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

HIDROELECTRICA

STANDALONE FINANCIAL STATEMENTS
For 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**	15,287,335,832	14,266,521,371	14,780,373,008
Intangible assets		4,314,994	5,312,747	3,733,941
Other assets	**26**	2,703,649	5,820,542	25,612,805
Total fixed assets		**15,294,354,475**	**14,277,654,660**	**14,809,719,754**
Current assets				
Inventories	**6**	70,000,911	68,239,687	56,562,588
Clients and assimilated accounts	**7**	445,823,203	341,970,000	395,577,693
Other current assets	**8**	222,613,105	238,536,838	250,149,194
Bank deposits	**9**	2,496,667,070	1,687,518,238	1,479,163,269
Restricted cash		10,257,471	-	-
Cash and cash equivalents	**10**	75,763,691	105,578,061	217,778,307
Total current assets		**3,321,125,451**	**2,441,842,824**	**2,399,231,051**
Total assets		**18,615,479,926**	**16,719,497,484**	**17,208,950,805**
Equity and liabilities				
Own equity				
Share capital	**11**	4,482,393,310	4,482,393,310	4,481,650,630
Inflation adjustment to share capital	**11**	1,028,872,000	1,028,872,000	1,028,872,000
Public patrimony		39,619,341	39,346,649	39,346,649
Revaluation reserve	**11**	6,859,132,234	5,988,831,674	6,266,958,905
Other reserves	**11**	583,885,429	469,422,376	389,298,334
Retained earnings		3,565,623,133	3,281,414,639	3,417,344,127
Total own equity		**16,559,525,447**	**15,290,280,648**	**15,623,470,645**
Liabilities				
Long-term debts				
Loans	**12**	68,316,357	110,725,802	199,039,592
Deferred Revenues	**14**	161,186,535	166,935,151	191,957,890
Deferred tax liabilities	**15**	744,501,726	563,668,200	613,200,445
Employees' benefits long-term obligations	**16**	92,801,043	77,872,564	69,537,949
Provisions	**18**	286,554,994	-	-
Trade payables	**13**	15,248,789	7,458,050	-
Other non-current liabilities	**17**	8,125,574	4,100	30,905,400
Total long-term liabilities		**1,376,735,018**	**926,663,867**	**1,104,641,276**

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*see Note 2.7.

	Note	31 December 2018	31 December 2017 restated*	1 January 2017 restated *
Current liabilities				
Short-term loans		-	-	159
Current portion of long-term loans	**12**	42,509,247	89,396,887	136,481,317
Trade payables	**13**	155,933,031	134,402,810	140,906,373
Other trade payables	**17**	296,881,539	149,177,751	123,824,540
Deferred revenues	**14**	25,832,992	23,954,437	9,796,932
Current portion of long-term obligations regarding employees' benefits	**16**	10,316,029	5,924,833	4,184,334
Provisions	**18**	147,746,623	99,696,251	65,645,229
Total current liabilities		**679,219,461**	**502,552,969**	**480,838,884**
Total liabilities		**2,055,954,479**	**1,429,216,836**	**1,585,480,160**
Total own equity and liabilities		**18,615,479,926**	**16,719,497,484**	**17,208,950,805**

The accompanying notes represent integral part of these standalone 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	4,252,014,632	3,247,661,183
Other operating revenues	21	21,768,800	11,618,333
Total Revenues		**4,273,783,432**	**3,259,279,516**
Operating Expenses			
Electricity purchased	20	(126,925,533)	(86,788,725)
Depreciation and impairment of tangible and intangible assets, net	6	(538,637,791)	(728,616,401)
Salaries and other emoluments	18	(374,479,753)	(296,464,219)
Other operating expenses	22	(567,544,688)	(482,817,139)
Materials and consumables		(8,107,558)	(7,507,755)
Maintenance and repairs		(89,309,146)	(82,120,027)
Changes in provisions	18	(356,518,513)	(45,755,165)
Total Operating Expenses		**(2,061,522,982)**	**(1,730,069,431)**
Operating Profit		**2,212,260,450**	**1,529,210,085**
Financial income	23	77,628,616	28,841,074
Financial expenses	23	(628,007)	(8,189,276)
Net financial result		**77,000,609**	**20,651,798**
Profit before income tax		**2,289,261,059**	**1,549,861,883**
Income tax	15	(349,983,319)	(234,933,016)
Net profit		**1,939,277,740**	**1,314,928,867**
Result per share		4,33	2,93
Other elements of the overall result			
Revaluation of tangible assets		1,371,943,377	-
Impact of deferred tax on revaluation reserve		(220,819,692)	-
Re-measurement of post-employment commitments		-	568,848
Other elements of the overall result		**1,151,123,685**	**568,848**
Total overall result		**3,090,401,425**	**1,315,497,715**

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**See Note 2.7.*

	Share capital	Adjustment from IAS 29	Public patrimony	Reserves from revaluation	Other reserves	Retained earnings	Total
Balance on1 January 2017 previously reported	**4,481,650,630**	**1,028,872,000**	**39,346,649**	**6,266,958,905**	**389,298,334**	**5,065,208,624**	**17,271,335,142**
Result of restatement*	**-**	**-**	**-**	**-**	**-**	(1,647,864,497)	**(1,647,864,497)**
Balance on 1 January 2017 restated	**4,481,650,630**	**1,028,872,000**	**39,346,649**	**6,266,958,905**	**389,298,334**	**3,417,344,127**	**15,623,470,645**
Overall result							
Profit of restated year	-	-	-	-	-	1,314,928,867	1,314,928,867
Other elements of the overall result	-	-	-	-	-	568,848	568,848
Total overall result	-	-	-	-	-	**1,315,497,715**	**1,315,497,715**
Transactions with the Company's shareholders							
Dividends declared	-	-	-	-	-	(1,690,686,137)	(1,690,686,137)
Other changes	742,680	-	-	-	-	-	742,680
Total transactions with shareholders	**742,680**	**-**	**-**	**-**	**-**	**(1,690,686,137)**	**(1,689,943,457)**
Other changes of equity							
Establishing legal reserves	-	-	-	-	80,124,042	(80,124,042)	-
Resume of the revaluation reserve to retained earnings as a result of depreciation and disposal of tangible assets	-	-	-	(336,794,981)	-	336,794,981	-
Deferred tax related to reserve from transferred revaluation	-	-	-	58,667,750	-	(47,222,087)	11,445,663
Other changes	-	-	-	-	-	29,810,082	29,810,082
Balance on 31 December 2017 restated	**4,482,393,310**	**1,028,872,000**	**39,346,649**	**5,988,831,674**	**469,422,376**	**3,281,414,639**	**15,290,280,648**

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

*See Note 2.7.

