S.P.E.E.H. HIDROELECTRICA S.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL SITUATIONS
FOR THE YEAR ENDED ON
31 DECEMBER 2017

PREPARED IN COMPLIANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONTENT:	**PAGE:**

(all amounts are expressed in RON unless otherwise stated)

	Note	31 December 2017	31 December 2016
Assets			
Fixed assets			
Tangible assets	**4**	16,026,790	16,500,732
Intangible assets		5,314	3,736
Financial derivatives	**30**	-	-
Other assets		9,452	28,890
Total Fixed Assets		**16,041,556**	**16,553,358**
Current assets			
Inventories	**5**	75,143	61,231
Clients and assimilated accounts	**6**	346,781	397,088
Other current assets	**7**	240,873	252,586
Financial derivatives	**30**	-	-
Short-term investments	**8**	1,687,518	1,479,163
Cash and cash equivalents	**8**	114,950	220,787
Total current assets		**2,465,265**	**2,410,855**
Total assets		**18,506,821**	**18,944,214**
Equity and liabilities			
Own equity			
Share capital	**9**	4,482,393	4,481,650
Adjustments resulting from the adoption of IAS 29	**9**	1,028,872	1,028,872
Public patrimony	**9**	39,347	39,347
Revaluation reserve	**9**	6,038,203	6,316,333
Retained earnings	**9**	5,367,446	5,382,377
Total own equity		**16,956,261**	**17,248,579**
Liabilities			
Long-term liabilities			
Loans	**11**	110,726	199,040
Deferred revenues	**13**	166,935	191,957
Deferred tax liabilities	**14**	573,072	622,604
Financial derivatives	**30**	-	-
Employee benefits obligations	**15,**	91,360	82,498
Provisions	**17**	-	-
Suppliers and assimilated accounts	**12**	7,458	-
Other long-term debts	**16**	4	26,452
Total long-term debt		**949,555**	**1,122,551**

(all amounts are expressed in RON unless otherwise stated)

	Note	31 December 2017	31 December 2016
Current liabilities			
Short-term loans	**10**	12,804	12,776
The current portion of long-term loans	**11**	89,397	136,481
Deferred Revenues		24,262	10,110
Financial derivatives	**30**	-	-
Suppliers and assimilated accounts	**12**	165,848	167,150
Provisions	**17**	112,131	77,516
Other current liabilities	**16**	196,563	169,049
Total current liabilities		**601,005**	**573,083**
Total liabilities		**1,550,560**	**1,695,635**
Total equity and liabilities		**18,506,821**	**18,944,214**

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

(all amounts are expressed in RON unless otherwise stated)

	Note	Year ended on 31 December 2017	31 December 2016
Electricity sales	**19**	3,246,956	3,325,310
Sales of electricity from trading activity	**19**	-	5,999
Other operating revenues	**21**	18,916	16,290
Total Revenues		**3,265,872**	**3,347,600**
Operating expenses			
Electricity purchased	**20**	(88,162)	(102,530)
Electricity purchased for trading		-	(233)
Impairment and depreciation	**4**	(661,972)	(683,919)
Salaries and other emoluments		(377,032)	(397,614)
Other operating expenses	**22**	(577,670)	(647,924)
Materials and consumables		(24,660)	(25,102)
Repair and maintenance		26,366	(3,597)
Total operating expenses		**(1,703,130)**	**(1,860,921)**
Operating Profit / (Loss)		**1,562,742**	**1,486,679**
Financial income	**23**	28,864	15,688
Financial expenses	**23**	(8,570)	(5,653)
Income from embedded derivatives	**23**	-	187,972
Expenditures on embedded derivatives	**23**	-	-
Financial profit / (loss)		**20,294**	**198,007**
Profit / (Loss) before tax on profit		**1,583,036**	**1,684,686**
Income tax	**14**	(234,516)	(316,850)
Net Profit / (Loss)		**1,348,520**	**1,367,836**
Other elements of the overall result			
Result from the revaluation of properties		-	-
The impact of the deferred tax on the revaluation reserve		-	(37,325)
Re-measurement of post-employment obligations		-	(1,633)
Total Global Profit / (Loss) of the Year		**1,348,520**	**1,328,878**
Profit / (Loss) per share		0.003008	0.003052

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Marian Fetita

Manager of Accounting Department

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

The accompanying notes represent an integral part of the consolidated financial statements.

S.P.E.E.H. HIDROELECTRICA S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED ON 31 DECEMBER 2017
(all amounts are expressed in RON unless otherwise stated)

	Share capital	Adjustments resulting from the application of IAS 29	Public patrimony	Revaluation reserve	Retained earnings	Total
Balance on 01 January 2016	**4,481,650**	**1,028,872**	**39,347**	**6,316,333**	**5,382,377**	**17,248,579**
Global loss of the year						
Profit of the year					1,348,520	1,348,520
Other elements of the overall result						
Total - Global result of the year						
Balance on 01 January 2016					**1,348,520**	**1,348,520**
Revaluation reserve						
Deferred tax on revaluation reserve				58,669	(47,222)	11,447
Transfer of deferred tax on the revaluation reserve as amortization of fixed assets						
Transfer of revaluation surplus related to depreciation of tangible assets				(336,799)	336,799	-
Transfer of revaluation surplus related to the change in accounting policy						
Transfer of revaluation surplus related to tangible assets						
Other movements					37,658	37,658
Contributions of and Distributions to Owners						
Dividends declared					(1,690,686)	(1,690,686)
Other movements	743					743
Total - transactions with owners	**743**				**(1,690,686)**	**(1,689,943)**
Balance at 31 December 2017						
Transfer of deferred tax on the revaluation reserve as amortization of fixed assets	**4,482,393**	**1,028,872**	**39,347**	**6,038,203**	**5,367,446**	**16,956,261**

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Marian Fetita
Manager of Accounting Department

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

The accompanying notes represent an integral part of the consolidated financial statements.

(all amounts are expressed in RON unless otherwise stated)

	Share capital	Adjustments resulting from the application of IAS 29	Public patrimony	Revaluation reserve	Retained earnings	Total
Balance on 01 January 2016	**4,481,482**	**1,028,872**	**39,347**	**11,393,042**	**(346,772)**	**16,595,971**
Global loss of the year						
Profit of the year	-	-	-	-	1,367,836	1,367,836
Other elements of the overall result	-	-	-	-	1,633	1,633
Other elements of global result of the year	**-**	**-**	**-**	**-**	**1,369,469**	**1,369,469**
Revaluation reserve	-	-	-	-	-	-
Deferred tax on revaluation reserve	-	-	-	(37,325)	-	(37,325)
Transfer of deferred tax on the revaluation reserve as amortization of fixed assets	-	-	-	150,932	(150,932)	-
Transfer of revaluation surplus related to depreciation of tangible assets	-	-	-	(357,922)	357,922	-
Transfer of revaluation surplus related to the change in accounting policy	-	-	-	(4,831,080)	4,831,080	-
Transfer the corresponding revaluation surplus of tangible outputs	-	-	-	(1,318)	1,318	-
Other movements	-	-	-	(4)	4	-
Contributions of and Distributions to Owners						
Dividends declared	-	-	-	-	(675,115)	(675,115)
Other movements	168	-	-	-	(4,589)	(4,421)
Total - transactions with owners	**168**				**(679,704)**	**(679,536)**
Balance on 31 December 2016	**4,481,650**	**1,028,872**	**39,347**	**6,316,333**	**5,382,377**	**17,248,579**

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(all amounts are expressed in RON unless otherwise stated)

	Year ended on	
	31 December 2017	**31 December 2016**
Cash flows from operating activities:		
Profit / (Loss) before tax on profit	**1,583,037**	**1,684,686**
Adjustments for non-monetary items:		
Operating expenses on depreciation and amortization of fixed assets	661,972	683,919
Impairment of fixed assets	26,194	40,385
Net provisioning movement	43,477	(1,291)
Expenses with adjustments for customer depreciation	35,283	15,993
Expenditure adjustments for stocks	199	2,419
Loss from the sale of tangible assets	17,391	(5,514)
Resuming earnings recorded in advance	-	-
(Earnings) / Loss from Derivatives	-	(187,972)
Unrealized losses from exchange rate variation	5,746	(17)
Revaluation of fixed assets	-	-
Interest income	(12,879)	(15,682)
Interest expenses	2,824	4,719
	2,363,244	**2,221,647**
Movements in working capital:		
Decrease / (Increase) trade receivables and assimilated accounts	15,024	(90,226)
Decrease other assets	31,151	(231,845)
Decrease / (Increase) inventories	(14,111)	(3,572)
(Decrease) / Increase in trade payables and assimilated accounts	29,691	32,906
Cash generated from exploitation activities	**2,424,999**	**1,928,908**
Interest paid	(2,824)	(4,719)
Income tax paid	(268,284)	(268,284)
Net cash from operating activities	**2,153,891**	**1,655,905**
Cash flow used in the investment activity:		
Acquisitions of tangible assets	(230,437)	(180,393)
Acquisitions of intangible assets	(2,768)	(5,438)
Proceeds from the sale of property, plant and equipment	12	8,748
Interest received	12,879	15,682
Other financial assets	(208,355)	(1,479,163)
Net cash used in investment activity	**(428,669)**	**(1,640,566)**
Cash flow from financing activity:		
Borrowing from loans	-	-
Loan repayments	(141,116)	(166,917)
Dividends paid	(1,690,686)	(675,115)
Changes in the share capital	743	168
Net cash out of financing activity	**(1,831,059)**	**(841,843)**
Net (Decrease) / Increase in cash and cash equivalents	(105,837)	(826,523)
Cash and cash equivalents at the beginning of the year	**220,787**	**1,047,310**
Cash and cash equivalents at the end of the year	**114,950**	**220,787**

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Marian Fetita

Manager of Accounting Department

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

The accompanying notes represent an integral part of the consolidated financial statements.

1. GENERAL INFORMATION

SPEEH Hidroelectrica S.A. ("Hidroelectrica" or "The Group") a two-tier Group, was established in 1998 as a subsidiary, by Government Decision no. 365/1998, following the restructuring of the former National Electricity Authority ("Renel") and the establishment of the National Electricity Companies ("Conel"). On August 1, 2000, based on the Government Decision no. 627/2000, the Group has been assigned a new fiscal registration number, without changing the object of activity. The Group's registration address (as defined below) is 15-17 Ion Mihalache Blvd., sector 1, Bucharest, Romania. The main activity of Hidroelectrica is represented by the production and sale of electricity. Hidroelectrica is owned 80.06% by the Romanian State, represented by the Ministry of Energy ("ME") and by 19.94% by Fondul Proprietatea.

In 2002, the Government decided to separate the maintenance activity and, as a result of GD no. 857 dated July 1, 2002, Hidroelectrica was reorganized into 12 branches for production and sales of electric power and 8 subsidiary (separate legal companies) for maintenance and repair services. By the EGMS Decision no. 40 from 29.05.2013, the number of the Group's branches was reduced to 7 as follows: SH Bistrita, SH Curtea de Arges, SH Cluj, SH Hateg, SH Portile de Fier, SH Ramnicu Valcea, SH Sebes. Hidroelectrica is the sole shareholder of the 8 subsidiaries registered in Romania. Hidroelectrica and its 8 subsidiaries, respectively a subsidiary - Hidroserv SA - after their merger on 05.08.2013, are hereinafter referred to as the ***"the Group".***

Hidroelectrica is a sole shareholder at Hidroelectrica Trading D.O.O. registered with the Trade Register-Belgrade, Serbia under no. 21058050 / 31.10.2014. The Group has on 31 December 2017 a paid-in share capital of RON 242 thousand. During 2017, Hidroelectrica Trading D.O.O. did not have activity. This year, clarifications have been awaited regarding the updating of Serbian legislation on the import of electricity in order to identify future directions for development. The financial statements of this subsidy prepared in Serbian local standards are not consolidated in the present IFRS statements due to its insignificant significance well below the materiality threshold within the provisions of the IAS, IAS 1, IAS 27 and IAS 8 Conceptual Framework.

Considering the above and considering the strategic importance of the Group within the national energy system, the Group's Management believes that the Group will continue to operate in the foreseeable future and consequently appreciates the appropriate use of the going concern principle for the preparation of the consolidated financial statements for the year ended 31 December 2017.

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 consumer’s 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 of 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 Group is also authorized to provide system services under Decision no. 851/2005 issued by ANRE for the 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. 312/2010).

