2000 Pitesti: RON 4,193 thousand.

In 2018, the Group recorded adjustments for the impairment of trade receivables due to Euro Tyres Manufacturing SRL in value of RON 1,251 thousand.

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

8. OTHER ASSETS

	31 December 2018	31 December 2017
Advances to suppliers	64	229
Advance payments	2,120	-
Green certificates	217,406	214,385
Tax receivables	28,427	33,325
Other current assets	(25,404)	(7,066)
Total	**222,613**	**240,873**

Tax receivables include the amount of RON 214,385 thousand (2017: RON 214,385 thousand) generated as a result of the execution by the National Agency for Fiscal Administration ("ANAF") in 2016 of the bank guarantee letter, as presented below.

i. General Tax Inspection

Hidroelectrica was under general fiscal inspection, the period under control being 01.01.2006 - 30.06.2012. ANAF issued the Taxation 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 Taxation Decision for the amount of RON 18,185,217. Consequently, the obligations established by the Taxation Decision were reduced to RON 214,385,212.

Given that Hidroelectrica was not insolvent at the date of the tax decision, it could be applied the enforcement procedure because the Taxation Decision became enforceable title. According to the provisions of art. 1481 of the Fiscal Procedure Code applicable at that time, the writ of execution could have been suspended or not commenced if Hidroelectrica SA should have submitted to the competent fiscal body a bank guarantee letter, 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 writ of execution, the Company submitted to ANAF a bank guarantee letter with the value of RON 214,385,212. This letter was extended / renewed successively until September 2016, when it was executed by ANAF. The company has disputed the execution of the bank letter, the status of the dispute is presented in point iv. below.

ii. The litigation regarding Hidroelectrica SA's request for cancelling the decision to resolve the tax appeal - Decision no. 406 / 12.18.2014

Hidroelectrica S.A requested in court to cancel Decision no. 406 / 12.18.2014. Currently, the file is ongoing, being in the stage of preparing the financial-accounting expertise report.

The next term of judgment is September 18, 2019 for management of evidences, including the report of expertise.

iii. Resolutions on Decision no. 406 / 18.12.2018 in the Hidroelectrica SA insolvency file

In order to capitalize the Taxation Decision in the insolvency procedure, on 17.12.2014, ANAF recorded in Hidroelectrica's insolvency file a request for payment, based on the provisions of art. 64, paragraph 6 of the Law no. 85/2006 on the insolvency procedure. In accordance with the provisions of this law, payment obligations raised during the insolvency proceedings are paid according to the documents resulting therefrom, without requiring registration in the creditors' group. ANAF claimed that, by issuing the Taxation Decision on 21.01.2014 (i.e., during the insolvency proceedings), the receivables from the Taxation Decision acquires the character of current receivable, which is paid with priority, without enrolling in the Creditors' Table.

In December 2014, the Official Receiver, Euro Insol disputed that ANAF has no right to the imposed claim either during the procedure or after its closing, considering the following:

- the receivable from the Taxation 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 at the creditors' table in the term stipulated by Law no. 85/2006, in case of the Company the term being 06.08.2012;
- failure to file the statement of claim within the legal term shall result in its revocation, in accordance with the provisions of art. 76 par. (1) of the Law no. 85/2006.

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

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

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

iv. Litigation on Hidroelectrica SA and ING Bank's challenge to the execution of the bank letter of guarantee

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

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

On 18.08.2016 ING Bank informed Hidroelectrica SA that ANAF sent the bank an address for execution of the BLG. ING Bank was supposed to review its compliance and to decide on the execution of the BLG within 5 business days. On 25.08.2016 ING Bank submitted to ANAF the refusal of payment to ANAF's payment request. On 06.09.2016, ANAF had begun writ of execution procedure against ING Bank as a result of its refusal to comply with ANAF's request for payment of the BLG. By letter no. 100178 / 14.09.2016, Hidroelectrica SA was informed that, following the enforcement order issued by ANAF on 06.09.2016, ING Bank paid to ANAF the amount of RON 214,385 thousand. Both ING Bank and Hidroelectrica SA filed an appeal against writ of execution initiated by ANAF.

In 07.11.2017, the 1st District Court of Bucharest, through Civil Sentence no. 8725, dismissed the appeal filed by the Company and ING Bank. The appeal was challenged by both Hidroelectrica and ING Bank.

In 06.03.2019, the Bucharest Court - 5th Civil Division, by Decision no. 641, accepted the appeals made by the Company and ING Bank and canceled the writ of execution performed by ANAF. The court decision is final. By the time of these financial statements, the Reasoned Decision has not been communicated.

The Company analyzed the recoverability of the tax claim in value of RON 214,385 thousand, considering the following factors:

- the final favorable decision regarding the cancellation of the writ of execution carried out by ANAF - presented at point iv. above;
- the following steps to be taken for the recovery of the tax claim, after communicating the Reasoned Decision;
- possible scenarios for solving the ongoing dispute in connection with the request of the Company to cancel the tax inspection report - presented in point ii. above.

Based on the analysis, the Company considers to be recoverable the tax receivable in amuont of RON 214,385 thousand.

9. BANK DEPOSITS

	31 decembrie 2018	31 decembrie 2017
Bank deposits with a maturity of more than 90 days	2496667	1687518
Total	**2496667**	**1687518**

10. CASH AND CASH DEPOSITS

	31 December 2018	31 December 2017
Bank accounts	75,651	114,787
Cash	105	154
Cash equivalents	8	9
Total cash and cash equivalents	**75,764**	**114,950**

11. OWN EQUITY

(a) Share capital

	31 December 2018	31 December 2017
Subscribed share capital	4,482,393	4,482,393
Restatement differences in accordance with IAS 29	1,028,872	1,028,872
Share capital	**5,511,265**	**5,511,265**

On 31 December 2018 and 2017, the authorized and fully paid-in share capital of the Company is divided into 448,239,331 ordinary shares with a par nominal value of RON 10 / share.