	Share capital	Adjustment from IAS 29	Public patrimony	Revaluation reserves	Other reserves	Retained earnings	Total
Balance on 1 January 2018 restated*	**4,482,393,310**	**1,028,872,000**	**39,346,649**	**5,988,831,674**	**469,422,376**	**3,281,414,639**	**15,290,280,648**
Overall result							
Profit for the year	-	-	-	-	-	1,939,277,740	1,939,277,740
Other elements of the overall result							
Revaluation of tangible assets	-	-	-	1,371,943,377	-	-	1,371,943,377
Deferred tax related to the revaluation reserve	-	-	-	(220,819,692)	-	-	(220,819,692)
Total other elements of the overall result	**-**	**-**	**-**	**1,151,123,685**	**-**	**-**	**1,151,123,685**
Total overall result	**-**	**-**	**-**	**1,151,123,685**	**-**	**1,939,277,740**	**3,090,401,425**
Transactions with Company's shareholders							
Declared dividends	-	-	-	-	-	(1,821,429,318)	(1,821,429,318)
Total transactions with shareholders	**-**	**-**	**-**	**-**	**-**	**(1,821,429,318)**	**(1,821,429,318)**
Other changes of equity							
Establishing legal reserves	-	-	-	-	114,463,053	(114,463,053)	-
Resume of the revaluation reserve to retained earnings as a result of depreciation and disposal tangible assets	-	-	-	(324,928,371)	-	324,928,371	-
Deferred tax related to reserve from transferred revaluation	-	-	-	44,105,246	-	(44,105,246)	-
Other changes	-	-	272,692	-	-	-	272,692
Balance on 31 December 2018	**4,482,393,310**	**1,028,872,000**	**39,619,341**	**6,859,132,234**	**583,885,429**	**3,565,623,133**	**16,559,525,447**

**See Note 2.7.*

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Head of Reporting, Control and Planning Department

	Note	2018	2017 restated*
Cash flows from operating activities:			
Net profit		1,939,277,740	1,314,928,867
Adjustments for non-cash items:			
Depreciation of tangible assets	**5**	664,455,854	649,596,026
Depreciation of intangible assets		1,331,354	1,216,008
Value adjustments of tangible assets, net	**5**	(127,149,417)	78,244,217
Expenses from revaluation of tangible assets, net	**5**	5,434,388	-
Net provision movement	**18**	356,518,513	45,755,165
Expenses with the value adjustments of trade receivables and other receivables		21,237,758	35,284,764
Expenses for value adjustments for inventories		570,013	(77,499)
Loss / (profit) from sales of tangible assets		650,702	16,894,779
Resumption of investment subsidies		(5,477,412)	(5,622,033)
Unrealized losses from exchange rate variation	**23**	97,903	5,745,655
Interest income	**23**	(58,376,605)	(12,878,399)
Interest expenses	**23**	322,495	2,443,621,
Income tax	**15**	349,983,319	234,933,016
		3,148,876,605	2,366,464,187
Changes in:			
Commercial receivables		(105,839,187)	36,645,860
Other assets		58,165,457	11,612,356
Inventories		(2,331,238)	7,222,091
Restricted cash		(10,257,471)	-
Trade payables and assimilated accounts		4,286,386	5,252,450
Other liabilities		(36,198,261)	18,627,108
Cash generated from operating activities		**3,056,702,292**	**2,445,824,052**
Interest paid		(322,495)	(2,443,621)
Income tax paid		(336,133,560)	(302,363,710)
Net cash from operating activities		**2,720,246,237**	**2,141,016,721**
Cash flow used in the investment activity:			
Acquisitions of tangible assets		(167,726,458)	(242,919,837)
Acquisitions of intangible assets		(333,600)	(2,794,814)
Loans (granted) / repaid		-	19,792,263
Proceeds from the sale of tangible assets		771,112	12,163
Interest earned		35,466,539	12,878,399
Payments for deposits with an initial maturity of more than 3 months		(5,916,000,000)	(208,354,969)
Proceeds from deposits with original maturities longer than 3 months		5,071,384,629	-
Net cash used in investment activity		**(976,437,778)**	**(421,386,795)**

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**See Note 2.7.*

	Note	2018	2017 restated*
Cash flow from financing activity:			
Loan repayments	**12**	(89,211,742)	(141,144,035)
Dividends paid	**11**	(1,684,411,087)	(1,690,686,137)
Net cash from financing activity		**(1,773,622,829)**	**(1,831,830,172)**
Net decrease in cash and cash equivalents		**(29,814,370)**	**(112,200,246)**
Cash and cash equivalents on 1 January	**10**	105,578,061	217,778,307
Cash and cash equivalents on 31 December	**10**	**75,763,691**	**105,578,061**

**See Note 2.7*

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1. REPORTING ENTITY

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

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

SPEEH Hidroelectrica SA’s main object of activity is represented by the production and supply of electricity by exploiting the hydrological potential in compliance with the legislation in force, performing 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.

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

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).

2. BASES FOR PREPARATIONS

2.1 Accounting bases

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

The standalone 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 standalone 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 standalone 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 standalone 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 the 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 made the object of the concession, mentioned in Annex no. 7 to the Government Decision no. 1705 / 29.11.2006 for the approval of the centralized inventory of assets belonging to public domain, as well as those resulting from the investments made during the concession agreement;

- 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.