2. APPLYING NEW AND UPDATED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards and interpretations that have entered into force in the current period

The following standards and amendments to existing standards, issued by the International Accounting Standards Board ("IASB") and adopted by the European Union (EU) have entered into force in the current period:

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Presentation of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" - Investment Companies: Applying the Exception to Enhancement - was adopted by the EU on September 22, 2016 (applicable for financial periods beginning on January 1, 2016),
- Amendments to IFRS 11 "Joint Ventures" - Acquisition of Interests in Joint Ventures Accounting - adopted by the EU on 24 November 2015 (applicable for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 1 "Presentation of Financial Statements" - Presentation of requirements initiative - adopted by the EU on 18 December 2015 (applicable for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 "Tangible Assets" and IAS 38 "Intangible Assets" - Clarifications on acceptable depreciation methods - adopted by the EU on 2 December 2015 (applicable for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Tangible Assets" and IAS 41 "Agriculture" - Agriculture: Fruit trees - adopted by the EU on 23 November 2015 (applicable for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 19 “Employees” Benefits” - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (applicable to annual periods beginning on or after 1 February 2015),
- Amendments to IAS 27 "Individual Financial Statements" - the equity method in the separate financial statements - adopted by the EU on 18 December 2015 (applicable for annual periods beginning on or after 1 January 2016),
- Amendments to the various standards "Improvements to IFRS (Cycle 2010-2012)" resulting from the IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) with the main target to eliminate inconsistencies and clarify certain formulations - adopted by the EU on 17 December 2014 (applicable for annual periods beginning on or after 1 January 2016),
- Amendments to the various standards "Improvements to IFRS (Cycle 2012-2014)" (resulting from the annual improvements of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) with the primary purpose of eliminating inconsistencies and clarifying certain formulations - adopted by the EU on 15 December 2015 (applicable for annual periods beginning on or after 1 January 2016).

Adopting these amendments to existing standards did not substantially alter the Company's/Group’s financial statements .

Amendments to standards issued by the IASB and adopted by the EU but not yet in force

At the date of approval of these financial statements, the following amendments to standards issued by the IASB and adopted by the EU were not yet in force :

- IFRS 9 "Financial Instruments" - adopted by the EU on 22 November 2016 (applicable for annual periods beginning on or after 1 January 2018),
- IFRS 15 "Revenue from contracts with customers" with subsequent amendments and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (applicable for annual periods beginning on or after 1 January 2018).

IFRS 9 includes requirements on financial instruments related to recognition, classification and measurement, impairment of losses, derecognition and hedge accounting:

- *Classification and measurement:* IFRS 9 introduces a new approach to the classification of financial assets and comprises three main categories of financial assets: measured at amortized cost, at fair value through other elements of the overall result, at fair value through profit or loss account. The classification on IFRS 9 is determined by the cash flow characteristics and the business model in which an asset is held. This unitary approach based on principles, eliminates the classification of financial assets in IAS 39: held-to-maturity, loans and advances and available-for-sale financial assets. The new model will also determine the existence of a single depreciation model applicable to all financial instruments.

  According to IFRS 9, derivatives embedded in contracts where the host instrument is a financial instrument for the purpose of this Standard are not separate but the entire hybrid instrument is considered for classification.

- *Impairment of losses*: IFRS 9 introduces a new impairment loss model, based on expected losses, which will require faster recognition of expected losses from impairment of receivables. The Standard requires entities to recognize the expected impairment losses on receivables from the time of initial recognition of financial instruments, and to recognize more rapidly the expected impairment losses over their lifetime .
- *Hedge Accounting:* IFRS 9 introduces a significantly improved hedge accounting model that includes additional disclosure requirements for risk management activity. The new model represents a significant revision of the coverage accounting principles, which allows the alignment of the accounting treatment with the risk management activities.
- *Own credit risk:* IFRS 9 eliminates the volatility in the profit or loss account due to the change in credit risk related to the debt at fair value.

Changing the requirements for accounting for these liabilities implies that profit arising from the impairment of an entity's own credit risk will no longer be recognized through profit or loss.

New standards and amendments to existing IASB standards but not yet adopted by the EU

On the reporting date of these financial statements, IFRS, as adopted by the EU, do not differ significantly from the IASB's regulations, except for the following standards, amendments and interpretations, the application of which has not yet been approved by the EU until the date of approving present financial statements:

- IFRS 14 "Deferred Retirement Accounts for Regulated Activities" (applicable for annual periods beginning on or after 1 January 2016) - The European Commission has decided not to initiate the process of adopting this interim standard but to wait for the final standard,
- IFRS 16 "Leasing" (applicable for annual periods beginning on or after 1 January 2019),

- Amendments to IFRS "Share-based payment" - Classification and measurement of share-based transactions (effective for annual periods beginning on or after 1 January 2018), adoption is expected in the second half of 2017,
- Amendments to IFRS 4 "Insurance Contracts" - Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (applicable for annual periods beginning on or after 1 January 2018 when IFRS 9 "Financial Instruments" is first applied), adoption is expected in 2017,
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale of or contribution with assets between an investor and its associates or joint ventures and subsequent amendments (effective date has been postponed indefinitely until the research project on the equivalence method is completed),
- Amendments to IFRS 15 "Revenue from contracts with customers" - IFRS 15 Clarifications to Income from Customer Contracts (applicable for annual periods beginning on or after 1 January 2018), adoption is expected in the second quarter of 2017,
- Amendments to IAS 7 "Statement of Cash Flows" - presentation requirement initiative (effective for annual periods beginning on or after 1 January 2017,
- Amendments to IAS 12 "Income Tax" - Recognition of the deferred tax asset on unrealized losses (applicable for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 40 "Investment property" - the transfer of investment property (applicable for annual periods beginning on or after 1 January 2018), adoption is expected in the second half of 2017,
- Amendments to the standards "IFRS Improvements (Cycle 2014-2016)", resulting from the IFRS Annual Improvements Project (IFRS 1, IFRS 12 and IAS 28), with the primary aim of eliminating inconsistencies and clarifying certain formulations (amendments to IFRS 12 are applicable for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are applicable for annual periods beginning on or after 1 January 2018), adoption is expected in the second half of 2017,
- IFRIC 22 "Foreign Currency Transactions and Contributions" (applicable for annual periods beginning on or after 1 January 2018), adoption is expected in the second half of 2017.

3. SIGNIFICANT ACCOUNTING POLICIES

Declaration of conformity

The financial statements presented were prepared in compliance with the principles and assesment priciples of the International Financial Reporting Standards adopted by the European Union ("EU").

Basis of assessment

Consolidated financial statements are based on the use of the business continuity principle. They are stated at historical cost, except for lands, buildings, special eqipments, installations and machines using the revaluation method and excluding embedded derivatives that are measured at fair value through profit or loss account. Accounting policies have been applied consistently to those of the previous year.

Functional and presentation currency

The attached financial statements are presented in Romanian Lei ("RON" or "Lei"). The Romanian LEU is the functional currency of the Group .

Using professional estimates and judgments

Preparing financial statements in accordance with EU's IFRS requires that management should use estimates, judgments and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Estimates and assumptions associated with these estimates are based on historical experience, as well as other factors considered reasonable in the context of these estimates. The results of these estimates and assumptions form the basis of judgments relating to the carrying amounts of assets and liabilities that cannot be obtained from other sources of information. Actual results may differ from the estimates.

Estimates and assumptions are periodically reviewed. Revisions of accounting estimates are recognized in the period in which the estimates are reviewed, if the review affects only that period, and future affected periods.

Estimates and professional judgments made by management mainly refer to: estimation of non-invoiced incomes at end-year, useful life of immobilizations, estimation of adjustments for impairment of receivables and inventories, calculation of provisions, employee benefits, taxes and duties, contingent liabilities, professional reasoning on the application of IFRIC 12 "Service Concession Agreements" (for details on assumptions and estimates see the accounting policies and notes).

The Group (concessionaire) concluded in December 2004 a concession contract with the Ministry of Economy (concedant), according to which it was granted the right to commercially use and exploit assets of public patrimony that mainly include hydroelectric plants (dams) and land on which they are located. Given that most of the Group's shares are held by the State, management considers that it is a public Group and therefore does not fall under IFRIC 12 "Services Concession Agreements". Given that there is no other specific IFRS standard for service concession arrangements, the Group has considered whether to apply IFRIC 12, on the basis of the hierarchy in IAS 8, which requires firstly to take into account the provisions of other IFRSs which deals with similar issues.

In analyzing the application of IFRIC 12, the Group has considered whether the following features of public-private service concession agreements are applicable to the concession contract concluded with the ME at the date IFRIC 12 is to be adopted:

- The concedant controls or regulates the type of services that the concessionaire has to provide within the infrastructure, to whom should be provided and what will be the price;
- The concedant 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;
- Contractual provisions would include the same provisions as if the agreement should have been concluded with a private Group.

The Group concluded that the application of the provisions of IFRIC 12 for accounting the concession contract will not reflect the economic substance of the transaction as the Group pays an annual royalty fee for the use of the assets mentioned in the concession contract worth 1/1000 of the revenues generated from the sale of electricity. The fee is lower than the depreciation expense that the Group would have recorded for those assets if the concession contract had not been signed. As a result, IFRIC 12 is not applicable. The Group did not recognize the assets of the concession contract in the consolidated financial position but recognizes the annual fee payable to the government throughout the validity of the contract in the profit and loss acount.

Lifetime of tangible assets
Management reviews the useful lives of tangible assets at the end of each reporting period.

Claims and invoices to be drawn up
Management estimates the probability of collecting receivables at the end of each reporting period and represents value adjustments for the portion that is considered to be irrecoverable. Adjustments are made on the basis of the specific analysis of bills in balance.

The management also estimates the value of the invoices to be drawn up on the basis of the sale of electricity.

Invoices to be received
The amount of non-billed invoices is estimated by the management on the basis of the contracts concluded with the suppliers and by comparative analysis with the previous periods .

Deferred tax
Deferred tax assets and liabilities are determined on basis of temporary differences between the carrying amount and the assets and liabilities of the financial statements and their tax value. Recognition of deferred tax assets is made to the extent that a taxable benefit that may be attributable to these deductible temporary differences, are likely to be available.

Provisions and contingent liabilities
Management estimates and uses professional judgment in the measurement and recognition of provisions, in determining contingent liability arising from disputes in which the Group is involved or from other disputes that are subject to negotiation, arbitration or regulation. Professional judgment is used to determine the likelihood that a particular dispute will be lost and a debt incurred and to quantify the value of respective debt. As a result of the uncertainty involved in this valuation process, current debts may differ from the initially estimated provisions.

The principle of continuity of activity
These financial statements have been prepared in accordance with the going concern principle under the historical cost convention, except for lands, buildings, special installations, machines and equipments that are assessed using the revaluation method and except for derivative financial instruments that are at fair value through profit or loss account. However, the consolidated financial position and the unconsolidated operating result of the Group are partly dependent on the decisions taken by ANRE regarding the electricity sales tariffs, regarding the changes in the tariffs and / or decisions of the Romanian authorities, which are not exclusively influenced by the decisions of the Group's management. At the same time, the energy sector suffers permanent restructuring that could have a significant impact on the Group, its future activity, as well as the predictability of the Group's future revenue, diminishing its influence on the unconsolidated operating result of the Group as well as on the recoverability of net worth accounting for tangible assets used in electricity’s generation.

Basis of consolidation
A subsidiary is an entity controlled by another entity, known as the parent Group, as defined in IAS 27, "Consolidated and Separate Financial Statements". In accordance with IAS 27, it is assumed that there is control when the parent Group owns more than half of the voting rights of an entity unless, in exceptional circumstances, it can be clearly demonstrated that this form of ownership does not provide control. Control is the authority to conduct the financial and operational policies of an entity in order to obtain benefits from its business. The financial statements of the subsidiaries (except for the non-significant ones) are included in the consolidated financial statements from the date of the control until the control terminates. The intragroup balances and transactions as well as any unrealized profits or losses resulting from the intragroup transactions are eliminated in the preparation of the Consolidated financial statements.

The main accounting policies are presented below:

(a) Tangible assets

(i) Recognition and measurement
Tangible assets are stated at revalued amount, less cumulative depreciation and impairment losses, except for current tangible assets that are stated at cost, less impairment losses. The accounting records of the Group allow the identification of historical values of tangible assets starting with 01.01.2003. Consequently, the cost of land and land improving purchased prior to 2003 was determined by restating the historical cost as assessed in accordance with the

revaluation report as at 31 December 2003. Land, buildings, construction, machinery and equipment owned by the Group as at 31 December 2017 are presented in the statement of financial position at fair value. As of 31.12.2015 the Group's tangible assets represented by land, construction and movable assets were revalued by an independent ANEVAR member.

The fair value of tangible assets, with the exception of the current tangible assets, estimated in accordance with the International Accounting Standard 16 "Corporate Immovable Assets", is at their market value, and when for reasons related to the specialization of the assets the insufficient market information was found and / or the existence of an inactive market, or a value other than market value (net replacement cost/reproduction).

Tangible assets are initially measured at cost.
The cost of the Group's assets includes the following :

- the cost of materials and direct personnel costs ,
- other costs directly attributable to bringing of assets to the stage of pre-defined use,
- the costs of dismantling, moving and restoring the space in which they were located, when the Group has the obligation to move the asset and restore the land,
- capitalized debt costs .

When parts of a tangible asset have different lifetimes, they are considered separate parts.

A provision for unused or used tangible fixed assets is recorded in the financial statements, to the extent that these items are identified .

Liability costs directly attributable to the refurbishing and purchase of facilities and other major constructions are capitalized in the cost of current tangible assets in accordance with IAS 23 "Borrowing Costs".

Profit or losses connected with the output of a fixed asset (determined by comparing the disposal proceeds with the net book value of the item of intangible assets) are recognized in the profit and loss account. When the revalued fixed assets are sold, the amounts included in the revaluation surplus are transferred to retained earnings.

Land received free of charge from state authorities was recorded in other reserves at fair value at the date of the transfer of rights over land. When the cadastral documents are obtained, the reserves will be transferred to the Group's share capital.