The Company's shareholders are the Romanian State through the Ministry of Energy, which owns 358,842,926 shares, representing 80.06% of the share capital, and Fondul Proprietatea, which owns 89,396,405 shares representing 19.94% of the share capital.

Shareholders are entitled to dividends and each share entitles them to vote at shareholders' meetings.

Until 31 December 2003, statutory share capital in nominal terms was restated in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies", with related adjustments being registered in retained earnings.

(b) Reserve from revaluation

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

	2018
Balance on 1 January	6,038,203
Revaluation of tangible assets	1,371,943
Deferred tax on revaluation	(220,820)
Resume of the revaluation reserve to retained earnings as a result of depreciation and disposal of intangible assets, net of tax	(280,823)
The effect of loosing control over the subidiary	(49,371)
Balance on 31 December	**6,859,132**

(c) Other reserves

	31 December 2018	31 December 2017
Legal reserves	486,885	374,686
Other reserves	97,000	107,830
Total	**583,885**	**482,516**

The Company constituted legal reserves of 5% of the pre-tax profit, up to 20% of the Company's paid in share capital, in accordance with the legal provisions. These reserves are deductible in the calculation of tax and are not distributable; and

Other reserves incude mainly non-distributable reserves in amount of RON 97,000 thousand, established in 2006 pursuant to Emergency Ordinance 89/2004.

(d) Dividends

In 2018, the Company distributed dividends in amount of RON 1,821,429 thousand (2017: RON 1,690,686 thousand). Out of the distributed dividends were paid RON 1,684,411 thousand (2017: RON 1,690,686 thousand).

12. LOANS

(a) Long term loans

Description	31 December 2018	31 December 2017
Contract: International Bank for Reconstruction and Development ("IBRD"), July 13, 2005, EURO 66 million - loan contracted for the rehabilitation of the Lotru hydroelectric plant and for the institutional development of the Company. The loan agreement entered into force on January 25, 2006, following the ratification by the Romanian Parliament of the guarantee agreement concluded between the IBRD and the Romanian State. **Reimbursement:** half-yearly starting March 15, 2010 - September 15, 2021.	77,874	103,814
Contract: ING Bank NV Dublin - March 22, 2011, EURO 60 million - Loan contracted for the financing of investment works / rehabilitation of the hydroelectric plant network.	-	39,470
Contract: ING Bank NV Amsterdam - November 16, 2009, EURO 60 million - the facility will be used to finance investments for the development of new and / or existing hydropower network. The credit facility was taken over by ING Bank NV Dublin on December 3, 2009.	-	7,456

Description	31 December 2018	31 December 2017
Contract: BRD GSG - ING Bank - April 7, 2015, EUR 50 million - Loan contracted for general financing needs. **Reimbursement:** 20 equal quarterly installments, starting with the payment date of the interest that occurs immediately after the last draw.	32,951	49,383
Total liabilities	**110,825**	**200,123**
Current portion	**42,509**	**89,397**
Long-term portion	**68,316**	**110,726**

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

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

The loan agreement concluded with BRD - ING specifies as financial indicators the ratio between Loans and EBITDA - the maximum imposed limit is 2.5 and the ratio between the net cash from the operating activity after deduction of the CAPEX and the debt service - the minimum imposed threshold is 1, 2.

On 31 December 2018 and 2017, the Company met the financial ratios mentioned.

(b) Short term loans

	31 December 2018	31 December 2017
Contracted credit facilities	-	12,804
Total	**-**	**12,804**

13. TRADE RECEIVABLES

	31 December 2018	31 December 2017
Suppliers of energy	8,471	10,959
Providers of immobilizations	77,716	49,932
Water suppliers	41,600	67,631
Repair providers	27,806	8,485
Other suppliers	15,589	36,299
Total	171,182	173,306
Current portion	155,933	165,848
Long-term portion	15,249	7,458

Suppliers of electricity, water and repair are mainly presented in Note 26. Other suppliers include service providers, materials and consumables, etc

14. DEFERRED INCOME

	31 December 2018	Short term Less 1 year	Long term Over 1 year
Investment grants	166,491	5,495	160,996
Advance incomes related to the sale of electricity	20,279	20,279	-
Other deferred income	58	21	38
Advance earnings on assets received through customer transfer	191	38	153
Total	**187,019**	**25,833**	**161,187**

	31 December 2017	Short term Less 1 year	Long term Over 1 year
Investment grants	172,264	5,564	166,700
Advance incomes related to the sale of electricity	18,326	18,326	-
Other deferred income	384	334	50
Advance earnings on assets received through customer transfer	223	38	185
Total	**191,197**	**24,262**	**166,935**

15. INCOME TAX

In order 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 may 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

	2018	2017 restated*
Current income tax expense	389,969	242,793
Deferred income tax expense / (income)	(39,986)	(8,276)
Total	**349,983**	**234,517**

**See Note 2.7.*

(b) Amounts recognized in other comprehensive income

	2018			2017		
	Before tax	**Benefit (expense) tax**	**After tax**	**Before tax**	**Benefit (expense) tax**	**After tax**
Revaluation of tangible assets	1,371,943	(220,820)	1,151,123	-	-	-
Total	**1,371,943**	**(220,820)**	**1,151,123**	**-**	**-**	**-**

(c) Reconciliation of the effective tax rate

	2018		2017 restated*	
Profit before profit tax		2,323,610		1,531,010
Tax calculated by applying the Company's tax rate	16.0%	371,778	16.0%	244,962
Deduction of the legal reserve	-0.8%	(18,314)	-0.8%	(12,820)
Effect of non-deductible expenses	3.4%	78,888	1.2%	19,551
Effect of non-taxable income	-2.2%	(52,040)	-0.4%	(5,682)
Other tax effects - reinvested earnings	-0.1%	(2,354)	-0.2%	(3,218)
Other tax effects - 5% reduction of the income tax according to OG.23 / 2017 - art. 25	-0.9%	(20,570)	0.0%	-
Other tax effects - distribution of dividends from other reserves	1.4%	32,581	0.0%	-
Changing temporary differences	-1.7%	(39,986)	-0.5%	(8,276)
Income tax	**15.1%**	**349,983**	**15.3%**	**234,517**