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 fair value to 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 determination of 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 standalone financial statements are based on the principle of continuity of activity. Standalone 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 standalone 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 replaed 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 overall result, 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 Company's accounting policies related to financial liabilities.

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

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

(ii) 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 than 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).

(iii) 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 standalone 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 Company 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 standalone financial statements of the Company in this respect:

Standalone situation of financial position

	The Impact of Accounting Errors		
1 January 2017	**Previously reported**	**Adjustment**	**Restated**
Tangible assets	16,418,532,610	(1,638,159,602)	14,780,373,008
Total tangible assets	**16,447,879,356**	**(1,638,159,602)**	**14,809,719,754**
Total assets	**18,847,110,407**	**(1,638,159,602)**	**17,208,950,805**
Retained earnings	5,065,208,623	(1,647,864,496)	3,417,344,127
Total equity	**17,271,335,141**	**(1,647,864,496)**	**15,623,470,645**
Other current liabilities	114,119,646	9,704,894	123,824,540
Total current liabilities	**471,133,990**	**9,704,894**	**480,838,884**
Total liabilities	**1,575,775,266**	**9,704,894**	**1,585,480,160**
Total equity and liabilities	**18,847,110,407**	**(1,638,159,602)**	**17,208,950,805**
31 December 2017			
Intangible assets	15,956,731,076	(1,690,209,705)	14,266,521,371
Total intangible assets	**15,967,864,365**	**(1,690,209,705)**	**14,277,654,660**
Total assets	**18,409,707,189**	**(1,690,209,705)**	**16,719,497,484**
Retained earnings	4,981,745,640	(1,700,331,000)	3,281,414,639
Total equity	**16,990,611,648**	**(1,700,331,000)**	**15,290,280,648**
Other current liabilities	139,056,456	10,121,295	149,177,751
Total current liabilities	**492,431,674**	**10,121,295**	**502,552,969**
Total liabilities	**1,419,095,541**	**10,121,295**	**1,429,216,836**
Total equity and liabilities	**18,409,707,189**	**(1,690,209,705)**	**16,719,497,484**

The standalone 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**	**Adjustment**	**Restated**
Depreciation and impairment of tangible and intangible assets, net	(676,566,298)	(52,050,103)	(728,616,401)
Total operating expenses	**(1,678,019,328)**	**(52,050,103)**	**(1,730,069,431)**
Profit before tax	**1,601,911,985**	**(52,050,103)**	**1,549,861,883**
Income tax	(234,516,615)	(416,401)	**(234,933,016)**
Net profit	**1,367,395,371**	**(52,466,504)**	**1,314,928,867**
Total comprehensive income	**1,367,964,219**	**(52,466,504)**	**1,315,497,715**

Also, in the financial statements for the year ended 31 December 2018, the Company changed the presentation in the standalone situation of the financial position and in the standalone situation of the profit or loss and of other items of the overall result 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 standalone 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 standalone 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 standalone 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 removing it out of the records as well as restoring the location on which immobilisation is located when these amounts can be reliably estimated and the Company has an obligation with regard to dismantling, relocation of the tangible assets and restoration of the site.

The Company 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 does not differ materially from that which would have been 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.

(i) Subsequent expenditure

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

(ii) ***Depreciation***

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

The estimated useful lives for intangible assets are as follows:

Category	**Duration 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 Company and that have useful life durations are measured at cost less cumulative depreciation and losses.

(ii) Subsequent expenditure

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the asset to which they refer. All other expenses, including internally 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 Company 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 loan 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 Company 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 Company 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) De-recognition

Financial assets

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

When derecognizing a financial liability, the difference between the 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 Company has a legal right to offset these amounts and intends to settle them on a net basis or to realize the asset and to pay simultaneously the debt.

(d) 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 Company considers reasonable and sufficient, information that is relevant and available at no cost or unreasonable effort. These include quantitative and qualitative information and analysis that are based on the Company's historical experience and on the correct loan assessment, including forecasted information.

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

The 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 gross carrying amount of assets.

Derecognition

The gross carrying amount of a financial asset is derecognized if the Company has no expectations of recovering the full financial asset or part of it. The company 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 Company'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 Company under terms that the Company would not accept in other conditions;
- indications that a debtor or an issuer would enter into insolvency or bankruptcy;
- unfavorable changes in the payment status of borrowers or issuers;
- the 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 company analyzed the indices of impairment for these assets both standalonely and collectively. All financial assets that were considered standalonely significant were standalonely analyzed for impairment. Assets for which no impairment was found were then tested collectively to determine the existence of impairment that was not standalonely identified. Assets that were not standalonely 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 Company 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 Company 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 Company reviews the amounts of non-financial assets (other than inventories and deferred tax assets) to determine whether there are any impairment indices. If such indices exist, the recoverable amount of the asset is estimated.

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

(l) Contingent assets and liabilities

A contingent liability is:

a) a potential obligation arising as a result of previous events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not entirely controlled by the Company; or

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

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

   ii. obligation cannot be measured with 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 Company.

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 Company determines whether the arrangement is or contains a leasing operation.

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

(ii) Assets acquired under leasing

Assets held by the Company under leasing, that substantially transfer all the risks and rewards of ownership to the Company, are classified as finance leasing. On initial recognition, assets acquired under leasing and finance leasing liabilities are measured at the lower of their fair value and the present value of the minimum leasing payments. 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 Company.

(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	Income is recognized as time passes because the client receives and consumes the benefits	Revenue from the services rendered is recognized in the profit or loss account proportional to the execution stage of the

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)
rendered in the previous month.	provided by the entity's performance as the entity performs.	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 Company include mainly:

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

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

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

(p) Employees' Benefits

(i) Short-term employees' benefits

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

(ii) Defined 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 Company for defined benefit plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in the current and prior periods, by updating this amount 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 overall 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 Company's net liability for long-term employees' benefits represents the amount of future benefits earned by employees in exchange for services rendered in the current period and in prior periods. These benefits are updated to the present value. Revaluations are recognized in profit or loss account in the period in which they occur.