(ii) Subsequent maintenance costs
Fixed asset's repair and maintenance expenses incurred to restore or maintain the value of these assets are recognized in profit or loss account at the date of their performance, while expenditures incurred to improving technical performance are capitalized and depreciated over the remaining period of respective fixed asset.

Subsequent costs are included in the carrying amount of the asset or recognized as a separate asset, as the case may be, only when it is probable that future economic benefits associated with that asset will enter to the Group and the cost of the asset can be reliably measured. The accounting value of the replaced part is derecognised to the extent that it can be reliably assessed. All other repairs and maintenance work are recorded in the profit or loss account in the period in which they are carried out.

All other maintenance costs are recognized in profit or loss account, as they arise.

(iii) Depreciation
Tangible assets are amortized using the straight-line method over their lifetimes.
The lifetimes used for property, plant and equipment are as follows:

(all amounts are expressed in RON unless otherwise stated)

Category	**Useful life (years)**
Buildings	65 – 97
Special installations	25 – 47
Technological equipment	15 – 23
Measuring and control equipment	16 – 24
Other fixed assets	15 – 23

Land and fixed assets are not amortized. Current fixed assets are amortized as of the date of commissioning.

Lifetimes, residual values and amortization are reviewed periodically to ensure their consistency with the estimated useful life of the asset.

(iv) Impairment of non-financial assets
The Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is evidence of impairment. An impairment loss is recognized if the carrying amount of an asset or a cash-generating unit exceeds the estimated recoverable amount.

The recoverable amount of an asset or a cash-generating unit is the maximum between the amount of use and fair value less costs to sell. In determining the amount of use, expected future cash flows are updated to determine the present value using a pre-tax discount rate that reflects current market assessments of the time value of money and assets' specific risks. For testing impairment, assets that cannot be tested individually are grouped into smallest group of assets that generate cash inflows from continous use and which are largely independent of cash inflows generated by other assets or groups of assets ("cash-generating unit").

Impairment losses are recognized in the income or loss statement unless the asset to which it relates has been revalued, in which case the impairment loss is treated as a decrease in the revaluation reserve.

For all non-current assets, impairment losses recognized in prior periods are assessed at each reporting date to determine whether there is evidence that the loss has decreased or no longer exista. An impairment loss is reversed if there has been any change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that could have been determined, net of depreciation, if no impairment has been recognized.

(b) Public patrimony

Under the provisions of Law 213/1998 hydroelectric installations (dams) are goods that make up the public domain of the state. GD no. 365/1998 establishes that the real estate of the Group belongs to the public and private patrimony.

In November 1998, was issued Law no. 213/1998, which regulates the status of the public domain. In this law it is mentioned that the ownership of the public patrimony belongs to the State or the local authorities that can rent or concession the goods that are considered of public property. In accordance with the provisions of Law no. 213/1998 and Law no. 219/1998, the Ministry of Economy has leased on behalf of the state to the Group the hydroelectric installations (dams) and the lands on which they are located. Thus, in December 2004, was concluded the concession contract no. 1 between the Ministry of Economy and the Group for all tangible assets in public patrimony, in the balance on 31 December 2003, for a period of 49 years. Payments related to the concession contract are recognized as expenses in the profit and loss account calculated on the basis of the revenues recorded by the Group during the period.

The main terms of the concession contract are the following :
(i) The Ministry of Economy holds the ownership title over the assets subject to the contract;
(ii) The Group has the right to use these assets for a period of 49 years from 1 January 2005 to 31 December 2053;
(iii) The annual fee paid by the Group for the use of these assets is set by the ME and is subject to changes; The Group pays an annual fee of 1/1000 of the total revenue from the sale of electricity;
(iv) Assets will be in the possession of the ME upon termination or expiration of the contract; the contract may be denounced unilaterally by either party ;
(v) The Group has the obligation to use the assets in accordance with the provisions of the concession contract and the operating license .

The fee paid by the Group under the concession contract for the period from 1 January to 31 December 2017 is significantly lower than the amortization that the Group would have recorded for the assets in question if that contract had not existed. However, the Group has not recorded any amount in the financial statements for this possible benefit because it can not estimate what is the amount paid for the use of these assets by a third party in an objectively determined transaction price.

(c) Intangible assets

Intangible assets acquired by the Group are stated at cost less accumulated amortization and provision for impairment of intangible assets. Depreciation is recognized in the profit and loss statement on a straight-line basis over the estimated useful lives of intangible assets. Most of the intangible assets registered by the Group are represented by dedicated software programs. These are linearly depreciated for a period of 3-5 years.

(d) Foreign Currency Transactions

Foreign currency transactions are expressed in RON by applying the exchange rate valid on the transaction date. Monetary assets and liabilities denominated in foreign currency at the end of the year are denominated in RON at the exchange rate of that date. Profit and losses on exchange differences, realized or unrealized, are recorded in the profit and loss account for the year.

The exchange rates at 31 December 2017 and 31 December 2016 are as follows:

Currency	31 December 2017	31 December 2016
EUR	4.6597	4.5411
USD	3.8915	4.3033

Non-monetary assets and liabilities denominated in a foreign currency that are measured at fair value are translated to the functional currency at the foreign exchange rate at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(e) Clients and assimilated accounts

Clients and assimilated accounts include invoices issued at nominal value and estimated receivables related to services rendered but invoiced in the period after the end of the period. Clients and assimilated accounts are recorded at amortized cost less impairment losses. The amortized cost approximates the nominal value. Final losses may vary from current estimates. Due to the inherent lack of information on the financial position of clients and the lack of legal collection mechanisms, estimates of probable losses are uncertain. However, the management of the Group has made the best estimate of losses and considers that this estimate is reasonable in the circumstances.

The nominal value of receivable with claims in installments over one year is updated as the best estimate of an interest rate to take into account the time value of the money.

(f) Inventories

Inventories are presented at the lowest cost and net realizable value .

Inventories are recorded at cost based on the FIFO valuation method. Inventories consist of consumables, spare parts and other materials, mainly consisting of materials for maintenance and repair of hydropower plants. Major spare part items that meet the definition of a fixed asset are classified as tangible assets. The cost of inventories includes all acquisition costs and other costs incurred in bringing inventories to and from the current situation.

Net realizable value represents the estimated sale value less the estimated completion costs and the expenses incurred for the sale .

If the Company deems necessary, value adjustments are made for obsolete stocks or scrap.

(g) Bank deposits, Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits with an initial maturity of up to 3 months that are subject to an insignificant risk in changing the fair value. Foreign currency assets are revalued at the end of exchange rate period.

Account receivables are treated as short-term liabilities.

Bank deposits refer to those bank deposits that have an initial maturity of more than 3 months.

(h) Share capital

Ordinary shares are classified as part of own equity. The Group recognizes the changes in the share capital according to the conditions provided by the legislation in force and only after their approval by the General Meeting of Shareholders and registration with the Trade Register. Additional costs attributable directly to the issue of shares are recognized as a deduction from own equity, net of tax effects.

Contributions in advance to share capital

Contributions in advance to the share capital are represented by land for which titles of ownership are obtained from the Romanian State through Ministry of Economy. Initially, these are recognized as prepayments, followed by a share capital increase previously approved and published by the Trade Registry.

(i) Revaluation reserves

Tangible assets, with the exception of tangible fixed assets, are presented in the statement of financial position at revalued amount, less cumulative depreciation and impairment. Revaluations are performed regularly to ensure that the carrying amount does not differ materially from what would have been determined by using fair value on the date of the balance sheet.

If the carrying amount of an asset is increased as a result of a revaluation, this increase is recorded directly as own equity in "revaluation reserves". The increase is recognized in profit or loss to the extent that it compensates for a decrease in the revaluation of the same asset previously recognized in profit or loss.

If the carrying amount of an asset is decreased as a result of a revaluation, that decrease is recognized in profit or loss, unless the decrease is directly charged from equity in "revaluation reserves", to the extent that there is a revaluation surplus for that asset.

The revaluation surplus included in the equity of an item of tangible assets is transferred directly to the retained earnings when the asset is derecognised .

In 2015, the Management of the Group approved the change in the accounting policy regarding the transfer of the revaluation reserve to the reported result, as representing the surplus from revaluation reserves.

According to the Accounting Policies approved in the Group valid for 2015 "The transfer from 105" Revaluation reserves to account 1175" the retained earnings representing the surplus realized from the revaluation reserves" within Hidroelectrica is realized at the moment of full depreciation and / or at the date the asset is no longer under administration (disposal / sale)".

Under IAS 16 Intangible Fixed Assets, Art. 41, "the profit from revaluation are deemed to have been made when the asset for which the revaluation reserve was created. However, part of the profit can be achieved as the asset is used by the entity. In this case, the amount of the transferred reserve is the difference between the amortization calculated on the basis of the revalued carrying amount and the depreciation value calculated on the basis of the initial cost of the asset."

Starting January 1, 2016, the revaluation profit is realized as the asset is used by the Company .

(j) Dividends

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

(k) Suppliers and assimilated accounts

Debts to suppliers and other liabilities, initially recorded at fair value and subsequently measured using the effective interest method, include the value of the invoices issued by the suppliers of products, executed works and services rendered.

(l) Interest-bearing loans

Interest-bearing loans are initially recognized at fair value, net of transaction costs. Subsequent to initial recognition, loans are recorded at amortized cost, any difference between cost and reimbursement being recognized in the profit and loss account for the period of the loan, based on an effective interest rate.

Trading costs and commitment fees are amortized over the repayment period of the loan and are part of the effective interest rate .

(m) Liability costs

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

If borrowed funds are intended to finance a specific project, the capitalized amount is the actual cost of the borrowed loan. If there is a surplus of short-term funds in the amount of the contracted loan to finance a particular project, the revenue generated from the temporary investment is also capitalized and deducted from the total capitalized cost of the loan. If the funds used to finance a project are general loans, the capitalized value is calculated using the weighted average of the rates applied to the relevant general borrowings of the company over the period. The rest of the financing costs are presented in the profit or loss account in the period in which they are incurred.

(n) Provisions

A provision is recognized if, as a result of a prior event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the 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. Amortisation update is recognized as financial expense. Where the effect of the temporary amount of money is material, the amount of a provision represent the present value of the expense that is required to settle the obligation.

(a) Income tax

Expenses with income tax include current tax and deferred tax .

Current tax represent the tax that is expected to be paid or received for taxable income or loss in the year, using tax rates adopted or broadly adopted at the reporting date and any adjustment to the income tax liability for the previous years. Current tax to be paid also includes any tax receivable arising from dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amount of assets and liabilities used for the purpose of financial reporting and the tax base used for the tax calculation. Deferred tax is not recognized for the following temporary differences:
- Initial recognition of assets or liabilities arising from a transaction that is not a business combination and that does not affect its accounting profit or loss or tax ;
- differences regarding investments in subsidiaries or jointly controlled entities, to the extent that they are unlikely to resume in the future; and
- taxable temporary differences arising from the initial recognition of goodwill.

Deferred assets and liabilities tax are offset only if there is a legal right to offset current tax liabilities and receivables, and if it relates to taxes levied by the same tax authority on the same entity or a different tax entity but intends to close a convention on assets and liabilities with current tax on a net basis or whose tax assets and liabilities will be simultaneously realized.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that taxable profits will be available in the future and will be used. Deferred tax assets are reviewed at each reporting date and are diminished to the extent that it is no longer probable that a tax benefit will be realized. The effect of changes in deferred tax rates is recognized in the profit and loss account unless it relates to previously recognized items directly in own equity.

(p) Affiliated parties

Companies are considered affiliated if one party, through ownership, contractual rights, family or other relationships, has the ability to control directly or indirectly or to significantly influence the other party.

(b) Revenues

Sales of goods
Revenue is recognized when the significant risks and benefits have been transferred to the buyer, obtaining the economic benefits is probable and the associated costs can be estimated correctly. Revenue represents mainly the amount of electricity supplied.

Revenue from services
Revenues from services are recognized in the reference period. Energy and electricity sales are recognized on the basis of meter readings received at the end of each month from the Romanian Electricity Market Operator („OMEPA").

(r) Financial income and expense

Financial incomes include interest income, dividend income, changes in the fair value of financial assets through the profit and loss account. Interest income is recognized as it is accrued to the profit and loss account using the effective interest method. Dividend income is recognized in profit and loss account at the date when the Group's right to receive dividends is established.

Financial expenses include borrowing costs, amortization of provisions for impairment, changes in the fair value of financial assets recognized at fair value through profit or loss account. All borrowing 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.

(s) Employee Benefits

In accordance with Government Decisions no. 1041/2003 and no. 1461/2003, the Group has the obligation to provide in-kind benefits to the employees who have retired. Also, in accordance with the Collective Labour Agreement, employees are entitled to a cash bonus. On 31 December 2017, the Group's management updated the present value of future liabilities in respect of these in-kind benefits and cash rewards.

Short-term benefits for employees
The short-term benefits for employees include salaries and social security contributions. The short-term benefits for employees are assessed without being updated and the expense is recognized as the related services are rendered.

A liability is recognized at the amount that is expected to be paid under short-term cash-generating or profit-sharing plans if the Group has a legal or constructive obligation to pay that amount for services previously provided by employees and the obligation can be estimated reliably.

In the current activity, the Group makes payments to the Romanian State for the employees' benefit related to social security. All Group's employees are included in the Pension Plan of the Romanian State.