**See Note 2.7.*

(d) Changes in deferred tax balances

	Net balance on 1 January 2018	**Recognized in profit and loss account**	**Recognized in the comprehensive income of the year**	**Effect of loss of control over subsidiaries**	**Net balance on December 2018**	**Deferred tax receivables**	**Deferred tax liabilities**
Tangible and intangible assets	604,798	6,486	220,820	(9,404)	822,700	-	822,700
Provisions	(15,946)	(34,302)	-	-	(50,248)	(50,248)	-
Employees’ benefits	(13,408)	(3,091)	-	-	(16,499)	(16,499)	-
Trade receivables	(2,160)	(9,078)	-	-	(11,238)	(11,238)	-
Inventories	(212)	(1)	-	-	(213)	(213)	-
Total Liability / (Receivable) with deferred tax	**573,072**	**(39,986)**	**220,820**	**(9,404)**	**744,502**	**(78,198)**	**822,700**

	Net balance on 1 January 2017	Recognized in profit and loss account	Recognized in the comprehensive income of the year	Net balance on December 2017	Deferred tax receivables	Deferred tax liabilities
Tangible and intangible assets	622,604	11,654	(29,460)	604,798	-	604,798
Provisions	-	(15,946)	-	(15,946)	(15,946)	-
Employees' benefits	-	(1,612)	(11,796)	(13,408)	(13,408)	-
Trade receivables	-	(2,160)	-	(2,160)	(2,160)	-
Inventories	-	(212)	-	(212)	(212)	-
Total Liability / (Receivable) with deferred tax	**622,604**	**(8,276)**	**(41,256)**	**573,072**	**(31,726)**	**604,798**

16. SALARIES AND OTHER BENEFITS

(a) Obligations on long-term employee benefits

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

The Group also provides benefits in cash to employees depending on seniority in work and on retirement.

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

In 2018 and 2017, long-term employee benefit obligations were calculated by an independent actuary using the projected unit credit method, the benefits being calculated according to seniority.

	31 December 2018	31 December 2017
Jubilee bonuses	45,655	49,917
Benefits at retirement	26,929	18,541
Electricity benefits related to active employees	6,240	4,818
Electricity benefits to retired employees	21,649	18,084
Other benefits	2,644	-
Total	103,117	91,360
- Current portion	10,316	5,925
- Long-term portion	92,801	85,435

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

(i) *Macroeconomic assumptions*:

- Inflation. The actuaries have used information taken from the National Commission for Forecasting:

Year	Evaluation date 31 December 2018	Evaluation date 31 December 2017
2018	-	3.2%
2019	3.75%	3.1%
2020	3.1%	3.1%
2021 - 2024	Linear downward with 0.1% from 2.9% to 2.6%	3.1%
2025 - 2030	2.5%	3.1%
2030+	2%	3.1%

- the discount rate used was the return on bonds issued by the Romanian Government with a maturity between 1-10 years at the reporting date, obtaining a 4.91% average update rate for 2018 (2017: 4.32%);
- the electricity price per KWh used in the actuarial calculation is RON 0.5563 on 31 December 2017 (2017: 0.4247 RON / KWh);
- the mortality rate published by the National Institute of Statistics has been adjusted to include the anticipated decrease in mortality rates;
- taxes and social contributions are those in force at the reporting date.

(a) *Company's specific assumptions*:

- Gross salaries growth rate in 2019 is 10%. Starting 2020, there is a forecast of salary growth corresponding to projected inflation;
- Personnel's fluctuation: the average annual values of the last five years were considered by age groups. The rotation rate obtained represents average of 4.5% per annum;
- The jubilee and retirement bonuses granted according to the collective labor contract are according to the duration of seniority, as follows:

Jubilee bonuses depending on seniority in work

Seniority	Seniority	
	31 December 2018	31 December 2017
20 years	20 years	20 years
25 years	25 years	25 years
30 years	30 years	30 years
35 years	35 years	35 years
40 years	40 years	40 years
45 years	45 years	45 years

Retirement benefits depending on seniority within the Company

Seniority	Number of monthly gross salaries	
	31 December 2018	31 December 2017
Up to 10 years	1	1
Between 10 to 25 years	3	3
More than 25 years	6	6

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

(b) Salary expenses

	2018	2017
Average number of employees	**3,305**	**4,603**
Salaries and other emoluments	354,065	298,343
Contributions to social insurance	9,293	68,825
Meal tickets	11,122	9,864
Total	**374,480**	**377,032**

Starting January 2018, as a result of GEO 79/2017, certain social security contributions were transferred from the employer to the employee. The company has increased gross salaries with 20.5% to keep net salaries of employees at the level of 2017.

17. OTHER LIABILITIES

	31 December 2018		31 December 2017 restated*	
	Current	**Long-term**	**Current**	**Long-term**
Advances from customers	358	-	323	-
Debts to the state	126,992	-	150,400	-
Dividends to be paid	137,018	-	-	-
Good Execution Guarantees	18,405	8,121	34,224	-
Debt to personnel	12,210	-	17,075	-
Other liabilities	1,899	5	4,663	4
Total	**296,882**	**8,126**	**206,685**	**4**

**See Note 2.7*

Debts to the state include current income tax liabilities in amount of RON 106,847 thousand (2017: RON 53,011,546), value added tax of RON 8,484 thousand (2017: RON 40,154 thousand), and social security contributions in amount of RON 7,306 thousand (2017: RON 15,899 thousand).