(v) Benefits on terminating the employment contract

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

(q) Income tax

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

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

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

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

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

(r) Grants

Subsidies are recognized in the statement of financial position as deferred revenue when there is reasonable assurance that they will be received and the Company will comply with the 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 standalone 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.

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 January 1, 2018. Those that may be relevant to the Company are presented below. The company does not intend to adopt these standards before their entry into force.

The Company expects the adoption of the financial reporting standards below in future periods should have no material effect on the Company'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 Company 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 Company must adopt IFRS 16 *Leasing* as of 1 January 2019. The Company assessed the estimate of the impact that the initial application of this Standard will have on its standalone 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 Company presents the first standalone 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 Company to recognize in the statement of financial position assets and liabilities related to operating leases in which the Company is a 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 Company recognizes expense for the use of leased assets and financial interest on the lease. In prior periods, the Company 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 Company's financial leasing contracts is expected.

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

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

The company 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 1 January 2021, applicable prospectively.)
- Amendments to IAS 28 *Long-Term Interests in Associated Entities and Joint Ventures* (effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRS Cycle 2015-2017 (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 Employees’ Benefits (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IFRS 3 *Business Combinations* (effective for annual periods beginning on or after 1 January 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 1 January 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	**752,149,959**	**10,035,749,233**	**2,935,701,320**	**5,122,894,331**	**18,846,494,843**
Additions	735,163	321,107	574,865	229,252,251	230,883,386
Transferrers	542,966	126,498,772	87,254,251	(214,295,989)	-
Outflows	(38,383)	(302,394)	(35,584)	(16,530,624)	(16,906,985)
Balance on 31 December 2017	**753,389,705**	**10,162,266,718**	**3,023,494,852**	**5,121,319,969**	**19,060,471,244**
CURRENT AMORTIZATION					
Balance on 1 January 2017	**62,855**	**372,002,238**	**296,606,147**	-	**668,671,240**
Depreciation expense	47,891	365,206,594	284,341,541	-	649,596,026
Cumulative depreciation of outflows		(7,110)	(5,095)	-	(12,205)
Balance on 31 December 2017	**110,746**	**737,201,722**	**580,942,593**	-	**1,318,255,061**
VALUE ADJUSTMENTS					
Balance on 1 January 2017 restated*	**461,463**	**17,831,656**	**1,442,473**	**3,377,715,003**	**3,397,450,595**
Adjustments in value, restated *	45,554	(627,252)	161,427	82,365,915	81,945,644
Reversed value adjustments	-	(605,718)	(63,912)	(3,031,797)	(3,701,427)
Balance on 31 December 2017 restated *	**507,017**	**16,598,686**	**1,539,988**	**3,457,049,121**	**3,475,694,812**
NET ACCOUNTING VALUE					
Balance on 1 January 2017 restated *	**751,625,641**	**9,645,915,339**	**2,637,652,700**	**1,745,179,328**	**14,780,373,008**
Balance on 31 December 2017 restated *	**752,771,942**	**9,408,466,310**	**2,441,012,271**	**1,664,270,848**	**14,266,521,371**

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

**See Note 2.7.*

Tangible fixed assets put into operation

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

Impairment adjustments of land, buildings, installations and equipment in the balance on 31 December 2018 amounting to RON 62,833,919 (31 December 2017: RON 18,645,691) 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 December 31, 2018, the results representing a net increase in the revaluation reserve amounting to RON 1,371,943,377 and net expense in value of RON 5,437,707 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 Company has an ongoing investment in a gross value of RON 5,071,680,539 (31 December 2017: RON 5,121,319,969) for which it has recorded impairment adjustments in the amount of RON 3,285,631,654 (31 December 2017: RON 3,457,049,121) - 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 205,417,104 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 RON170 / 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 171,417,467 (in 2017: the expense in the amount of RON 79,334,118).

As part of the ongoing investments, the Company has assets that are in operation but have not yet been received for procedural reasons of a gross value of RON 424,020,838 (31 December 2017: RON 523,756,261) for which the Company recorded depreciation adjustments at the level of amortization of these assets in the amount of RON 42,626,404 (31 December 2017: RON 46,982,391).

On 31 December 2018, advances for tangible assets in gross amount of RON 23,182,495 (31 December 2017: RON 45,649,185) represent advances for HPP Portile de Fier II refurbishment in value of RON 14,365,452 (31 December 2017: RON 14,365,452) and the amount of the advance granted to UCM Resita, a company under insolvency - RON 8,817,043 (31 December 2017: RON 8,817,043), for which the Company has recorded depreciation adjustments in full.

6. INVENTORIES

	31 December 2018	31 December 2017
Additional materials	1,742,732	1,782,088
Spare parts	49,231,156	47,754,147
Consumables	11,990,759	11,891,418
Other stocks	7,034,706	6,812,034
Advance payments for stocks	1,558	-
Total	**70,000,911**	**68,239,687**

	31 December 2018	31 December 2017
Adjustments for depreciation of consumables	1,835,839	1,303,349
Adjustments for depreciation of other stocks	61,126	23,603
Total	**1,896,965**	**1,326,952**

7. TRADE RECEIVABLES

	31 December 2018	31 December 2017
Trade receivables	524,563,516	418,724,329
Adjustments for impairment of trade receivables	(78,740,313)	(76,754,329)
Total	**445,823,203**	**341,970,000**

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	**76,754,329**	**41,469,566**
Expenditure on adjustments for impairment of trade receivables	2,033,568	37,382,938
Reverse adjustments	(47,584)	(2,098,175)
Balance on 31 December	**78,740,313**	**76,754,329**

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

- Transenergo Com: RON 22,251,775;
- CET Brasov: RON 18,724,742;
- KDF ENERGY: RON 10,619,368;
- Arelco Power: RON 9,719,820;
- Termoficare 2000 Pitesti: RON 4,192,674.

In 2018, the Company recorded adjustments for the impairment of trade receivables due to Euro Tyres Manufacturing SRL in value of RON 1,251,529.