(t) Subventions

Subsidies are initially recognized in the statement of financial position as prepaid income when there is reasonable assurance that they will be received and the Group will comply with the granting conditions, if any, and recognized as income when recognizing related costs (for example, amortization of fixed assests of subsidies or consumption of stocks purchased from the grant).

(u) Contingencies

Contingent liabilities are not recognized in the attached financial statements. They are presented when there is the possibility of an outflow of resources representing economic benefits that are possible, but not probable, and / or the value can be estimated reliably. A contingent asset is not recognized in the attached financial statements but is presented when an economic benefit is probable.

(v) Determination of fair values

Certain Group's accounting policies and disclosure requirements require that fair value to be determined for both financial assets and non-financial assets. Fair values were determined for the purpose of evaluating and / or presenting information based on the methods described below. Where appropriate, additional information on assumptions used to determine fair values is disclosed in the notes to the specific asset or liability.

(i) Tangible assets
The fair value of tangible assets is based on market value. The market value of the real estate properties is the estimated value for which a property could be changed at the valuation date in a transaction made under objective conditions, after an appropriate marketing action between the two interested parties. The fair value of tangible assets from other categories (machinery and equipment, plant, furniture and fittings) is based on the market and cost method using quoted market prices for similar items, when available, or the cost of replacement when it is case.

(w) Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to the initial recognition or deducted from the fair value of the assets or financial liabilities, as appropriate. Transaction costs directly attributable to the acquisition of financial assets or liabilities at fair value through profit or loss are recognized immediately in consolidated profit or loss.

Financial assets

Financial assets are classified in the following categories: financial assets at "fair value through profit or loss" (FVTPL), investments "held to maturity", financial assets available-for-sale (AFS) and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All purchases or sales of financial assets are recognized and derecognized at the date of transaction. Standard purchases or sales are the purchases or sales of financial assets that require the delivery of assets within a timeframe set by regulation or convention on the market.

Effective interest rate method
The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that accurately updates the estimated future cash receipts estimated over the life of the financial instrument (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts), or (where applicable) for a shorter period, to the net book value of the financial asset at the date of initial recognition. Income is recognized based on the effective interest rate for financial instruments other than those classified as financial assets at fair value through profit or loss .

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss when the financial asset is either held for trading or is designated by management as a financial asset at fair value through profit or loss.

A financial asset is classified as held for trading if:

- it was purchased mainly for sale in the near future; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the group manages together with a recent real-time profitability model; or
- is a derivative financial instrument that is not effectively designated as a hedging instrument.

Financial assets at fair value through profit or loss
A financial asset, other than a financial asset held for trading, may be designated as a financial asset at fair value through profit or loss at the time of initial recognition if:

- such designation significantly eliminates or reduces an inconsistency in assessment or recognition that would otherwise arise; or
- the financial asset is part of a group of financial assets or financial liabilities, or both, a group that is managed and its performance is measured on a fair value basis in accordance with the Group’s risk management and documented investment strategy, and the information about the groups are internally secured on this basis; or
- is part of a contract that contains one or more embedded derivatives and **IAS 39 Financial Instruments: Recognition and Measurement** allows the entire combined contract (asset or liability) to be designated as a financial asset at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any profit or loss arising on revaluation being recognized in profit or loss account.

Net profit or loss recognized in profit or loss, comprises all dividends or interest earned on financial assets and is included in the "Losses in embedded incorporated derivatives" and "Other financial income / expense".

Investments held to maturity

Investments held to maturity are non-derivative financial assets with fixed or variable payments and fixed maturity dates on which the Group has the positive intent and the ability to hold them to maturity. After initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less depreciation.

Financial assets available for sale (Financial assets AFS)

Financial assets available-for-sale are non-derivative instruments that either have been designated as available for sale or are not classified as (a) loans and receivables, (b) investments held to maturity, or (c) financial assets at fair value through profit or loss.

Changes in the carrying amount of financial assets available-for-sale arising from exchange rate fluctuations, interest income calculated using the effective interest method and dividends are recognized in profit or loss. Other changes in the carrying amount of financial assets available-for-sale are recognized in other comprehensive income and accumulated under the revaluation reserve title. When an investment is sold or its impairment is noticed, then the cumulative profit or loss previously recognized in the revaluation reserve is reclassified to profit or loss.

Dividends on equity instruments are recognized in profit or loss when determining the Group's right to receive the dividends.

The fair value of monetary assets available for sale denominated in foreign currency is determined in respective currency and translated into functional currency at the spot rate at the end of the reporting period. Foreign exchange profit and losses recognized in profit or loss are determined on the basis of the amortized cost of the monetary asset. Other earnings and foreign exchange losses are recognized in other elements of the overall result.

Equity instruments that represent financial assets available-for-sale that do not have a quoted market price in an active market and whose fair value cannot be measured reliably, and derivatives that are related although they are settled by delivery of such instruments equity are measured at cost less any impairment loss identified at the end of each reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Loans and receivables (including trade and other receivables, bank and cash balances, etc.) are measured at amortized cost using the effective interest method less any impairment.

Interest income is recognized using the effective interest rate, except for short-term receivables when interest is recognized as intangible.

Impairment of financial assets

Financial assets other than those at fair value through profit or loss are measured for impairment at the end of each reporting period. Financial assets are considered impaired when there is objective evidence that, following one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For equity investments available for sale, a significant or prolonged decline in the fair value of the asset below its cost is considered as objective evidence of impairment.

For all other financial assets, the objective evidence of impairment might include :

- significant financial difficulty of the issuer or debtor; or
- a violation of the contract, such as non-fulfillment of the obligation to pay the interest or the principal; or
- the creditor, for economic or legal reasons connected with the financial difficulties of the debtor, grants to the debtor a concession that the creditor would not take into account;
- it is likely that the debtor will go bankrupt or in another form of financial reorganization; or
- the disappearance of an active market for the financial asset due to financial difficulties.

For certain categories of financial assets (such as trade receivables), assets that are individually valued are additionally evaluated for collective impairment. The objective evidence of impairment of a receivable portfolio may include the past experience of the Group in collecting payments, an increase in the number of deferred payments in the portfolio over the average credit period, and perceptible changes in national or local economic conditions that correlate with non-compliance of financial obligations regarding receivables.

For financial assets recorded at amortized cost, the amount of the recognized impairment loss is the difference between the carrying amount of the asset and the present value of estimated future cash flows, updated at the original effective interest rate of the financial asset.

For financial assets recorded at cost, the amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows, updated to the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in the subsequent periods.

The carrying amount of the financial asset is reduced by impairment loss directly for all financial assets except for trade receivables where the carrying amount is impaired by using a provision for impairment. The subsequent recoveries of previously canceled amounts are credited to the provision for impairment. Changes in the carrying amount of the provision for impairment are recognized in profit or loss.

When a financial asset available-for-sale is impaired, the cumulative profit or loss previously recognized in the comprehensive income is reclassified to profit or loss in respective period.

With respect to financial assets measured at amortized cost, if in the subsequent period the impairment loss decreases or the decrease can be objectively correlated with an event occurring after the impairment is recognized, then the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the instrument at the date on which the write-down is reversed does not exceed the depreciated cost borne if the impairment would not have been recognized.

In respect of shares available-for-sale, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value that follows an impairment loss is recognized in the comprehensive income and accumulates under the reserve revaluation reserve title. In respect of debt securities available-for-sale, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively correlated with an event occurring after recognition of the impairment loss.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights of cash flows from assets expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor substantially detains all the risks and rewards of the ownership title and continues to control the transferred asset, the Group recognizes the retained right in the asset and the associated liability for the amounts that it would have to pay. If the Group does not substantially detain all the risks and rewards of ownership title of a transferred financial asset, then the Group continues to recognize the financial asset and also recognizes a guaranteed loan for the proceeds received.

On the total derecognition of a financial asset, the difference between the carrying amount of the asset and the amount of consideration received and to be received and the cumulative profit or loss that has been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

The derecognition of a financial asset other than in its entirety (e.g. if the Group does not retain an option to repurchase a part of a transferred asset or retains a residual interest that does not result in the material retention of all the risks and rewards of the ownership title and the Group does not retain control), the Group allocates the previous carrying amount of the financial asset between the part that it continues to recognize under continuous involvement and the part it no longer recognizes on the fair values of those parts at the date of the transfer. The difference between the carrying amount attributable to the party that is no longer recognized and the amount of consideration received for the part that is no longer recognized and any cumulative profit or loss that has been recognized in other comprehensive income is recognized in profit or loss. A cumulative profit or loss that has been recognized in other comprehensive income is allocated between the party that continues to be recognized and the share that is no longer recognized on the fair value of those parts.

Financial liabilities and equity instruments

Classification as debt or equity

Debt or equity instruments issued by the Group are classified either as financial liabilities or equity in accordance with contractual commitments and the definition of financial liability and equity instrument.

Capital instruments

A capital instrument is any contract that proves a residual interest in the assets of an entity after deducting all its debts. The equity instruments issued by the Group are recognized in collections received, net of direct issue costs.

The redemption of own equity instruments of the Group is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the acquisition, sale, issue or cancellation of the Group's equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified at fair value through profit or loss when the financial liability is either held for trading or designated at fair value through profit or loss.

A financial liability is classified as held for trading if :

- it was purchased mainly for the purpose of redemption in the near future; or
- initial recognition is part of a portfolio of identified financial instruments that the Group manages together and has a recent short-term profit model; or
- is a derivative that is not designated as a hedging instrument or is not effective.

A financial liability, other than the financial liability held for trading, may be designated at fair value through profit or loss on initial recognition if:

- this designation eliminates or significantly reduces an inconsistency in assessment or recognition that would otherwise arise; or
- the financial liability is part of a group of financial assets or financial liabilities or both, whose performance is managed and evaluated on a fair value basis in accordance with documented risk management or investment strategy, and whether the group is internally provided on that the base; or
- is part of a contract that contains one or more embedded derivatives and IAS 39 Financial Instruments: Recognition and Measurement allows the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are measured at fair value with any profit or loss that results from the revaluation recognized in profit or loss. Net profit or loss recognized in profit or loss includes any interest paid in respect of financial debt and is included in "Losses in embedded derivatives" and "Other financial income / (expenses)" in profit or loss. The fair value is determined as shown in Note 35.

Other financial liabilities

Other financial liabilities (including lons) are subsequently measured at amortized cost using the effective interest method .

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the relevant period. The effective interest rate is the rate that accurately updates the estimated future cash payments over the expected duration of the financial debt (including all fees paid or received which are integral part of the effective interest rate, transaction costs and other premiums or discounts) where applicable, for a shorter period, to the net book value from the initial recognition.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when and only when the Group's liabilities are paid, canceled or expire. The difference between the carrying amount of the derecognised financial liability and the consideration paid and to be paid is recognized in profit or loss.

Financial derivatives

The company becomes part of a series of derivative financial instruments to manage its exposure to market risk, including contracts for managing the risks related to the electricity price.

Derivatives are initially recognized at fair value at the date of the conclusion of the contracts and are subsequently revalued to their fair value at the end of each reporting period. The resulting profit or loss is recognized immediately in the profit or loss account, unless the derivative is designated and acts as a hedging instrument, where the moment of recognition in profit or loss depends on the nature of the hedging relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and host contracts are not valued at fair value through profit or loss.

Risk hedge accounting

The Company designates certain hedging instruments in the form of fair value hedges or cash flow hedges.

At the beginning of the covering relationship, the Group justified the relationship between the hedging instrument and the covered element, together with the risk management objectives and its strategy for closing the various hedging transactions. Additionally, at the beginning of the cover and on a permanent basis, the Group justifies by documents whether the hedging instrument is highly effective in offsetting changes in the fair values or cash flows of the hedged item attributable to the hedged risk.

Risk hedging operations associated with fair value

Changes in the fair value of derivatives that are designated and fall within the category of fair value hedges are recognized immediately in profit or loss together with other changes in fair value or in the hedged asset or liability attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk is recognized in the consolidated statement of the comprehensive result of the hedged item.

Risk hedge accounting is discontinued when the Group revokes the hedging relationship when the hedging instrument expires or is sold or when it no longer enters into the hedge accounting.

Adjusting the fair value of the carrying amount of the hedged item, arising from the hedged risk, is amortized on that date in profit or loss.

Cash flow hedging operations

The effective portion of the fair value of derivatives that are designated and classified as cash flow is recognized in other comprehensive income, unconsolidated and accrued in the hedging reserve. The profit or loss associated with the ineffective portion is recognized immediately in the consolidated profit or loss and is included in the items on "Losses in embedded derivatives" and "Other financial income / expense".

Values previously recognized in other elements of the overall result and accrued in equity are reclassified to profit or loss in the periods in which the hedged item is recognized in profit or loss on the same line as the income statement and other elements of the overall result as the recognized covered element.

However, when the forecasted transaction results in the recognition of a non-financial asset or a non-financial liability, the profit and losses previously recognized in other elements of the overall result and accrued in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial debt.

Risk hedge accounting is suspended when the Group revokes the hedging relationship if the hedging instrument expires or is sold, terminated or exercised, or when it no longer qualifies for hedge accounting.

Any profit or loss recognized in other comprehensive income, consolidated and accumulated in equity at that time, remains in equity and is recognized when the forecast transaction is ultimately recognized in its consolidated profit or loss.