18. PROVISIONS

	31 December 2018		31 December 2017	
	Current	**Long-term**	**Current**	**Long-term**
Provisions for litigation	127,188	-	78,872	-
Provisions for decommissioning of tangible assets	-	205,417	-	-
Provisions for tax issues	-	81,138	-	-
Other Provisions	20,559	-	33,259	-
Total	**147,747**	**286,555**	**112,131**	**-**

	Provisions for litigation	**Provisions for decommissioning of tangible assets**	**Provisions for tax issues**	**Other Provisions**	**Total**
Balance on 1 January 2018	78,872	-	-	33,259	112,131
Recognized provisions	78,195	205,417	81,138	20,392	385,142
Provisions used	(216)	-	-	(18,374)	(18,590)
Provisions reversed	(29,318)	-	-	(2,628)	(31,946)
Effect of loss of control over subsidiaries	(345)			(12,090)	(12,435)
Balance on 31 December 2018	**127,188**	**205,417**	**81,138**	**20,559**	**434,302**

Provisions for litigation

On 31 December 2018, litigation provisions relate mainly to:

a) the arbitration file no. ICC 19414 / MHM against Andritz Hydro GmbH ("Andritz"), resolved against the Company in 2019, for the amount of RON 36,651 thousand (31 December 2017: RON 0);
b) the arbitration file no. ICC 22047 / MHM against Andritz, for the amount of RON 41,083 thousand (31 December 2017: RON 0);
c) the arbitration file no. ICC 20540 / MHM against Voith and Andritz for the amount of RON 35,618 thousand (31 December 2017: RON 35,618 thousand) representing the equivalent of good execution guarantee executed by the Company;
d) land's expropriations, in amount of RON 12,049 thousand (31 December 2017: RON 12,199 thousand).

In 2018 the Company established provisions in the amount of RON 78,195 thousand mainly related to the following disputes:

- ICC 19414 / MHM arbitration file: RON 36,651 thousand, representing the Company's obligation under the Arbitration Decision dated 16 January 2019 - see paragraph (a) below;

- the ICC 22047 / MHM arbitration file: RON 41,084 thousand, representing estimated value by the Company in case of an unfavorable decision - see paragraph b) below.

In 2018, the Group used provisions in the amount of RON 216 thousand and reversed provisions in the amount of RON 29,318 thousand (of which RON 19,214 thousand representing value adjustments related to a corporation tax liability recorded as at 31 December 2017).

(a) Arbitral file no. ICC 19414/MHM

Arbitral litigation regarding Contract no. 2I / 50765 / 09.11.2001 between Hidroelectrica, on the one hand, and Andritz Hydro GmbH Germany and Andritz Hydro GmbH Austria (together "Andritz"), on the other hand, on the refurbishment and modernization of the Portile de Fier II hydro power plant ("PF II ") and the Gogosu hydro power plant.

The subject of the arbitral litigation is represented by the following claims of Andritz:

(i) Declare that Hidroelectrica is not entitled to request Andritz to return the amount of Euro 13,625,000, representing the advance payment made by Hidroelectrica in 2003 for Phase III of the PF II project;
(ii) Declare unjustified the notice of termination of the Contract 2I / 50 675 / 09.11.2001 and that the contract 2I / 50 675 / 09.11.2001 is still valid, exists and is effective for parts;
(iii) Order Hidroelectrica to pay Andritz EUR 6,362,905 plus an annual interest rate of 6% as of 26.06.2013, representing Hidroelectrica's debts to Andritz, unilaterally compensated by Hidroelectrica as part of the reorganization plan together with the debts in value of EUR 7,262,095 (subject to the arbitral file ICC 22047 / MHM file referred to in (b) above) with the advance paid by the Company and referred to in point (i).
(iv) Declare that Hidroelectrica cannot claim the recovery of the damage allegedly caused by Andritz „ *by failing to deliver the pieces from the last group at Portile de Fier II to reduce costs and recover the*

advance paid for Gogosu and for certain technical problems that will eventually be left open after the execution of the work, currently being carried out in one of the groups, within the refurbishing project of the Portile de Fier II power plant".

(v) To oblige Hidroelectrica to issue the Final Reception Certificate for hydro aggregates 6 and 8. Alternatively, Andritz requests the Arbitral Tribunal to issue the Final Reception Certificate for hydro aggregates 6 and 8 on behalf of Hidroelectrica.

The amount of the litigation is RON 29,675 thousand (equivalent of Euro 6,362,905) plus interest, representing the amounts requested by Andritz.

On 16 January 2019, the Arbitral Tribunal decided that Hidroelectrica is not entitled to ask Andritz to refund the amount of Euro 13,625,000 mentioned under (i) and has obliged Hidroelectrica to pay the amount of Euro 6,362,905 plus the 6% interest calculated per year from 30 June 2017 until the actual payment date. It also finds that Hidroelectrica is not entitled to the recovery of the damages mentioned under (iv). The Arbitral Tribunal also rejected Andritz's request to declare unjustified the Notification of Termination of Contract 2I / 50675 / 09.11.2001. At the same time, the Court obliges Hidroelectrica to issue the Certificate of Final Reception for hydro aggregates 6 and 8.

On 31 December 2018, the Company made a provision on this arbitral file in the amount of **RON 36,651 thousand** representing the amount of the litigation, related interest and court costs.

(b) Arbitral file no. ICC 22047/MHM

Arbitral litigation regarding Contract no. 23.534 / H.700.116004 between Hidroelectrica and Andritz Hydro GmbH Germany ("Andritz"), on the refurbishment of hydroelectric plants located on the Lower Olt: Ipotesti, Draganesti, Frunzaru, Rusanesti and Izbiceni.