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

8. OTHER ASSETS

	31 December 2018	31 December 2017
Advances to suppliers	63,721	167,890
Advance payments	2,120,469	2,339,907
Green certificates	-	207,610
Tax receivables	217,405,665	214,385,212
Other current assets	28,426,886	27,588,082
Adjustments for depreciation of other current assets	(25,403,636)	(6,151,863)
Total	**222,613,105**	**238,536,838**

Tax receivables include the amount of RON 214,385,212 (2017: RON 214,385,212) 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 challenged 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 periodic term stipulated in Law no. 85/2006, in case of the Company, the term being 06.08.2012;
- failure to file the statement of claim within the legal term shall result in its revocation, in accordance with the provisions of art. 76 par. (1) of the Law no. 85/2006.

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

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

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

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 214,385,212 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 if 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 214,385,212. 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 214,385,212, 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 amount of RON 214,385,212.

9. BANK DEPOSITS

	31 December 2018	**31 December 2017**
Bank deposits with a maturity of more than 90 days	2,496,667,070	1,687,518,238
Total	**2,496,667,070**	**1,687,518,238**

10. CASH AND CASH DEPOSITS

	31 December 2018	31 December 2017
Bank accounts	75,651,322	105,455,029
Cash	104,512	113,904
Cash equivalents	7,857	9,128
Total cash and cash equivalents	**75,763,691**	**105,578,061**

11. OWN EQITY

(a) Share capital

	31 December 2018	31 December 2017
Subscribed share capital	4,482,393,310	4,482,393,310
Restatement differences in accordance with IAS 29	1,028,872,000	1,028,872,000
Share capital	**5,511,265,310**	**5,511,265,310**

On 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	5,988,831,674
Revaluation of tangible assets	1,371,943,377
Deferred tax on revaluation	(220,819,692)
Resume of the revaluation reserve to retained earnings as a result of depreciation and disposal of intangible assets, net of tax	(280,823,125)
Balance on 31 December	**6,859,132,234**

(c) Other reserves

Other reserves include:

- legal reserves in amount of RON 486,885,429 (2017: RON 372,422,376), constituted 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
- non-distributable reserves in amount of RON 97,000,000, established in 2006 pursuant to Emergency Ordinance 89/2004.

(d) Dividends

In 2018, the Company distributed dividends in amount of RON 1,821,429,318 (2017: RON 1,690,686,137). Out of the distributed dividends were paid RON 1,684,411,087 (2017: RON 1,690,686,137).

12. 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.	77,874,140	103,814,083
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.	-	39,470,400
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.	-	7,455,520
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.	32,951,464	49,382,686
Total liabilities	**110,825,604**	**200,122,689**
Current portion	**42,509,247**	**89,396,887**
Long-term portion	**68,316,357**	**110,725,802**

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.

13. TRADE RECEIVABLES

	31 December 2018	31 December 2017
Suppliers of energy	8,471,165	9,301,782
Providers of immobilizations	77,716,362	47,925,219
Water suppliers	41,600,065	59,027,918
Repair providers	27,806,205	11,512,670
Other suppliers	15,588,023	14,093,271
Total	**171,181,820**	**141,860,860**
Current portion	155,933,031	134,402,810
Long-term portion	15,248,789	7,458,050

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	166,490,863	5,494,688	160,996,175
Advance incomes related to the sale of electricity	20,279,357	20,279,357	-
Other deferred income	58,305	20,702	37,603
Advance earnings on assets received through customer transfer	191,002	38,245	152,757
Total	**187,019,527**	**25,832,992**	**161,186,535**

	31 December 2017	Short term Less 1 year	Long term Over 1 year
Investment grants	172,264,369	5,564,009	166,700,360
Advance incomes related to the sale of electricity	18,326,282	18,326,282	-
Other deferred income	76,822	26,526	50,296
Advance earnings on assets received through customer transfer	222,115	37,620	184,495
Total	**190,889,588**	**23,954,437**	**166,935,151**

15. INCOME TAX

In order to determine the current and deferred tax, the Company considers the impact of uncertain tax positions and the possibility of additional taxes and interests. This assessment is based on estimates and assumptions and may involve several professional judgments about future events. The Company considers that the tax records are due and appropriate for all open fiscal years, based on the management's assessment, considering various factors, including the interpretation of tax legislation and previous experience. New information may become available that may cause the Company to modify its reasoning regarding the adequacy of existing tax liabilities; such changes in tax liabilities will have an impact on the income tax expense in the period in which that determination is made.

(a) Amounts recognized in profit and loss account

	2018	**2017 restated***
Current income tax expense	389,969,485	243,209,516
Deferred income tax expense / (income)	(39,986,166)	(8,276,500)
Total	**349,983,319**	**234,933,016**

**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	1,371,943,377	(220,819,692)	1,151,123,685	-	-	-
Total	**1,371,943,377**	**(220,819,692)**	**1,151,123,685**	**-**	**-**	**-**

(c) Reconciliation of the effective tax rate

	2018		**2017 restated***	
Profit before profit tax		**2,289,261,059**		**1,549,861,883**
Tax calculated by applying the Company's tax rate	16.0%	366,281,769	16,0%	247,977,901
Deduction of the legal reserve	-0.8%	(18,314,088)	-0,8%	(12,403,445)
Effect of non-deductible expenses	3.4%	78,888,033	1,1%	16,535,207
Effect of non-taxable income	-2.0%	(46,544,295)	-0,4%	(5,682,141)
Other tax effects - reinvested earnings	-0.1%	(2,353,544)	-0,2%	(3,218,006)
Other tax effects - 5% reduction of the income tax according to OG.23 / 2017 - art. 25	-0.9%	(20,569,628)	0,0%	-
Other tax effects - distribution of dividends from other reserves	1.4%	32,581,238	0,0%	-
Changing temporary differences	-1.7%	(39,986,166)	-0,5%	(8,276,500)
Income tax	**15.3%**	**349,983,319**	**15,2%**	**234,933,016**