(x) Leasing

Leases are classified as finance leases whenever the terms of the lease substantially transfer all the risks and rewards of ownership to the user. All other leasing contracts are classified as operating leases.

Assets held under finance leases are initially recognized as Group's assets at fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the owner is included in the consolidated statement of financial position as a liability associated with the finance lease.

Lease payments are apportioned between finance expense and a reduction in the lease liability so as to obtain a constant interest rate on the debt balance. Financial expenses are immediately recognized in profit or loss if they are not attributable directly to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they arise.

Operating lease payments are recognized at expense over the lease term, except when another calculation basis is more representative of the period in which the economic benefits of the leased asset are consumed. Contingent leases generated under the operating lease are recognized as an expense in the period in which they arise.

In the event that leasing incentives are received to conclude operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a linear decrease in rental costs, except where another systematic basis is more representative for the period in which the economic benefits accruing from the leased asset.

(all amounts are expressed in RON unless otherwise stated)

4. INTANGIBLE ASSETS

	Land and land improvements	Buildings and special installations	Machines and equipment	Curent tangible fixed assets	TOTAL
COST					
Balance on 31 December 2016	**759,810**	**10,078,180**	**2,974,865**	**5,130,447**	**18,943,302**
Additions	735	321	841	228,540	230,437
Transfers	543	126,499	87,254	(214,296)	-
Output	(38)	(306)	(36)	(17,036)	(17,416)
Balance on 31 December 2017	**761,050**	**10,204,694**	**3,062,924**	**5,127,655**	**19,156,323**
CURRENT AMORTIZATION					
Balance on 31 December 2016	63	373,855	306,716	-	680,634
Depreciation charge	48	366,977	293,758	-	660,783
Depreciation related to outputs	-	(7)	(5)	-	(12)
Balance on 31 December 2017	**111**	**740,825**	**600,469**	**-**	**1,341,405**

(all amounts are expressed in RON unless otherwise stated)

	Land and land improvement	Buildings and special installations	Machines and equipment	Curent tangible fixed assets	TOTAL
VALUE ADJUSTMENTS					
Balance on 31 December 2016	**461**	**17,832**	**1,442**	**1,742,201**	**1,761,936**
Value adjustments recognized in profit or loss	46	(627)	161	30,316	**29,896**
Decreases in value adjustments		(606)	(64)	(3,032)	**(3,702)**
Balance on 31 December 2017	**507**	**16,599**	**1,539**	**1,769,475**	**1,788,130**
ACCOUNTING VALUE					
Balance on 31 December 2016	**759,286**	**9,686,493**	**2,666,707**	**3,388,246**	**16,500,732**
Balance on 31 December 2017	**760,432**	**9,447,270**	**2,460,916**	**3,358,180**	**16,026,798**

(all amounts are expressed in RON unless otherwise stated)

	Land and land improvement	Buildings and special installations	Machines and equipment	Curent tangible fixed assets	TOTAL
COST					
Balance on 01 January 2016	**756,629**	**10,054,621**	**2,936,429**	**5,018,617**	**18,766,295**
Additions	3,253	11	2,347	174,781	180,392
Transfers	402	25,291	36,284	(61,977)	-
Outputs	(474)	(1,743)	(195)	(974)	(3,385)
Balance on 31 December 2016	**759,810**	**10,078,180**	**2,974,865**	**5,130,447**	**18,943,302**
CURRENT AMORTIZATION					
Balance on 01 January 2016	**-**	**42**	**(1)**	**-**	**41**
Depreciation charge	63	373,936	306,745	-	680,744
Depreciation related to outputs		(123)	(28)		(151)
Balance on 31 December 2016	63	373,855	306,716	-	680,634

(all amounts are expressed in RON unless otherwise stated)

	Land and land improvement	Buildings and special installations	Machines and equipment	Curent tangible fixed assets	TOTAL
VALUE ADJUSTMENTS					
Balance on 01 January 2016	**461**	**17,749**	**1,300**	**1,702,035**	**1,721,544**
Value adjustments		118	167	40,902	**41,186**
Decrease depreciation		(35)	(25)	(740)	**(800)**
Balance on 31 December 2016	**461**	**17,832**	**1,442**	**1,742,201**	**1,761,936**
NET ACCOUNTING VALUE					
Balance on 01 January 2016	**756,168**	**10,036,830**	**2,935,130**	**3,316,582**	**17,044,703**
Balance on 31 December 2016	**759,286**	**9,686,493**	**2,666,707**	**3,388,246**	**16,500,732**

Revaluation of tangible assets

Land, buildings, constructions, technical equipment and machines owned by the group as at 31 December 2017 are presented in the statement of financial position at fair value.

Tangible assets are stated at revalued amount, less cumulative depreciation and impairment.

Tangible assets were remeasured at fair value by independent valuers, ANEVAR members, on 31 December 2015.

The revaluation of tangible assets (land, buildings and equipment - "technical installations and machinery" and "other plant and equipment") was made by independent valuers, corresponding to 31 December 2015. The valuation was aimed at bringing the tangible assets to market value. The Group performed the revaluation of all fixed assets as at 31 December 2015, in accordance with the legislation in force. The reevaluation was done by an independent assessor, S.C. ROMCONTROL S.A. Bucharest, ANEVAR member. Increases and decreases in the carrying amounts of fixed assets resulting from these revaluations were recorded in the revaluation reserve account. Assets for which the negative revaluation difference was not covered by the revaluation reserve, were registered as an expense in the consolidated profit and loss statement. Revaluation and tangible assets whose input value has been fully recovered through amortization are subject to revaluation because, under the current legislation, these fixed assets are used in the production process. There were no revaluation of the tangible fixed assets that have been decommissioned for which there was an adjustment for depreciation, as well as the assets in progress.

The revaluation of land, buildings and equipment was based on the use of the direct comparison method for tangible assets for which an active market exists on 31 December 2015. For tangible assets for which there is no active market, the valuator used the net replacement cost method.

Direct comparison method

This method is recommended for properties when there is sufficient and reliable data on transactions or sales' offers for similar properties in the area. The analysis of the prices at which the transactions or the prices requested or offered for comparable properties were carried out, is followed by corrections of prices in order to quantify the differences between the paid, demanded or offered prices, caused by the differences between the specific characteristics of each property in part, called comparators.

Cost approach

This method assumes that the maximum value of an asset for an informed buyer is the amount that is required to buy or to build a new asset with equivalent utility. When the asset is not new, all current depreciation may be deducted from the current cost on the date of valuation.

(all amounts are expressed in RON unless otherwise stated)

	Level 1	Level 2	Level 3	The fair value as on December 31, 2017
Land and land improvements	-	-	760,432	760,432
Buildings and special installations	-	-	9,447,270	9,447,270
Machines and equipment	-	-	2,460,916	2,460,916

	Level 1	Level 2	Level 3	The fair value as on December 31, 2016
Land and land improvements	-	-	759,286	759,286
Buildings and special installations	-	-	9,686,493	9,686,493
Machines and equipment	-	-	2,666,707	2,666,707

There were no changes between the levels of fair value between 2017 and 2016,

	Value at cost December 31, 2017	Value at cost December 31, 2016
Land and land improvements	723,508	722,268
Buildings and special installations	4,143,324	4,016,807
Machines and equipment	2,322,859	2,235,066
TOTAL	**7,189,691**	**6,974,141**

The Group's fixed assets comprise mainly special constructions, namely hydropower plants, pumping stations, micro-hydropower stations, locks, and hydro-aggregates, equipments and installations. The Group manages a number of 202 hydropower plants with an installed capacity of 6340.5 MW and 5 pumping stations with an installed capacity of 91.5 MW.

Revaluation of tangible assets

Land, buildings, constructions, technical equipment and machines owned by the Group at 31 December 2017 are presented in the statement of financial position at fair value.

Tangible assets are stated at revalued amount less cumulative depreciation and impairment. Tangible assets were remeasured at fair value by independent valuers, ANEVAR members at 31 December 2015.

The depreciation adjustments of the tangible fixed assets in the balance at 31.12.2016, amounting to ROL 19,736 thousand, represent mainly the fair value of the constructions and technological equipments which were taken over from Electra and IRE Deva in 2002 on the basis of GD 554 / 2002, having a poor state of functioning, in an advanced state of physical and moral degradation and not included in the maintenance program or the investment program for the following periods.

The balance of investments in progress at 31.12.2017, amounting to RON 5,127,732 thousand, is allocated on the following investment objectives:

(all amounts are expressed in RON unless otherwise stated)

Investment name	Balance 31.12.2017	Balance 31.12.2016
Functional, unrealized investments		
AHE CORNETU-AVRIG	206,626	206,557
AHE SIRIU SURDUC	115	7,943
AHE STREI	842	842
AHE of Siret river on sector Cosmeşti-Movileni	71,092	71,064
AHE BISTRA-POIANA MARULUI	143,546	143,545
AHE RAUL MARE RETEZAT	128,191	128,191
TOTAL	**550,412**	**558,142**
Investments with firm commitments		
AHE CORNETU-AVRIG	409,858	409,284
AHE RASTOLITA (note 26)	674,015	670,476
AHE Livezeni–Bumbesti (note 26)	741,308	618,100
AHE Cosmeşti-Movileni	3,328	3,328
AHE SIRIU SURDUC (note 26)	669,428	644,540
AHE STREI(note 26)	35,651	201,920
TOTAL	**2,533,588**	**2,547,648**
Depreciation adjustments for ongoing investments 2016		
AHE PASCANI	367,860	367,605
AHE CERNA-BELARECA *	317,611	317,319
AHE FAGARAS-HOGHIZ	174,754	174,518
AHE of Jiu river on sector Valea Sadului Vadeni	165,158	164,922
AHE Cornetu Avrig- treptele Caineni si Lotrioara*	130,296	105,254
AHE of Siret river on sector Cosmeşti-Movileni	106,769	94,451
AH RUNCU-FIRIZA	86,405	85,617
Hydroenergetic complex Cerna Motru Tismana etapa II*	80,733	83,364
Secondary adduction Nord-Fagaras	34,762	34,642
LAC REDRESOR SEBES ETAPA II*	31,465	31,465
AHE SIRIU SURDUC	17,418	17,448
Derivation CHE Oiesti*	28,900	28,900
Lac redresor Sebes*	23,722	23,566
The safety of Olt by rebuilding the transit capacity *	22,972	22,972
AHE Poneasca*	22,410	22,410
Increase safety on lower Olt *	22,543	21,764
AHE OLT SECT IZBICENI-DUNARE CHE ISLAZ	13,492	13,492
CHEAP TARNITA LAPUSTESTI	12,279	12,150

(all amounts are expressed in RON unless otherwise stated)

Investment name	**Balance 31.12.2017**	**Balance 31.12.2016**
AHE Borca-Poiana Teiului- CHE GALU	9,654	9,654
AHE BISTRA-POIANA MARULUI	9,438	2,106
Other depreciated investments *	51,832	66,376
TOTAL	**1,730,473**	**1,699,995**
Spare parts of stock nature	57,638	61,832
Other investments	209,972	170,383
TOTAL investments under execution	**5,082,083**	**5,038,000**
Advances of tangible assets in progress	45,649	92,447
Adjustments in progress	**(1,742,196)**	**(1,742,196)**
TOTAL investments under execution, Net	**3,385,536**	**3,388,252**

Group management has decided to provide a reversible adjustment to ongoing investments until a final decision on historical investment.

The balance of advances for tangible assets in progress on 31.12.2017, amounting to ROL 45,649 thousand, represents mainly advances for Refurbishment of CHE Stejaru amounting to RON 22,392 thousand, advances for Refurbishment CHP Portile de Fier II amounting to RON 14,365 thousand and the amount of the advance granted to UCM Resita, an insolvent company in value of RON 8,817 thousand, the amount for which the Group registered a 100% adjustment.

Since 2012, after the date of insolvency, following the suspending of certain investment objectives with complex functions based on the provisions of the Reorganization Plan, starting 2015 was settled within the Company an investment analysis commission (appointed by Decisions 668/2015 and 1767 / 02.11.2015), which follows the necessity and the opportunity to optimize the in progress investments for the projects started before 2000, in different stages of completion.

Investments with complex functions are represented by historical investment objectives regarding the hydropower development schemes with social functions (described below), which have been approached from the concept of design as having only a secondary function, an energy function.

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

- Attenuation of the flood;
- Protection of the population, cities and agricultural lands;
- Water supply to the riverside;
- Ensure the supply of water for the population and the industry;
- Ensuring the flow for irrigation, during periods of dryness;
- Retention of solid flow in the dead volume of the accumulation;
- Other social functions.

The social functions described above are specific to public authorities, whose purpose is not to obtain profits. In fact, many of these investments belonged over time to the National Agency "Apele Române", a governmental agency that has as its object of activity area planning and water management. Hidroelectrica SA is a commercial company established under the Law 31/1990 of the Commercial Companies and is not a non-profit organization. In addition, Hidroelectrica no longer benefits of public funds to complete such social investments, which, by continuing their funding, violates the ultimate goal of maximizing shareholders' wealth.