In this case, Andritz requests the Arbitral Tribunal to:

(i) Declare illegal Hidroelectrica's compensation for the amount of EUR 7,262,095, representing a part of the Andritz receivables unconditionally recorded in Hidroelectrica's creditors' tables, and the advance of EUR 13,625,000 (subject of arbitration file ICC 19414 / MHM referred to in paragraph (a) above);
(ii) Declare exigible Andritz's claim to Hidroelectrica for the amount of EUR 7,262,095 plus 6% per year interest calculated from June 30, 2013;
(iii) Order Hidroelectrica to pay to Andritz the amount of EUR 7,262,095 plus 6% per year interest calculated from June 30, 2013.

The amount of the litigation is RON 33,869 thousand (equivalent of EUR 7,262,095) plus interest, representing the amounts requested by Andritz.

In January 2017, the Arbitral Tribunal ordered suspension of the case pending resolution of ICC 19414 / MHM file - referred to in point a) above. The file is pending.

Taking into account the unfavorable decision issued in the ICC 19414 / MHM file, the Company constituted a provision in value of **RON 41,083 thousand** representing the amount of the litigation plus the related interest.

(c) Arbitral file no. ICC 20540/MHM

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

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

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

The company has estimated the value of claims made by Voith and Andritz at RON 63.9 million.
The company also made some claims (see full description of the dispute in the Note 25.1).

In March 2018, the final pleadings of the parties took place. Subsequently, the Arbitral Tribunal asked the parties for a series of clarifications. The Arbitral Tribunal also established that the arbitration hearing on these clarifications would take place in Vienna on 7 June 2019.

On 31 December 2018, the Company recorded a provision for the guarantee letter executed, in the amount of **RON 35,618 thousand** (31 December 2017: RON 35,618 thousand).

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

(d) Disputes concerning expropriations

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

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

Provisions for decommissioning of tangible assets

In 2018, the management of the Company took the decision to abandon certain investment projects in progress. Consequently, as of 31 December 2018, the Company made a provision for decommissioning costs in amount of RON 205,417 thousand. Decommissioning costs were estimated based on studies conducted by an external technical expert.

Provisions for tax issues

In 2018, the Company constituted a provision of RON 81,138 thousand representing the estimate of the VAT deduction in relation to the capitalized costs in the value of the investment projects for which the decision to abandon was taken.

Other Provisions

On 31 December 2018, other provisions in the amount of RON 20,559 thousand (31 December 2017: RON 21,169 thousand) and refer mainly to the participation of the employees to profit, amounting to RON 15,111 thousand (2017: RON 10,872 thousand).

In 2018, provisions were made in the amount of RON 20,392 thousand (of which RON 15,111 thousand for employee participation in profit, provisions in the amount of RON 18,375 thousand were used (of which RON 10,872 thousand for the participation of the employees in the profit related to 2017, paid in 2018) and were reversed provisions in the amount of RON 2,628 thousand.

19. SALES OF ELECTRICITY

	2018	2017
Electricity delivered	3,693,867	2,810,444
Electricity supplied to final consumers	121,166	67,761
Ancillary services	436,982	364,920
Other services	-	3,831
Total	**4,252,015**	**3,246,956**

During 2018, the Company produced 17,232 GWh (2017: 14,039 GWh).

20. PURCHASED ELECTRICITY

The company purchases electricity in order to optimize its sales portfolio versus the production of electricity.

The cost of purchased electricity increased in the year ended December 31, 2018, as a result of rising prices on the Romanian electricity market.

21. OTHER OPERATING REVENUES

	2018	2017
Resumption of deferred income	5,477	5,622
Income from provision of repair services	-	6,644
Gain from losing control over Hidroserv subsidiary	34,350	-
Other incomes	16,292	6,650
Total	**56,119**	**18,916**

Hidroserv SA has entered into insolvency proceedings in October 2016.
In February 2018, the syndic judge decided to cancell the right of administration of Hidroserv SA by the Special Administrator and to assign it to the Official receiver, appointed by the syndic judge. Consequently, the Company did not consolidate this subsidiary as it assessed that it no longer exercised control over it.

The derecognised individual assets and liabilities were as follows:

	Accounting value
Intangible assets	70,059
Other assets	12,307
Inventories	6,903
Trade receivables	23,809
Other current assets	2,336
Cash and cash equivalents	9,372
Total assets	**124,786**
Deferred tax liabilities	9,404
Obligations on long-term employees' benefits	7,563
Short-term loans	12,804
Deferred Revenues	307
Trade payables	50,442
Provisions	12,435
Other current liabilities	66,181
Total liabilities	**159,136**
Profit from loss of control	**34,350**

22. OTHER OPERATING EXPENSES

	2018	2017
Transport and distribution of energy	50,185	29,458
Expenditures on turbinated water	359,594	304,438
Rent expenses	6,933	6,477
Fees expenses	3,100	13,830
Expenditure on guarding	14,095	13,830
Transport expenses	531	3,517
Expenses on local taxes	52,127	40,980
Expenses with penalties	415	1,921
Expenses / (Profit) on the disposal of fixed assets	651	16,895
Expenses with value adjustments of trade receivables, net	1,986	35,283
Expenses with value adjustments of other current assets, net	19,252	-
Expenses adjustments in value of stocks, net	570	199
Other expenses	58,106	3,900
Total	**567,545**	**470,728**

23. FINANCIAL RESULT

	2018	2017
Interest income	58,377	12,879
Other financial income	19,252	15,985
Financial income	**77,629**	**28,864**
Interest expenses	(322)	(2,824)
Other financial expenses	(208)	-
(Net Loss / profit from exchange rate differences	(98)	(5,746)
Financial expenses	**(628)**	**(8,570)**
Financial result, net	**77,001**	**20,294**

24. COMMITMENTS

25.1 Contractual commitments

The Company has the following contractual commitments on 31 December 2018:

	THOUSAND RON
Acquisition of tangible and intangible assets	487,737

25.2 Granted and received guarantees

a. Granted guarantees

On 31 December 2018, the Company granted good execution and a good payment guarantees in amount of RON 107,627 thousand, mainly to guarantee the delivery of electricity on the Centralized Market of the Bilateral Contract (CMBC) and the Centralized Universal Service Market (CUSM), guaranteeing payment obligations related to energy purchases made on Next Day Market (NDM) and Intraday Market (IM).

b. Guarantees received

On 31 December 2018, the Company has received guarantees amounting to RON 487,115 thousand consisting mainly of guarantees for the works performed by providers of immobilizations.