**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 overall result of the year	Net balance on December 2018	Deferred tax receivables	Deferred tax liabilities
Tangible and intangible assets	595.394.566	6.485.532	220.819.692	822.699.790	-	822.699.790
Provisions	(15.946.064)	(34.302.247)	-	(50.248.311)	(50.248.311)	-
Employees' benefits	(13.407.584)	(3.091.148)	-	(16.498.732)	(16.498.732)	-
Trade receivables	(2.160.406)	(9.077.793)	-	(11.238.199)	(11.238.199)	-
Inventories	(212.312)	(510)	-	(212.822)	(212.822)	-
Total Liability / (Receivable) with deferred tax	**563.668.200**	**(39.986.166)**	**220.819.692**	**744.501.726**	**(78.198.064)**	**822.699.790**

	Net balance on 1 January 2017	Recognized in profit and loss account	Recognized in the overall result of the year	Net balance on December 2017	Deferred tax receivables	Deferred tax liabilities
Tangible and intangible assets	613,200,445	11,654,301	(29,460,180)	595,394,566	-	595,394,566
Provisions	-	(15,946,064)	-	(15,946,064)	(15,946,064)	-
Employees' benefits	-	(1,612,019)	(11,795,565)	(13,407,584)	(13,407,584)	-
Trade receivables	-	(2,160,406)	-	(2,160,406)	(2,160,406)	-
Inventories	-	(212,312)	-	(212,312)	(212,312)	-
Total Liability / (Receivable) with deferred tax	**613,200,445**	**(8,276,500)**	**(41,255,745)**	**563,668,200**	**(31,726,366)**	**595,394,566**

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 Company provides in kind benefits in the form of free electricity to employees who have retired from the Company.

The Company also provides benefits to employees in terms of seniority in work and 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 in proportion to seniority.

	31 December 2018	31 December 2017
Jubilee bonuses	45,655,894	44,416,406
Benefits at retirement	26,928,958	16,748,948
Electricity benefits related to active employees	6,239,734	4,818,504
Electricity benefits to retired employees	21,648,739	18,353,537
Other benefits	2,643,747	-
Total	**103,117,072**	**83,797,397**
- Current portion	10,316,029	5,924,833
- Long-term portion	92,801,043	77,872,564

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	Date of evaluation 31 December 2018	Date of evaluation 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 4.96% average weighted update rate for 2018 (2017: 4.32%);
- the electricity price per KWh used in the actuarial calculation is 0.5563 RON 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

	Number of monthly gross salaries	
seniority	**31 December 2018**	**31 December 2017**
20 years	1	1
25 years	2	2
30 years	3	3
35 years	4	4
40 years	5	5
45 years	6	6

Retirement benefits depending on seniority within the Company

	Number of monthly gross salaries	
seniority	**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**	**3,279**
Salaries and other emoluments	354,065,248	234,689,612
Contributions to social insurance	9,292,781	54,338,314
Meal tickets	11,121,724	7,436,293
Total	**374,479,753**	**296,464,219**

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	357,898	-	136,353	-
Debts to the state	126,992,061	-	107,320,476	-
Dividends to be paid	137,018,231	-	-	-
Good Execution Guarantees	18,404,615	8,121,474	26,693,323	-
Debt to personnel	12,209,515	-	12,938,769	-
Other liabilities	1,899,219	4,100	2,088,830	4,100
Total	**296,881,539**	**8,125,574**	**149,177,751**	**4,100**

**See Note 2.7*

Debts to the state include current income tax liabilities in amount of RON 106,847,471 (2017: 53,011,546 RON), value added tax of RON 8,484,766 (2017: 40,154,602 RON), and social security contributions in amount of RON 7,306,491 (2017: RON 9,406,561).

18. PROVISIONS

	31 December 2018		31 December 2017	
	Current	**Long-term**	**Current**	**Long-term**
Provisions for litigation	127,188,069	-	78,526,931	-
Provisions for decommissioning of tangible assets	-	205,417,104	-	-
Provisions for tax issues	-	81,137,890	-	-
Other Provisions	20,558,554	-	21,169,320	-
Total	**147,746,623**	**286,554,994**	**99,696,251**	**-**

	Provisions for litigation	**Provisions for decommissioning of tangible assets**	**Provisions for tax issues**	**Other Provisions**	**Total**
Balance on 1 January 2018	78,526,931	-	-	21,169,320	99,696,251
Recognized provisions	78,195,143	205,417,104	81,137,890	20,391,600	385,141,737
Provisions used	(215,588)	-	-	(18,374,172)	(18,589,760)
Provisions reversed	(29,318,417)	-	-	(2,628,194)	(31,946,611)
Balance on 31 December 2018	**127,188,069**	**205,417,104**	**81,137,890**	**20,558,554**	**434,301,617**

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 36,651,060 (31 December 2017: RON 0);
b) the arbitration file no. ICC 22047 / MHM against Andritz, for the amount of RON 41,083,927 (31

December 2017: RON 0);

c) the arbitration file no. ICC 20540 / MHM against Voith and Andritz for the amount of RON 35,618,284 (31 December 2017: RON 35,618,284) representing the equivalent of good execution guarantee executed by the Company;
d) land’s expropriations, in amount of RON 12,048,804 (31 December 2017: RON 12,199,093).

In 2018 the Company established provisions in the amount of RON 78,195,143, mainly related to the following disputes:

- ICC 19414 / MHM arbitration file: RON 36,651,060 representing the Company's obligation under the Arbitration Decision dated 16 January 2019 - see paragraph (a) below;

- the ICC 22047 / MHM arbitration file: RON 41,083,927, representing estimated value by the Company in case of an unfavorable decision - see paragraph b) below.

In 2018, the Company used provisions in the amount of RON 215,588 and reversed provisions in the amount of RON 29,318,417 (of which RON 19,214,124 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 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 29,675,953 (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 36,651,060** 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 table of receivables, 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 33,869,685 (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 41,083,927 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 annum interest.