It should be emphasized that the "historic" hydro-energetic projects were initiated mainly in the period 1982-1989, following a succession of State Council Decrees and the financing was made with public money through the ministries involved, as investment's holders. After 1989, some of these projects were carried out by the Romanian Waters, financed by public funds, until were acquired by Hidroelectrica SA. Economic and energy conditions have changed substantially from those of the 1980s to 1990s, particularly the following:

- the electricity consumption compared to the one projected in the 1980s for the years 2000-2020 has substantially decreased (consumption has fallen from 80 TWh in 1989 to 59 TWh in 2008 and 52 TWh in 2013, mainly due to the fall in consumption in the industrial sector after 1989), so there is no pressure of consumption that will lead to investments in new energy capacities;
- due to the disappearance of the centralized state investment fund, the beneficiaries of the complex works, the financing for the specific works was stopped within the hydropower projects, the costs of these works remaining only in the obligation of Hidroelectrica SA, causing damage to its shareholders.

After Hidroelectrica S.A insolvency in June 2012 and in view of the future listing of the company's shares, the Official Receiver imposed the company's direction on profit and the judicious use of money funds. It was therefore necessary to revise the investment program in the sense of guiding towards the completion of those investment objectives with commissioning in 2-3 years, which would capitalize on an important energy use without further aligning to the desideratum of the hydro-technical facilities with complex investments, practical investment objectives that produce losses for Hidroelectrica if they are continued (since the proceeds obtained in the case of their continuation in the initial variants do not cover the costs of the investment). The Commission appointed by Decisions no. 668 / 06.05.2015 and 1767 / 02.11.2015 proceeded to the elaboration of the Fundamental Notes on Investment Objectives.

For all the projects analyzed and presented below, until the approval of the General Meeting of Shareholders, and until the issuance of any regulations for the implementation of the described proposals, in order to eliminate / diminish the opinion with reserves, also taking into account that the reserve was expressed as early as 2012 - the year of the fund's cancellation through the Reorganization Plan, an accounting depreciation adjustment was made with the related amounts.

In 2017 were contracted with ISPH PD's services to estimate the cost of abandoning, preserving, and safely performing works on investments with complex functions, in accordance with the provisions of the Supervisory Board's Decisions, issued in 2016.

After the endorsement of the TPPs at the Subsidiary level and the Executive Branch of Hidroelectrica SA of these studies, the data provided (estimated values for abandonment, respectively conservation and safety) were taken over by the Working Commission appointed by Decision no. 1421/2017 for carrying out financial analyzes and economic calculations of profitability and efficiency for each investment with complex functions. The results and conclusions of these analyzes were presented by the Working committee to Hidroelectrica SA management. The process of evaluating the alternatives for these investment objectives is ongoing (further, in collaboration with the entities benefitting of the complex functions, respectively abandonment), a decision will be taken at the completion of this stage.

I. INVESTMENT OBJECTIVE "Pascani Hydropower Plant"

Acts for approval:

- Decree of the State Council no. 403 / 26.12.1985 approved the investment objective "Accumulation of Paşcani on the Siret River in Iaşi and Suceava counties, the beneficiary of the investment being the National Water Council;
- Decree of the State Council no. 24/1989 approved the investment objective "Paşcani hydroelectric power plant on Siret river", the beneficiary being the Ministry of Energy;
- GD no. 554 / 30.05.2002 established free transfer of investment objective HPP Paşcani to Hidroelectrica SA, which is implemented by the handover Protocol concluded on 08.07.2002;
- GD no. 866 / 28.06.2006 established free transfer of investment "Pascani Accumulation" investment objective from the administration of the Ministry of Environment and Water Management, the Romanian Waters Administration to the administration of the Ministry of Economy and Commerce - SC Hidroelectrica SA and approves the unification of the investment objectives (accumulation + plant) under the name "Pascani Hydropower Plant", implemented by Protocol no. 1186 / 17.01.2007;
- Order MECWM no. 2910 / 9.11.2011 approved the last updated General Investments Survey on 01.01.2011 in prices valid on 31.12.2010;

Date for commencing the woks:

- 1985 – for accumulation
- 1989 – for plant.

According to the technical and economic parameters approved by the Decree of the State Council no. 24/1989 and MECWM Order no.2910 / 2011, for the completion of AHE Pascani, the general estimate includes a total outstanding amount of RON 500,164 thousand, out of which RON 90,835 thousand for HPP Pascani.

Proposal:
The Decision of the Supervisory Board no.54 / 13.10.2016 approved the implementation of the steps for the ceasing and the safe preservation of the works already performed.

In 2017, the elaboration of the abandonment study of the works already executed for HPP Pascani was contracted, respectively the study of safety preservation of the works already executed for HPP Pascani.

The Working Committee, appointed by internal decision, finalized the financial analysis related to this objective and the drafting of the Fundamental Note for presenting to the Hidroelectrica management the results and conclusions of this analysis.

The process of evaluating the alternatives for further management of the investment objective is ongoing (continued in collaboration with beneficiary entities of complex functions / abandonment), a decision to be taken at the completion of this stage.

II. INVESTMENT OBJECTIVE "Hydropower Complex Development of the Olt River on the Fagaras - Hoghiz Sector"

Acts for approval

- Decree of the State Council no. 24/1989 for approving the investment;
- RGD no. 1211/1996 on the free transfer of the works performed on some complex water accumulations at the Ministry of Waters, Forests and Environmental Protection - Autonomous "Romanian Waters" and the measures for the continuation and completion of the investment objectives, respectively the breakdown of the investment objective "Olt River Hydropower Development on the Fagaras-Hoghiz Sector" in the Venetia Accumulation on the Olt River and the Fagaras-Hoghiz Hydroelectric Plant and the transfer from the Autonomous Electricity Directorate "RENEL", under the authority of the

Ministry of Industries, to the Autonomous Directorate "Apele Române", under the authority of the Ministry of Waters, Forests and Environmental Protection, of the works performed at the Venetia Accumulation;

- RGD no. 424/2003 regarding the measures for the continuation of the works on some complex hydro-investment objectives, which repeals the provisions of RGD 1211/1996;
- MECWM Order no. 2910 / 9.11.2011 approving the last updated General Investments Survey on 01.01.2011 in prices valid on 31.12.2010.

Start date: 1989
According to the arrangement scheme in the version approved according to Decree 24/1989 for completion of a complex HPP on the river Olt, on the Fagaras-Hoghiz sector, the general estimate includes a total outstanding value of RON 2,361,424 thousand.

Proposal:
The Decision of the Supervisory Board no. 68 / 28.11.2016 approved the steps taken to obtain a GD to suspend, preserve and secure the works already executed.
In 2017 was contracted the elaboration study for abandonment of the works already executed, respectively the study of safety preservation of the works already executed.

The working committee appointed by the internal decision finalized the financial analysis related to this objective and the drafting and presented to the Hidroelectrica Directorate the substantiation note with the results and the conclusions of this analysis.

Following the analysis of the Fundamental Note, the Hidroelectrica's Directorate issued the decision no. 1837 / 08.12.2017, approving the abandonment of the works already performed on the investment objective "Hydroenergetic Complex of the Olt river on the Fagaras-Hoghiz sector" and the closing of the investment title. The Directorate also approves the elaboration of the abandonment documentation according to the legislation in force and contracting of the necessary works.

III. INVESTMENT OBJECTIVE „Hydropower Complex of Jiu River on sector Valea Sadului-Vădeni"

Acts for approval:

- Decree no. 40/21.02.1989 **–** approving the investment;
- Government Decision no. 1211/1996 on the free transfer of the works performed on some water accumulations with complex use at the Ministry of Waters, Forests and Environmental Protection - the Autonomous Administration "Apele Române" and the measures for the continuation and termination of the investment objectives;
- Government Decision no. 424/2003 on the measures for the continuation of the works on some complex hydro economic investment objectives, revoking Government Decision no. 1211/1996;
- MECWA Order no. 2910 / 9.11.2011 approving the last updated General Investments Survey on 01.01.2011 in prices valid on 31.12.2010.

Date for commencement the works: 1989.
For the completion of the "HEA of Jiu River in Valea Sadului-Vadeni" sector, the general budget includes a residual value of RON 2,375,237 thousand.

Proposal:
Based on the Fundamental Note no. 123149 / 11.11.2016 and Decision no.1924 / 2016 issued by the Directorate, the Supervisory Board through the Decision no. 66 / 28.11.2016, postpones the decision for the Jiu River Hydro-energetic development on the Valea Sadului-Vadeni sector and requests Hidroelectrica Directorate to reanalyze the investment.

In 2017 was contracted the elaboration of the abandonment study of the works already executed for the Valea Sadului and Turcinesti stage, respectively the study of safety preservation of the works already executed for Valea Sadului stage, Curtisoara stage and Turcinesti stage" (independent on each stage) .

The Working committee appointed by internal decision, finalized the financial analysis related to this objective and drafted the Fundamental Note presenting to the Hidroelectrica Directorate the results and conclusions of this analysis.

The process of evaluating alternatives for further management of the investment objective (continuation / optimization / abandonment) is in progress, a decision will be taken at the end of this stage.

IV. INVESTMENT OBJECTIVE "HEA of the Siret River in the Cosmeşti - Movileni sector"

Documents for approval:

- RGD no. 311/1990 approving the investment;
- RGD no. 1598/2009 – on declaring as being of public interest the investment "Siret hydroelectric development on the Cosmeşti - Movileni sector";
- MECWA Order no. 2910 / 9.11.2011 approving the last updated General Investments Survey on 01.01.2011 in prices valid on 31.12.2010;

Date of commencement the works: 1990.

For CHE Cosmeşti, the remaining value determined on the basis of the General Price, from which the achievements of the years 2011-2017 were deducted, in value of RON 735,435 thousand, out of which RON 85,785 thousand for the Movileni stage and RON 649,650 thousand for the Cosmesti stage.

Proposal:
In 2017, was contracted the elaboration of the abandonment study for the works already performed for the Cosmesti stage and the study of preservation and safety of the works already performed for the Cosmesti stage.
The Working committee appointed by internal decision, completed the financial analysis related to this objective and the drafting of the Fundamental Note for presenting to the Hidroelectrica's management the results and conclusions of this analysis.

The process of evaluating alternatives for further management of the investment objective (continuation / optimization / abandonment) is in progress, a decision will be taken at the completion of this stage.

V. INVESTMENT OBJECTIVE "Hydropower Development Runcu - Firiza"

Documents for approval:

- Decree no. 95 / 11.04.1989 - on the approval of the technical and economic indicators, of the investment objective in progress "Hydropower Development Runcu - Firiza";
- RGD 489 / 21.06.1996, on the approval of the updated technical and economic indicators of the investment objective in progress „Hydropower Development Runcu – Firiza";
- RGD 190 / 30.04.1998 on declaring works of national interest to be of public utility;
- MECWA Order no. 2910 / 9.11.2011 approving the last updated General Investments Survey on 01.01.2011 in prices valid on 31.12.2010**.**

Date of commencing the works: **1989**
In order to complete the "HEA Runcu-Firiza" investment objective, approved by RGD no. 489/1996, the general estimate includes a total outstanding amount of RON 353,558 thousand.

Proposal:
In 2017, was contracted the elaboration of the abandonment study of the works already executed, respectively the study for safety preservation of the works already executed for HEA Runcu-Firiza.
The working committee appointed by internal decision completed the financial analysis related to this objective and drafted the Fundamental Note for presenting to the Hidroelectrica's management the results and conclusions of this analysis.
The process of evaluating alternatives for further management of the investment objective (continuation / optimization / abandonment) is in progress, a decision will be taken at the completion of this stage.

VI. INVESTMENT OBJECTIVE " DÂMBOVIŢA - CLĂBUCET HYDROPOWER PLANT"

Documents for approval:
- Decree no. 10 / 18.01.1977 for the approval of the investment objective "Dâmboviţa - Clăbucet Hydropower Plant", beneficiary Ministry of Electricity;
- Decree no. 126 / 9.06.1980 for placing investment works outside the construction perimeters of the locality, the construction of some exploitation roads, expropriation of some buildings, removal from agricultural production, from forestry fund and the deforestation of some lands, as well as the demolition of some constructions, beneficiary Ministry of Energy;
- Decree no. 139 / 19.05.1982 on the expropriation, removal from agricultural land and forestry of some lands, deforestation of forest areas, and construction of some exploration roads;
- Order of the Ministry of Economy, Commerce and Business Environment no. 2050 / 17.11.2009 regarding the approval of the total value of the General Investment Note as at 01.04.2009.

Date of commencing the works: 1977

For the completion of UHE Dâmboviţa Clăbucet, the general estimate includes a total outstanding amount of RON 440,427 thousand.

Proposal:

In 2017 was contracted the elaboration of the study of abandonment of the works already executed at the Ramura Nord Fagaras stage, and of the study for safety preservation of the works already executed at the Ramura Nord Fagaras stage.

The working committee appointed by internal decision completed the financial analysis related to this objective and the Fundamental Note for presenting to the Hidroelectrica's management the results and conclusions of this analysis.

Following the analysis of the Fundamental Note, Hidroelectrica's Directorate issued the decision no.1836 / 08.12.2017 - approving the abandonment of the Ramura Nord Fagaras stage, the updating of the technical and economic indicators of the investment scheme "Dâmboviţa Clabucet Hydropower Development" and the closing of the investment title. The Directorate also approves the elaboration of the abandonment documentation according to the legislation in force and the contracting of the necessary works.