25. CONTINGENCIES

25.1 Litigations

The main litigations involving the Company on 31 December 2018 with a total potential exposure of **RON 655.7 million** are as follows:

a) The arbitral file no. ICC 20540/MHM

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

Defendant: Voith Hydro Holding GmbH & CO KG („Voith”) and Andritz Hydro GmbH („Andritz”)
Potential exposure: RON 28.3 million.

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

(i) to oblige the defendants to replace the works with deficiencies with ones conforming the Contract or, alternatively, to pay the amount of RON 166 million representing contract's value of the works with deficiencies plus the related interest;

(ii) order the parties to pay damages for the damage suffered as a result of the non-fulfillment of the object of the Contract, in the form:
- Petitioner will have full ownership of the works with deficiencies; and;
- payment of damages for any damage suffered as a result of failing to fulfill the object of the Contract, namely (a) RON 83 million if the parties will be obliged to replace the works with deficiencies or, if not, (b) RON 573 million.

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

(i) reject the claims of the Company in its entirety;

(ii) to require the Company to pay to Voith and Andritz the amount of RON 63.9 million representing a bank guarantee executed by the Company (RON 35.6 million), additional works (RON 17 million), equipment delivered by Voith and Andritz RON 11.3 million) plus interest;

(iii) alternatively, to reject the Company's claims regarding the replacement of the works with deficiencies, the financial compensation and the reimbursement of the price of the works with deficiencies and, only with regard to the corroded parts and affected by the linear and round indications, order the repair, subject to the Company increasing repair costs compared to those that reparations would have recorded at the time of deficiency;

(iv) to grant the costs incurred in connection with arbitration and interest at 6% per year.

In March 2018, the final pleadings took place. Subsequently, the arbitral tribunal called on the parties for a series of clarifications. The arbitral tribunal also decided that the arbitration hearing on these clarifications should take place in Vienna on 7 June 2019.

On 31 December 2018, the Company records a provision relating to the entire amount of the guarantee letter executed, in the value of RON 35.6 million (see Note 18).

Regarding the remaining amount of **RON 28.3 million** from the Andritz and Voith request, considering the uncertainties generated by the complexity of the file, the Company treats the amounts requested by Voith and Andritz as contingent liabilities.

a) The arbitral file no. 20901/MHM

Arbitral litigation regarding Contract no. 16636 / 31.10.1997 on the upgrading and the increase of the power of the 6 hydroelectric units of HPP Portile de Fier I.
Petitioner: Hidroelectrica SA
Defendant: ANDRITZ HYDRO AG („Andritz”)

Potential exposure: RON 72.5 million.

Hidroelectrica has asked the arbitral tribunal to issue a ruling by which:
1.A. Mainly: to order Andritz to pay the Company damages for the loss suffered as a result of non-fulfillment of the object of the Contract, amounting to RON 1,582 million plus 6% interest per year, calculated up to the payment day. The amount also includes replacement work according to the Quantum MWH Replacement Program.
1.B. Alternatively, to the extent that Arbitral Tribunal considers that the Quantum MWH Replacement Program will satisfy the Company's right to a hydroelectric power plant in accordance with the contractual provisions, order Andritz to pay the Company the amount of RON 1,204 million plus the 6% interest per year, calculated to the payment day.

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

The file is in the stage of preparation and planning of future sessions and stages.

Taking into account the uncertainties generated by the incipient phase of the file and its complexity, on 31 December 2018, the Company considers contingent liability the amount of **RON 72.5 million** requested by Andritz.

b) The Arbitral file no. ICC 22482/MHM

Arbitral litigation regarding Contract no. 2I / 50765 / 09.11.2001 on capital repairs and the modernization of the hydropower plant Portile de Fier II.
Petitioner: Andritz Hydro GmbH and Andritz Hydro GmbH (together „Andritz")
Defendant: Hidroelectrica

Potential exposure: RON 60.7 million.

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

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

In April 2018, the arbitral tribunal decided to divide the procedure into two stages
- Stage of exclusion on the lack of competence and admissibility of the action, exceptions filed by Hidroelectrica and motivating that Andritz did not fulfill the contractual steps regarding the pre-arbitration stage and that Andritz lost the right to these claims, considered to be current in the procedure of insolvency because it has not applied for payment of these amounts during the insolvency period; and
- Stage of the fund.

In May 2019, the arbitral tribunal filed with the International Court of Arbitration, for review, the draft of arbitral decision on the competence and admissibility stage. The arbitral award on the competence and admissibility will be communicated to the parties after the verification procedure shall be completed. In case of an unfavorable decision for Hidroelectrica, the arbitral tribunal will proceed to the next stage, the fund analysis.

Considering the uncertainties determined by the early stage of the file, on 31 December 2018 the Company considers contingent liablity the amount of **RON 60.7 million** requested by Andritz.

c) *File no. 44443/3/2016 against Hidroconstructia SA*

Petitioner: Hidroconstructia SA
Defendant: Hidroelectrica SA

Potential exposure: RON 32.8 million.

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

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

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

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

Considering the uncertainties generated by Hidroconstructia's claims as well as the court decisions, on 31 December 2018, Company considers as contingent liability the amount of **RON 32.8 million** requested by Hidroconstructia.

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

The dispute concerns the execution contract no. 21DI / 26.01.2004 on achiving the investment *Hydroelectric development of Jiu River on the sector Livezeni-Bumbesti.*
Petitioner: *Consortium* Romelectro SA, Hidroconstructia SA and ISPH Project Development SA
Defendant: Hidroelectrica SA

Potential exposure: RON 88.4 million.