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

In March 2018, the final pleadings of the parties took place. Subsequently, the Arbitral Tribunal asked the parties for a series of clarifications. 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 35,618,284** (31 December 2017: RON 35,618,284).

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 205,417,104. 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 81,137,890 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 20,558,554 (31 December 2017: RON 21,169,320) and refer mainly to the participation of the employees to profit, amounting to RON 15,110,718 (2017: RON 10,872,000).

In 2018, provisions were made in the amount of RON 20,391,600 (of which RON 15,110,718 for employee participation in profit, provisions in the amount of RON 18,374,172 were used (of which RON 10,872,000 for the participation of the employees in the profit related to 2017, paid in 2018) and were reversed provisions in the amount of RON 2,628,194.

19. SALES OF ELECTRICITY

	2018	2017
Electricity delivered	3,693,867,129	2,810,443,740
Electricity supplied to final consumers	121,166,225	67,761,133
Ancillary services	436,981,278	364,919,708
Other services	-	4,536,602
Total	**4,252,014,632**	**3,247,661,183**

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	5,477,412	5,622,033
Other incomes	16,291,388	5,996,300
Total	**21,768,800**	**11,618,333**

22. OTHER OPERATING EXPENSES

	2018	2017
Transport and distribution of energy	50,184,537	29,457,904
Expenditures on turbinated water	359,594,144	304,438,336
Rent expenses	6,933,177	6,477,268
Fees expenses	3,099,783	6,686,818
Expenditure on guarding	14,095,326	13,830,141
Transport expenses	531,244	3,501,388
Expenses on local taxes	52,127,129	44,869,177
Expenses with penalties	414,927	1,920,659
Expenses / (Profit) on the disposal of fixed assets	650,702	16,894,779
Expenses with value adjustments of trade receivables, net	1,985,984	35,284,764
Expenses with value adjustments of other current assets, net	19,251,775	-
Expenses adjustments in value of stocks, net	570,013	(77,499)
Other expenses	58,105,947	19,533,404
Total	**567,544,688**	**482,817,139**

23. FINANCIAL RESULTS

	2018	2017
Interest income	58,376,605	12,878,399
Other financial income	19,252,011	15,962,675
Financial income	**77,628,616**	**28,841,074**
Interest expenses	(322,495)	(2,443,621)
Other financial expenses	(207,609)	-
(Net Loss / profit from exchange rate differences	(97,903)	(5,745,655)
Financial expenses	**(628,007)**	**(8,189,276)**
Financial result, net	**77,000,609**	**20,651,798**

24. COMMITMENTS

25.1 Contractual commitments

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

	RON
Acquisition of tangible and intangible assets	487,737,178

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 107,627,874, 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 487,114,817 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.

b) The arbitral file no. 20901/MHM

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

Potential exposure: RON 72.5 million.

Hidroelectrica has asked the arbitral tribunal to issue a ruling by which:
1.A. Mainly: to order Andritz to pay the Company damages for the loss suffered as a result of 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 requested by Andritz in amount of **RON 72.5 million**.

c) *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 debt the amount of **RON 60.7 million** requested by Andritz.

d) *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 debt the amount of **RON 32.8 million** requested by Hidroconstructia.

e) 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 place 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**.

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

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

Potential exposure: RON 373 million.

The Ministry of 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, the Company considers contingent liability the amount requested by the Ministry of Energy in amount of **RON 373 million.**

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 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 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

The Company has no contractual obligations regarding the payment of pensions to former managers and directors and did not grant any credits to managers and directors.

b) Information on relationships with entities in which the Company holds shares

(i) Investments in Hidroserv

	31 December 2018	31 December 2017
Investments in subsidiaries - Hidroserv SA	70,576,810	70,576,810
Adjustments for investment in Hidroserv SA	(70,576,810)	(70,576,810)
Total	-	-

The company will fully adjust the value of the investment in Hidroserv SA, which is insolvent, because it considers investment the non-recoverable.

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

	Balance receivables from		Debt balance to	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Hidroserv	271,431	302,447	26,036,065	17,916,753
Total	**271,431**	**302,447**	**26,036,065**	**17,916,753**

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

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

	Sales in 2018	Sales in 2017	Acquisition in 2018	Acquisition in 2017
Hidroserv	1,454,329	1,287,537	135,989,093	92,171,801
Total	**1,454,329**	**1,287,537**	**135,989,093**	**92,171,801**

Transactions mainly relate to procurement of maintenance services.

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

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

Supplier	**Acquisitions (without VAT)**		**Balance on (with VAT)**	
	2018	**2017**	**31 December 2018**	**31 December 2017**
Administratia Nationala Apele Romane	359,758,634	278,923,097	40,439,207	26,930,631
Transelectrica	70,938,338	73,542,555	7,762,480	2,500,414

Supplier	Acquisitions (without VAT)		Balance on (with VAT)	
	2018	2017	31 December 2018	31 December 2017
Electrica Distributie Muntenia Nord	4,352,427	255,193	389,405	34,770
E-Distributie Muntenia	11,988,409	11,234,336	17,828	2,910
OPCOM	79,175,941	35,153,597	188,818	218,365
Others	8,188,895	6,361,718	546,885	304,070
Total	**534,402,644**	**405,470,496**	**49,344,623**	**29,991,160**

	Sales (without VAT)	Balance, Gross Value (including VAT)	Adjustment (including VAT)	Balance, net value (including VAT)
Client	**2018**	**31 December 2018**		
Transelectrica SA	962,712,967	195,284,067	-	195,284,067
E ON Energie Romania	216,310,744	15,818,742	-	15,818,742
Electrica Furnizare	194,660,645	7,897,440	-	7,897,440
Enel Energie SA	168,674,897	15,660,356	-	15,660,356
Enel Energie Muntenia	244,403,305	14,466,142	-	14,466,142
Engie Romania	137,777,172	21,348,318	-	21,348,318
Metrorex	50,055,368	11,231,852	-	11,231,852
OPCOM	270,360,872	750,074	-	750,074
CET Brasov	-	18,724,742	18,724,742	-
Others	114,982,957	23,951,395	-	23,951,395
Total	**2,359,938,927**	**325,133,128**	**18,724,742**	**306,408,386**