VII. INVESTMENT OBJECTIVE "Hydropower Development AHE Surduc – Siriu"

Approvals, endorsement and other relevant documents:

- Decree 351/1979 - approval of the Order for the elaboration of the technological engineering project and of the construction-installations project for the "Hydropower Development Facility" Surduc-Siriu";
- Decree 294/1981 and IGSIC Expert Report / 1982- Approval of technical and economic documentation and measures for realization the investment "Hydropower Development Facility Surduc-Siriu";
- GD 1211/1996 on the free delivery of the works performed on some complex water accumulations to Ministry of Waters, Forests and Environmental Protection - the Autonomous Administration "Apele Romane" and the measures for the continuation and completion of the investment objectives;
- RGD 1087/2002 - the declaration of the investment as an objective of public utility of national interest;
- Government Decision no. 424/2003 on the measures for the continuation of the works on some complex hydro-investment objectives;
- MECWA Order no. 2910/2011 for approving the update of the last General Estimate - total investment value, in prices on 31.12.2010 based on documentation prepared by ISPH S.A. "HEA SURDUC - SIRIU. Technical and economic documentation on the basis of the update of the general estimate to be executed on 01.01.2011 in prices valid on December 31, 2010".

Date of commencing the works: 07.10.1981

For the completion of HEA Surduc - Siriu, the general estimate includes a total outstanding amount of RON 2,280,279 thousand.

Proposal:
EGMS Hidroelectrica SA by Decision no. 18 / 16.09.2016 approves the optimization of the investment project AHE Surduc – Siriu.

By Notice No.9 / 03.10.2016 of the TPE of the Ministry of Energy, is approved the optimization of the investment project AHE Surduc – Siriu.
In 2017 the following studies were concluded: abandonment study for the Cireşu stage, conservation and safety study for the Cireşu stage and study of the optimization of the entire AHE development Siriu - Surduc - in order to substantiate the new economic indicators.
The Working committee appointed by internal decision completed the financial analysis related to this objective and drafted the Fundamental Note for presenting to the Hidroelectrica's management the results and conclusions of this analysis.
The process of evaluating alternatives for further management of the investment objective (continuation / optimization / abandonment) is in progress, a decision will be taken at the completion of this stage.

VIII. INVESTMENT OBJECTIVE "AHE of the Bistrita River on the sector Borca - Poiana Teiului"

Documents for approval:

- Decree of the Council of State no. 95 / 11.04.1989 for approving the investment;
- RGD 489/1996 approving updated technical and economic indicators;
- MECWA Order no. 2910 / 9.11.2011 approving the last updated General Investments Estimate on 01.01.2011 in prices valid on 31.12.2010.

Date of commencing the works: 1989

For the completion of the Galu fall, the remaining value to be executed on 01.01.2018 is in value of RON 673,532 thousand.

Proposal:

In 2017, the study of abandonment, respectively the study of safety preservation of works already executed at the Galu stage, was contracted.
The Working committee appointed by internal decision completed the financial analysis related to this objective and drafted the Fundamental Note for presenting to the Hidroelectrica's management the results and conclusions of this analysis.

IX. INVESTMENT OBJECTIVE "Hydropower Development Bistra, Poiana Mărului, Ruieni, Poiana Rusca"

Documents for approval:

- Decree of the Council of State no. 294/1981 approving the main technical and economic indicators of the investment;
- MECWA Order no. 2910 / 9.11.2011 approving the last updated General Investments Estimate on 01.01.2011 in prices valid on 31.12.2010.

Date of commencing the works: 1981
For the completion of "Hydropower Development Bistra, Poiana Mare, Ruieni, Poiana Rusca", the value to be executed on 01.01.2018 is RON 1,617,336 thousand.

Proposal:

In 2017, the following studies were concluded: abandonment study for the Scorilo dropping stage and Raul Lung - Poiana Ruscă Lake secondary dam, conservation and safety study for the Scorilo dropping stage and the secondary Raul Lung - Poiana Ruscă Lake.
The working committee appointed by internal decision completed the financial analysis related to this objective and drafted the Fundamental Note for presenting to the Hidroelectrica's management the results and conclusions of this analysis.
The process of evaluating alternatives for further management of the investment objective (continuation / optimization / abandonment) is in progress, a decision will be taken at the completion of this stage.

X. INVESTMENT OBJECTIVE "Hydropower Development of Strei River on sector Subcetate – Simeria"

Documents for approval:

- Decree no. 40/1989 – approving the investment;
- Government Decision no. 392/2002 - declaration of the investment of public utility and national interest, according to the law no. 33/1994;
- MECWA Order no. 2910 / 9.11.2011 approving the last updated General Investments Estimate on 01.01.2011 in prices valid on 31.12.2010.

Date of commencing the works: 1989

The completion of the Strei River Hydropower Project on the Subcetate - Simeria Sector for the solutions stipulated by the Decree no. 40/1989 and MECWA Order 2910/2011 would mean an investment in value of RON 883,752 thousand.

Proposal:

EGMS Hidroelectrica SA by Decision no. 18 / 16.09.2016 approves the optimization of investment project HEA Strei River on the Subcetate - Simeria sector, by abandoning the downstream steps of HPP Bretea.

By means of Note No.9 / 03.10.2016 of the Ministry of Energy, is approved the optimization of investment project HEA Strei river on the Subcetate - Simeria sector.
In 2017, it was contracted to develop the following studies: abandonment study for downstream steps of HPP Bretea and optimization study of HEA Subcetate Simeria in order to substantiate the new technical and economic indicators of the arrangement.
The working committee appointed by internal decision completed the financial analysis related to this objective anddrafted the Fundamental Note for presenting to the Hidroelectrica's management the results and conclusions of this analysis.

Main investements to be analysed:

I. INVESTMENT OBJECTIVE „AHE Cerna-Belareca"

Documents for approval:
- **Decree 351/1979** approving the order note for the elaboration of the technological engineering project and the construction-installations projects, as well as the measures for realization of the investment: Hydropower Development Belareca-Cerna;
- **Decree no. 158 / 13.05.1980** approving the construction project, the constructive solutions and the other elements with the main technical and economic indicators, as well as the measures for completing the investment for hydropower development Belareca-Cerna, as a two-story arrangement, Herculane and Cornereva, one power plant, Herculane, common for the two falls, equipped with 3 turbines.
- The scheme is in progress, the entire Herculane fall being completed, including the Herculane plant, and some works from the Belareca fall.
- MECMA Order no. 2910 / 9.11.2011 approving the last updated General Investments Estimate on 01.01.2011 in prices valid on 31.12.2010

Date of commencing the works: 1980.

In 2017, was contracted to develop the following studies: the Belareca dropout study and the conservation and safety preservation for the Belareca fall.
The Working committee appointed by internal decision completed the financial analysis related to this objective and drafted the Fundamental Note for presenting to the Hidroelectrica's management the results and conclusions of this analysis.
The process of evaluating alternatives for further management of the investment objective (continuation / optimization / abandonment) is in progress, a decision will be taken at the completion of this stage.

II. INVESTMENT OBJECTIVE "Hydropower development of the Olt River defile on Cornetu –Avrig sector"

Documents for approval:
- Decree of the State Council no. 24 / 03.02.1989 approving the investment;
- MECWA Order no. 2910/9.11.2011 approving the last updated General Investments Estimate on 01.01.2011 in prices valid on 31.12.2010.

Date of commencing the works: 1989

In 2017, it was contracted to develop the following studies: abandonment study for Caineni and Lotrioara steps, and a conservation and safety study for the Caineni and Lotrioara steps.
The Working committee appointed by internal decision completed the financial analysis related to this objective and drafted the Fundamental Note for presenting to the Hidroelectrica's management the results and conclusions of this analysis.
The process of assessing alternatives for further management of the investment objective (continuation / optimization / abandonment) is underway, a decision will be taken at the completion of this stage.

(all amounts are expressed in RON unless otherwise stated)

5. INVENTORIES

On 31 December 2017 and 31 December 2016, inventories include spare parts, consumables and other inventory used in the operation of hydropower plants as well as repair and maintenance.

	31 December 2017	31 December 2016
Auxiliary materials	5,501	5,862
Spare parts	50,940	36,082
Consumables	12,064	11,733
Stocks	6,530	7,127
Advance for stocks	108	4,813
Value adjustments for inventories	(2,146)	(4,386)
Total	**72,997**	**61,231**

	31 December 2017	31 December 2016
Adjustment for depreciation of consumables	1,303	1,374
Adjustment for depreciation of stocks	843	3,012
Total	**2,146**	**4,386**

6. CLIENTS AND ASSIMILATED ACCOUNTS

On 31 December 2017, 31 December and 1 January 2016, customers and assimilated accounts are presented as follows:

	31 December 2017	31 December 2016
Clients	425,074	440,098
Other liablities	-	-
Adjustments for uncertain customers	(78,293)	(43,010)
Total	**346,781**	**397,088**

On 31 December 2017, and 31 December 2016, customers (gross value) are presented as follows:

	31 December 2017	31 December 2016
Electrica	16,011	51,809
Transelectrica S.A.	165,353	156,081
Ezpada	8,086	19,893
Energy Distribution Services	3,024	15,071
Gen-I	-	5,171
Alro Slatina	-	6,128

(all amounts are expressed in RON unless otherwise stated)

Tinmar IND	8,632	6,579
CET Brasov (under litigation)	18,725	18,725
Transenergo		15,627
Other doubtful clients or under litigation	58,030	12,631
Others	146,082	132,383
OPCOM	1,131	-
	425,074	**440,098**

The evolution of customer adjustments is as follows:

	31 December 2017	31 December 2016
Balance on 1 January	**43,010**	**27,017**
Expenses with adjustments for clients' depreciation	37,383	16,131
Income from reversing adjustments for customer depreciation	(2,100)	(138)
Balance on 31 December	**78,293**	**43,010**

7. OTHER CURRENT ASSETS

On 31 December 2017, and 31 December 2016, other current assets are presented as follows:

	31 December 2017	31 December 2016
Advances to suppliers	229	334
VAT to be recovered	-	8,559
ANAF claim - litigation in progress	214,385	214,385
Other assets	26,259	29,308
Total	**240,873**	**252,586**

The value of RON 214,385 thousand represents the amounts to be cashed out from the ANAF forced execution according to the Taxation Decision no F-MC851 / 21.01.2014. (note 26.6 Other disputes).

8. CASH AND CASH EQUIVALENTS

On 31 December 2017, and 31 December 2016 cash and cash equivalents are presented as follows:

	31 December 2017	31 December 2016
Bank accounts	114,787	220,608
Cash	154	138
Cash equivalents	9	41
Total cash and cash equivalents	**114,950**	**220,787**

(all amounts are expressed in RON unless otherwise stated)

Bank deposits with maturity longer than 90 days	1,687,518	1,479,163
Total cash and cash equivalents	**1,687,518**	**1,479,163**

Part of the proceeds from the Group's current activity are pledged in favor of banks in the account of contracted loans (see Notes 10 and 11).

9. OWN EQUITY

On 31 December 2017, the authorized and fully paid-in share capital of the Group is divided into 448,239,331 ordinary shares with a par nominal value of 10 RON / share. On 31 December 2017, the Group's shareholders are: the Romanian State, which through MECRMA owns 358,842,296 shares representing 80.06% of the share capital and Fondul Proprietatea holding 89,396,405 shares with a 19.94% share in the share capital.

On 31 December 2017, the share capital presented in the consolidated financial statements in the amount of RON 5,511,265 thousand includes the effects of the restatements recorded in previous years, including the effects of IAS 29 "Financial reporting in hyperinflationary economies". The reconciliation of the social capital is presented as follows:

	31 December 2017	**31 December 2016**
Statutory share capital (nominal value)	4,482,393	4,481,650
Restatement of differences in accordance with IAS 29	1,028,872	1,028,872
	5,511,265	**5,510,522**

Share capital

Shareholders are entitled to dividends and each share entitles them to vote at shareholders' meetings.
During 2017, the Group's share capital was increased by RON 742,680 according to the decision of the Extraordinary General Meeting of Shareholders no.26 / 05.12.2017, registered with the Trade Register on 20.12.2017 representing the value of 8 land for which were obtained certificates of ownership and RON 148,820.

Revaluation reserve

In 2015, the Group's management approved the change in accounting policy as regards the transfer of the revaluation reserve to the retained earnings, representing the surplus realized from the revaluation reserves, thus the revaluation profit will be realized as the asset is used by the Group. The change in the accounting policy implied the set up of reserves representing the surplus realized from revaluation reserves in value of RON 4.8 billion.

The revaluation reserve in the amount of ROL 6,537,601 thousand as at 31 December 2017 results from the revaluation of tangible assets on 31 December 2015, 31 December 2012, 31 December 2009 and 31 December 2006, 31 December 2003 and 31 December 2000. (see Note 3).

Retained earnings
The retained earnings include cumulative profit or loss, legal statutory reserves and special

(all amounts are expressed in RON unless otherwise stated)

reserve for the energy sector as detailed below:

- Legal reserve as at 31 December 2017 in the amount of RON 374,686 thousand (31 December 2016: RON 294,562 thousand) represents the reserve set up in accordance with Romanian tax laws, 5% of the legal statutory profit for the year must be transferred to the legal reserve, until the moment it will reach 20% of the share capital.
- The retained earnings on 31 December 2017 amounted to RON 5,367,446 thousand (31 December 2016: RON 5,382,377 thousand). The retained earnings are distributable on the basis of the statutory financial statements.