The Consortium asked the court:

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

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

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

In December 2016, the Court of Appeal upheld the appeal brought by the Consortium and referred the case back to the court.
After re-examining the substance, in April 2018, the court rejected the request of the Consortium.

The current appeal of the Consortium against the decision of April 2018 is judged. The next hearing is on 27.06.2019.

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

- in the event that the final decision of the court is unfavorable to the Company, an additional act will be concluded in accordance with the request mentioned in point (i) above;
- Consortium Romelectro - Hidroconstructia - ISPH will initiate the writ of execution procedure for the amount of RON 88.4 million;
- The Company will challenge the writ of execution procedure, arguing that the Consortium was denied the right to claim this debt through the syndic judge's decision.

Based on the analysis carried out, the Company considered as contingent liabilities the Consortium's claims, amounting to **RON 88.4 million**.

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

The dispute concerns the Concession Contract no. 171/2004 reagrding public assets.
Petitioner: Ministry of Energy
Defendant: Hidroelectrica SA

Potential exposure: RON 373 million.

The Ministry of Energy has requested the following:

(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
- to change the amount of the royalty at the value of the annual amortization of assets received in the concession.

(ii) Subsequently, the Ministry of Energy supplemented the action in court, requesting Hidroelectrica to pay RON 373 million, representing the difference between the amortization of the assets received in

concession and the royalty paid between 2013-2018.
The litigation is at an early stage, the next term being June 12, 2019, when will be debated the approval of the evidence of the expertise required by the Ministry of Energy.

Considering the uncertainties generated by the early stage of the file, in December 31, 2018 the Company considers contingent debt the amount of **RON 373 million** requested by the Ministry of Energy.

25.2 Tax Legislation Framework

Tax controls are common in Romania, consisting of 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 often inconsistently interpret legislation.

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

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

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

25.3 Environmental issues

On 31 December 2018 hydroelectric objectives hold environmental permit within their validity period or are under renewal procedure, except for the ones out of use. Environmental permits for patrimony objects are issued without compliance programs. Validity is between 2018 and 2025.

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

In December 2018, 39 visa applications for environmental permits were submitted to the County Environmental Protection Agencies.

The operating conditions imposed by the environmental permits refer to the monitoring of the environmental factors and to the compliance with the environmental legislation requirements applicable to the hydro-energetic objectives. In order to monitor the environmental factors, actions are carried out to measure the physical-chemical indicators of the quality of the lakes, of the turbinated water, of the used water, as well as of the measurement of the noise level at the site boundary. All necessary measurements were made during 2018 and there were no exceedings of the legal limits for the measured indicators. Reporting on the progress of these actions and the results of the monitoring were carried out at the required deadlines.

The decommissioning and restoration obligations of the site at the end of a hydroelectric / asset’s life are not clearly established in environmental legislation, environmental permits and building permits, but this will be established by the Company with the Environmental Fund Authority at the time the Company plans to deactivate an asset.

With regard to the decommissioned micro-hydropower plants, the Company has not identified any legal obligations to force the Company to decommission them, these can be maintained in the current stage.

Consequently, the Company estimates that any current decommissioning costs at the end of the life of the hydropower plants / assets, currently in use, would not be material to the financial statements considering the long life of the Company's asset types and the fact that these durations are prolonged through continuous maintenance refurbishment.

The Company recognizes decommissioning provisions when management has made the decision to abandon an asset.

26. AFFILIATED PARTIES

a) Remuneration of Company's Management

Expenditure on the remuneration of managers and directors of the Company during the year 2018 are in the amount of RON 2,438 thousand (2017: RON 1,484 thousand).

The Company also estimated and recorded a provision for variable remuneration of managers in the amount of RON 1,550 thousand (2017: RON 2,556 thousand). Subsequently, the Company's shareholders will approve the payment and the amount of the remuneration.

The Group has no contractual obligations regarding the payment of pensions to former managers and directors and has not granted any credits to managers and directors.

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

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

Supplier	**Acquisitions (without VAT)**		**Balance on (with VAT)**	
	2018	**2017**		**2018**
Administratia Nationala Apele Romane	359,759	278,923	40,439	26,931
Transelectrica	70,938	73,543	7,762	2,500
Electrica Distributie Muntenia Nord	4,352	255	389	35
E-Distributie Muntenia	11,988	11,234	18	3
OPCOM	79,176	35,156	189	218
Others	8,189	6,362	547	304
Total	**534,402**	**405,473**	**49,344**	**29,991**

Client	Sales (without VAT)	Balance, gross value (including VAT)	Adjustment (including VAT)	Balance, net value (including VAT)
	2018	**31 December 2018**		
Transelectrica SA	962,713	195,284	-	195,284
E ON Energie Romania	216,311	15,819	-	15,819
Electrica Furnizare	194,661	7,897	-	7,897
Enel Energie SA	168,675	15,660	-	15,660
Enel Energie Muntenia	244,403	14,466	-	14,466
Engie Romania	137,777	21,348	-	21,348
Metrorex	50,055	11,232	-	11,232
OPCOM	270,361	750	-	750
CET Brasov	-	18,725	18,725	-
Others	114,983	23,951	-	23,951
Total	**2,359,939**	**325,132**	**18,725**	**306,407**

Client	Sales (without VAT)	Balance, gross value (including VAT)	Adjustment (including VAT)	Balance, net value (including VAT)
	2017	**31 December 2017**		
Transelectrica SA	947,653	71,809	-	71,809
E ON Energie Romania	50,661	2,205	-	2,205
Electrica Furnizare	304,978	10,614	-	10,614
Enel Energie SA	146,005	10,607	-	10,607
Enel Energie Muntenia	102,839	4,508	-	4,508
Engie Romania	11,875	-	-	-
Metrorex	45,016	4,841	-	4,841
OPCOM	265,034	1,131	-	1,131
CET Brasov	-	18,725	18,725	-
Others	156,815	9,565	-	9,565
Total	**2,030,876**	**134,005**	**18,725**	**115,280**

27. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

(a) Accounting classifications and fair values

The following table presents the carrying amounts and does not include information about the fair value of financial assets and financial liabilities that are not measured at fair value if the carrying amount represents a reasonable approximation of the fair value.