	Sales (without VAT)	Balance, Gross Value (including VAT)	Adjustment (including VAT)	Balance, net value (including VAT)
Client	**2017**	**31 December 2017**		
Transelectrica SA	947,653,330	71,809,150	-	71,809,150
E ON Energie Romania	50,661,377	2,205,421	-	2,205,421
Electrica Furnizare	304,978,341	10,614,234	-	10,614,234
Enel Energie SA	146,004,814	10,606,663	-	10,606,663
Enel Energie Muntenia	102,838,860	4,508,215	-	4,508,215
Engie Romania	11,875,496	-	-	-
Metrorex	45,016,110	4,840,777	-	4,840,777
OPCOM	265,034,226	1,130,778	-	1,130,778
CET Brasov	-	18,724,742	18,724,742	-
Others	156,814,862	9,564,732	-	9,564,732
Total	**2,030,877,416**	**134,004,712**	**18,724,742**	**115,279,970**

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	445,823,203		445,823,203
Cash and cash equivalents	75,763,691		75,763,691
Restricted cash	10,257,471		10,257,471
Bank deposits	2,496,667,070		2,496,667,070
Total	**3,028,511,435**		**3,028,511,435**
Financial liabilities that are not measured at fair value			
Trade payables		171,181,820	171,181,820
Loans		110,825,604	110,825,604
Total		**282,007,424**	**282,007,424**

	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	341,970,000			341,970,000
Cash and cash equivalents	105,578,061			105,578,061
Bank deposits	1,687,518,238	1,687,518,238		1,687,518,238
Total	**447,548,061**	**1,687,518,238**		**2,135,066,299**

	The accounting value			
31 December 2017	**Loans and receivables**	**Financial assets held to maturity**	**Other financial liabilities**	**Total**
Financial liabilities that are not measured at fair value				
Trade payables			141,860,860	141,860,860
Loans			200,122,689	200,122,689
Total			**341,983,549**	**341,983,549**

b) Financial risk management

Credit risk

Credit risk is the risk when the Company 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	445,823,203	341,970,000
Cash and cash equivalents	75,763,691	105,578,061
Restricted cash	10,257,471	-
Other financial asset	2,496,667,070	1,687,518,238
Total	**3,028,511,435**	**2,135,066,299**

Trade receivables
The exposure of the Company to credit risk is mainly influenced by the standalone characteristics of each client. The company has established a credit policy under which each new client is standalonely 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%	444,060,956	(138,941)	443,922,015
Overdue - from 1 to 3 months	0%	648,928	(947)	647,981
Overdue - from 3 to 6 months	36%	1,857,777	(663,153)	1,194,624
Overdue - from 6 months to 1 year	91%	685,132	(626,549)	58,583
Overdue - more than 1 year	100%	77,310,723	(77,310,723)	-
Total		**524,563,516**	**(78,740,313)**	**445,823,203**

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

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	338,069,386	(54,087)	338,015,299
Overdue - from 1 to 3 months	3,426,841	-	3,426,841
Overdue - from 3 to 6 months	178,792	(30,803)	147,989
Overdue - from 6 months to 1 year	34,373,077	(34,368,100)	4,977
Overdue - more than 1 year	42,676,233	(42,301,339)	374,894
Non past due	**418,724,329**	**(76,754,329)**	**341,970,000**

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 Company has significant cash and cash equivalents, so that it does not face the liquidity risk.

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

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

		Contractual cash flows		
Financial liabilities	**Accounting value**	**Total**	**Less 1 year**	**Between 1 – 5 years**
31 December 2018				
Trade payables	171,181,820	171,181,820	155,933,031	15,248,789
Loans	110,825,604	111,598,196	43,018,860	68,579,336

		Contractual cash flows		
Financial liabilities	**Accounting value**	**Total**	**Less 1 year**	**Between 1 – 5 years**
Total	**282,007,424**	**282,780,016**	**198,951,891**	**83,828,125**
31 December 2017				
Trade payables	141,860,860	141,860,860	134,402,810	7,458,050
Loans	200,122,689	201,798,734	90,305,822	111,492,912
Total	**341,983,549**	**343,659,594**	**224,708,632**	**118,950,962**

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

	31 December 2018	**31 December 2017**
Fixed interest rate instruments		
Financial assets		
Restricted cash	10,257,471	-
Deposits	2,496,667,070	1,687,518,238
Total	**2,506,924,541**	**1,687,518,238**
Instruments with variable interest rate		
Financial liabilities		
Loans	(110,825,604)	(200,122,689)
Total	**(110,825,604)**	**(200,122,689)**

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

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

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

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

	Profit before tax	
	increase by 50 basis points	**reduce by 50 basis points**
31 December 2018		
Instruments with variable interest rate	(554,128)	554,128
31 December 2017		
Instruments with variable interest rate	(1,000,613)	1,000,613

(ii) 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	241,226	202,183	289,836	217,915
Trade payables	(19,594,292)	-	-	-
Loans	(110,825,604)	-	-	-
Net exposure at the level of the financial position	**(130,178,670)**	**202,183**	**289,836**	**217,915**

	31 December 2017			
	EUR	**USD**	**CHF**	**HUF**
Cash and cash equivalents	38,279,134	177,750	27,261	225,175
Trade payables	(15,296,754)	-	-	-
Loans	(200,122,689)	-	-	-
Net exposure at the level of the financial position	**(177,140,309)**	**177,750**	**27,261**	**225,175**

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	13,017,867	17,777,031
USD	(20,218)	(17,775)
CHF	(28,984)	(2,726)
100 HUF	(21,792)	(22,518)

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	(13,017,867)	(17,777,031)
USD	20,218	17,775
CHF	28,984	2,726
100 HUF	21,792	22,518

Bogdan BADEA	**Marian BRATU**	**Florentina SUSNEA**	**Bogdan ȘOȘOACĂ**	**Razvan PAȚALIU**
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