	The accounting value		
31 December 2018	**Financial assets at amortized cost**	**Other financial liabilities at amortized cost**	**Total**
Financial assets that are not measured at fair value			
Trade receivables	445,823		445,823
Cash and cash equivalents	75,764		75,764
Restricted cash	10,257		10,257
Bank deposits	2,496,667		2,496,667
Total	**3,028,511**		**3,028,511**
Financial liabilities that are not measured at fair value			
Trade payables		171,182	171,182
Loans		110,825	110,825
Total		**282,007**	**282,007**

	The accounting value			
31 December 2017	**Loans and receivables**	**Financial assets held to maturity**	**Other financial liabilities**	**Total**
Financial assets that are not measured at fair value				
Trade receivables	346,781			346,781
Cash and cash equivalents	114,950			114,950
Bank deposits		1,687,518		1,687,518
Total	**461,731**	**1,687,518**		**2,149,249**

31 December 2017	The accounting value			
	Loans and receivables	**Financial assets held to maturity**	**Other financial liabilities**	**Total**
Financial liabilities that are not measured at fair value				
Trade payables			173,306	173,306
Loans			200,123	200,123
Short term loans			12,804	12,804
Total			**386,233**	**386,233**

b) Financial risk management

Credit risk

Credit risk is the risk when the Group might suffer a financial loss as a result of non-fulfillment of 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 2018	**31 December 2017**
Trade receivables	445,823	346,781
Cash and cash equivalents	75,764	114,950
Restricted cash	10,257	-
Other financial asset	2,496,667	1,687,518
Total	**3,028,511**	**2,149,249**

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

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

	Average losses	Gross value	Adjustment for depreciation	Net trade receivables
Outstanding due	0%	444,061	(139)	443,922
Overdue - from 1 to 3 months	0%	649	(1)	648
Overdue - from 3 to 6 months	36%	1,858	(663)	1,195
Overdue - from 6 months to 1 year	91%	685	(627)	59
Overdue - more than 1 year	100%	77,310	(77,310)	-
Total		**524,563**	**(78,740)**	**445,823**

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

Comparative information according to IAS 39

The analysis of trade receivables in terms of credit risk, respectively the length of receivables at 31 December 2017 is presented as follows:

	Gross value	Adjustment for depreciation	Net trade receivables
Outstanding due	343,073	-	343,073
Overdue - from 1 to 3 months	3,229	(6)	3,223
Overdue - from 3 to 6 months	251	(90)	161
Overdue - from 6 months to 1 year	35,111	(34,787)	324
Overdue - more than 1 year	43,410	(43,410)	-
Total	**425,074**	**(78,293)**	**346,781**

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

Liquidity risk

Liquidity risk is the risk when the Company may encounter difficulties in meeting the obligations associated with financial liabilities that are settled by the transfer of cash or another financial asset. The 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		
Financial liabilities	**Accounting value**	**Total**	**mai putin de 1 an**	**Total**
31 December 2018				
Trade payables	171,182	171,182	155,933	15,249
Loans	110,825	111,598	43,019	68,579
Total	**282,007**	**282,780**	**198,952**	**83,828**
31 December 2017				
Trade payables	173,306	173,306	165,848	7,458
Loans	212,927	214,603	103,110	111,493
Total	**386,233**	**387,909**	**268,958**	**118,951**

Market risk

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

(i) Interest rate risk

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

	31 December 2018	**31 December 2017**
Fixed interest rate instruments		
Financial assets		
Restricted cash	10,257	-
Deposits	2,496,667	1,687,518
Total	**2,506,924**	**1,687,518**
Instruments with variable interest rate		
Financial liabilities		
Loans	(110,825)	(212,927)
Total	**(110,825)**	**(212,927)**

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

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

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

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

	Profit before tax	
	increase by 50 basis points	**increase by 50 basis points**
31 December 2018		
Instruments with variable interest rate	(554)	554
31 December 2017		
Instruments with variable interest rate	(1,065)	1,065

(i) Foreign exchange risk

The Company has exposure 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 2018			
	EUR	**USD**	**CHF**	**HUF**
Cash and cash equivalents	241	202	290	218
Trade payables	(19,594)	-	-	-
Loans	(110,825)	-	-	-
Net exposure at the level of the financial position	**(130,178)**	**202**	**290**	**218**

	31 December 2017			
	EUR	**USD**	**CHF**	**HUF**
Cash and cash equivalents	38.279	178	27	225
Trade payables	(15.296)	-	-	-
Loans	(200.123)	-	-	-
Net exposure at the level of the financial position	**(177.140)**	**178**	**27**	**225**

The following exchange rates were applied during the year:

	31 December 2018	**31 December 2017**
RON / EUR	4.6639	4.6597
RON / USD	4.0736	3.8915
RON / CHF	4.1404	3.9900
RON / 100 HUF	1.4527	1.5011

Sensitivity analysis:

A 10% appreciation of the *leu* against the following foreign currencies on 31 December 2018 and 2017 would have increased the profit by the amounts indicated below. This analysis assumes that all other variables remain constant.

	Profit before tax 31 December 2018	**Profit before tax 31 December 2017**
EUR	13,018	17,714
USD	(20)	(18)
CHF	(29)	(3)
100 HUF	(22)	(23)

A 10% depreciation of the *leu* against the following foreign currencies on 31 December 2018 and 2017 would have had a similar but opposite effect on the above amounts assuming all other variables remained constant.

	Profit before tax 31 December 2018	**Profit before tax 31 December 2017**
EUR	(13.018)	(17.714)
USD	20	18
CHF	29	3
100 HUF	22	23

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