According to the Fiscal Code, 5% of the profit of the year (from the statutory financial statements) should be transferred to the legal reserve until it reaches 20% of the share capital.

10. SHORT-TERM LOANS

On 31 December 2017 and 31 December 2016, short-term loans are as follows:

	31 December 2017	31 December 2016
Short-term loans - credit lines contracted by subsidiaries	12,804	12,776
Total short-term loans	**12,804**	**12,776**

Short-term loans are detailed as follows:

The amount of RON 12,804 thousand is the credit line of the Hidroserv Subsidiary.

12. LONG-TERM LOANS

On 31 December 2017, the amount of RON 110,726 thousand, due to credit institutions over a period of more than one year, represents:

Description	31 December 2017	31 December 2016
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 25 January 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 and ending with a last rate on September 15, 2021. **Guarantees:** The loan is guaranteed by the Romanian Government through the Ministry of Public Finance.	103,814	126,520
Contract: Banca Comerciala Romana - Bucharest Branch - 09 December 2010, EURO 50 thousand - the facility will be used to finance investments in the development of new and / or existing hydropower network. **Reimbursement:** 23 egual quarterly installments starting on 09.07.2012, the final repayment date being 08.12.2017.	-	49,360

(all amounts are expressed in RON unless otherwise stated)

Description	31 December 2017	31 December 2016
Guarantees: Letter of Comfort (No 4103/2010) issued by the Ministry of Economy, Commerce and Business Environment and pledge on all accounts opened at BCR.		
Description		
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. **Reimbursement:** Starting 07.06.2012, the principal being amortized in 17 equal quarterly installments between 07.06.2012-07.06.2016. On August 29, 2014, credit repayment was approved between March 7, 2016 and December 7, 2018, and a considerable reduction in costs was also achieved. **Guarantees:** Assignment of receivables related to contracts for electricity supply: no. 47CE / 08.09.2005 with ALRO Slatina SA, no. 5 / 03.01.2011 with Electrica Furnizare and no. 9 / 03.01.2011 concluded with Enel Energie and through a pledge on bank accounts opened at the bank.	39,470	76,932
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 (new and/or existing). The credit facility was taken over by ING Bank NV Dublin on 3 december 2009. **Reimbursement:** 10 equal quarterly installments, between September 7, 2016 - 7 December 2018. **Guarantees:** Assignment on receivables that the Company must collected from Alro Slatina SA (supply contract 47CE / 08.09.2005), Electrica Furnizare (supply contract no. 5 / 03.01.2011) and Enel Energie (supply contract No. 9 / 03.01.2011) and a pledge on all the accounts opened with ING except for the account used for the performance of IBRD contract in value of Euro 66 million.	7,456	14,532
Contract: BRD GSG - ING Bank - 07 April 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. **Guarantees:** Pledge on accounts opened with BRD and ING Bank and assignment of receivables that the Company has earned under contracts for the supply of electricity: no. 1/03.01.2011- E.ON Energie Romania, 7/03.01.2011- Enel Energie Muntenia, 15/03.01.2011- CEZ Vanzare, 529/05.08.2014- Eolian Project, 534/06.08.2014- Entrex Services SRL, 709/17.10.2014- Electrica Furnizare, 714/23.10.2014- Three Wings, 727/03.11.2014- Getica 95, 728/03.11.2014- Enex, 729/03.11.2014- Getica 95, 731/04.11.2014- OMV Petrom, 736/11.11.2014- Energy Distribution SRL, 737/11.11.2014- Getica 95, 754/20.11.2014- Energy Distribution SRL, 756/20.11.2014- Energy Distribution SRL, 757/20.11.2014- Energy Distribution SRL, 759/26.11.2014- Arelco Power, 760/26.11.2014- Arelco Power, 761/26.11.2014- Arelco Power, 762/26.11.2014- Arelco Power, 766/27.11.2014- Arelco Power, 769/28.11.2014- Electrica Distributie Transilvania Sud, 770/28.11.2014- E.ON. Energie Romania, 772/03.12.2014- Enel Energie, 773/03.12.2014- Enel Energie, 774/03.12.2014- Enel	49,383	68,177

(all amounts are expressed in RON unless otherwise stated)

Description		
Energie, 775/03.12.2014- Tinmar, 789/16.12.2014- Electrica Distributie Transilvania Sud, 792/16.12.2014- Transelectrica SA, 796/18.12.2014- Electrificare CFR, 797/18.12.2014- OMV Petrom, 798/18.12.2014- OMV Petrom, 392/30.05.2014- Enel Energie, 878/19.02.2015- Alro Slatina, 883/23.02.2015- Repower Furnizare, 884/23.02.2015- Repower Furnizare, 891/27.02.2015- Electrica Furnizare, 921/10.03.2015- Electrica Furnizare, 956/19.03.2015- C-Gaz & Energy Distributie, 957/19.03.2015- Eolian Project, 968/31.03.2015- Eolian Project, 972/01.04.2015- Industrial Energy, 985/20.04.2015- Axpo Energy, 987/21.04.2015- Axpo Energy, 997/05.05.2015- CEZ Distributie, 1026/14.05.2015- Arelco Power, 1027/14.05.2015 C-Gaz & Energy Distributie, 1028/14.05.2015- Arelco Power, 1118/05.08.2015- Imperial Development, 1119/05.08.2015- Imperial Development, 1121/06.08.2015- Menarom.		
Other long-term credits	-	-
Total long-term debt	**200,123**	**335,521**
Less the current portion	**(89,397)**	**(136,481)**
Total net long-term borrowing from current rates	**110,726**	**139,040**

The financial indicators stipulated in the loan agreements are presented as follows:

- for the loan concluded with **IBRD** dated July 13, 2005:

    a. Current liquidity indicator (Current assets / current liabilities) > 1,2.

The value of the current liquidity indicator on 31.12.2017 is **4,10** .

- for the loan concluded with **ING Bank NV Amsterdam** - **Bucharest Branch**, November 16, 2009:

    a. [(Total Long Term Liabilities bearing Interest + Total Short-term Liabilities bearing Interest + Interest Rate Payments in the current year from Long-Term Debt-Loans bearing Interest)/EBITDA] < 1,75;

Indicator value [Total Long Term Liabilities bearing Interest + Total Short-term Liabilities bearing Interest + Interest Rate Payments in the current year from Long-Term Debt-Loans bearing Interest)/EBITDA] on 31.12.2017 has a value of **0,09.**

    b. [Total Operational Liquidity Flows /(Short-term debt-bearing interests + payment rates during the current year from long-term debt-bearing interests + Annual interest expense)] > 1,2.

Indicator value [Total Operational Liquidity Flows /(Short-term debts-bearing interests + payment rates during the current year from long-term debts-bearing interests + Annual interest expense)] on 31.12.2017 has a value of **19,44.**

    c. The total amount of deliveries (the quantity multiplied by the price) to be made in the current year under the contracts representing a pledge will cover the balance of the facility of 125%.

Indicator value [The total amount of deliveries (the quantity multiplied by the price) to be made in the current year under the contracts representing pledge will cover the balance of the facility] has a value of **141,20%.**

(all amounts are expressed in RON unless otherwise stated)

- for the loan concluded with **ING Bank NV Dublin and ING Bank NV Amsterdam** - Bucharest Branch - March 22, 2011:

a. [(Total long-term liabilities bearing interest + Total current liabilities bearing interest + payment installments in the current year from long-term debts-bearing interest)/EBITDA] < 2,50;

Indicator value [Total long-term liabilities bearing interest + Total current liabilities bearing interest + payment installments in the current year from long-term debts-bearing interest)/EBITDA] in 31.12.2017 has a value of **0,09.**

b. [Total Operational Liquidity Flows /(Short-term liabilities-bearing interests + payment installments in the current year from long-term debt-bearing interest)+ Annual interest expense)] > 1,0;

Indicator value [Total Operational Liquidity Flows /(Short-term liabilities-bearing interests + payment rates during the current year from long-term debts-bearing interests + Annual interest expense)] on 31.12.2017 has a value of **19,44.**

c. The total amount of deliveries (the quantity multiplied by the price) to be made in the current year under the contracts representing a pledge will cover the balance of the facility in a minimum proportion of 125%.

Indicator [The total amount of deliveries (the quantity multiplied by the price) to be carried out in the current year under the contracts representing a pledge will cover the balance of the Facility] has a value of **141,20%.**

- For the loan concluded with **ING Bank N.V. Amsterdam and BRD Groupe Societe Generale**- 07.04.2015

a. The annual debt service coverage rate ≥ 1,20 ;
Indicator value [annual debt service coverage rate] on 31.12.2017 has a value of **17,34.**
b. Debt rate (Total Financial Debt /EBITDA) ≤ 2,50
Indicator value [Total Financial Debt /EBITDA] on 31.12.2017 has a value of **0,10.**

At the end of 2017 all the financial indicators stipulated in the credit agreements in force were fulfilled.
The fulfillment of all financial indicators as of 31.12.2017 represents a real progress' evidence of the Group's strong financial status. The cost of the Group's medium and long-term financial debt is indexed at market interest rates, reflecting at the same time the Group's credit rating.

11. SUPPLIERS AND ASSIMILATED ACCOUNTS

On 31 December 2017 and on 31 December 2016, suppliers and assimilated accounts are as follows:

	31 December 2017	**31 December 2016**
Energy suppliers	9,302	10,959
Suppliers of assets	51,004	43,777
Suppliers of water	59,028	67,631
Suppliers of works	11,513	8,485

(all amounts are expressed in RON unless otherwise stated)

Other suppliers	35,001	36,299
Total	**165,848**	**167,150**

Energy suppliers are made up of:

	31 December 2017	31 December 2016
Transelectrica SA	6,824	6,381
Others	2,478	4,578
Total	**9,302**	**10,959**

12. DEFERRED INCOME

On 31 December 2017 and 31 December 2016, the deffered income is mainly represented by subsidies for the investments received from MEIMMMA for the financing of certain investment projects:

	31 December 2017	31 December 2016
Balance on 1 January	**202,067**	**205,993**
Increases	14,133	5,500
Resumption of deferred income	(25,004)	(6,798)
Balance on 31 December	**191,196**	**202,067**

Income in advance	**December 31 2017**	**Short term portion under 1 year**	**Long term portion over 1 year**
Investment grants	172,264	5,564	166,700
Deferred green certificates	-	-	-
Deferred income related to the sale of electricity	18,326	18,326	-
Other income	384	334	50
Deferred income related to assets received from customers transfer	222	38	184
Balance at the end of the year	**191,196**	**24,262**	**166,934**

Income in advance	**December 31 2016**	**Short term portion under 1 year**	**Long term portion over 1 year**
Investment grants	177,183	5,525	171,658
Deferred green certificates	20,024	-	20,024
Deferred income related to the sale of electricity	4,193	4,193	-
Other income	396	337	59

(all amounts are expressed in RON unless otherwise stated)

Deferred income related to assets received from customers transfer	271	55	216
Balance at the end of the year	**202,067**	**10,110**	**191,957**

13. INCOME TAX

The income tax expense for the period ended 31 December 2017 and on 31 December 2016 is based on current income tax and deferred tax as follows:

	31 December 2017	31 December 2016
Current income tax expense	242,793	310,415
Expense /(Income) from deferred tax expense	(8,276)	6,435
Total	**234,517**	**316,850**

The Group's current income tax for the period ended 31 December 2017 and 31 December 2016 is determined based on statutory profits adjusted by non-deductible expenses and non-taxable income at a statutory 16% rate.

The numerical reconciliation between the profit tax expense and the product of the accounting result and the profit tax rate is presented as follows:

	31 December 2017	31 December 2016
Profit / (Loss) before tax on profit	**1,583,037**	**1,684,686**
Income tax at the statutory rate of 16%	253,286	269,550
Deduction of the legal reserve	(80,124)	(76,904)
Effect of non-deductible expenses	135,636	122,239
Effect of non-taxable income	(22,026)	(35,519)
The effect of the current tax loss to be recovered in the next years	-	-
The effect of unrecognized permanent differences at a rate of 16%	(55,255)	37,484
Income tax	**234,517**	**316,850**

On 31 December 2017 and 31 December 2016, deferred taxes on temporary differences to these data are as follows:

(all amounts are expressed in RON unless otherwise stated)

	31 December 2017		31 December 2016	
	Cumulative temporary differences	**Income tax postponed (receivable /debt)**	**Cumulative temporary differences**	**Income tax postponed (receivabl e /debt)**
Deferred tax resulting from the revaluation reserve	2,842,954	454,872	3,429,138	558,068
Deferred tax related to the difference in use	937,037	149,926	403,359	64,536
Deferred tax on financial instruments	-	-	-	-
Employee Benefits	-	-	-	-
Other Provisions	(198,286)	(31,726)	-	-
Total deferred tax liability	**3,581,705**	**573,072**	**3,832,497**	**622,604**

	31 December 2016	**Recognized in the profit and loss account**	**Recognized in the profit and loss account**	**31 December 2017**
Deferred tax resulting from:				
Revaluation reserve	558,068	(47,219)	(11,446)	499,403
Differences related to the life of assets	64,536	58,876	(18,014)	105,398
Financial instruments	-			
Subsidiary's employee benefits	-			
Other Provisions	-	(19,931)	(11,798)	(31,729)
Total deferred tax liability	**622,604**	**(8,274)**	**(41,258)**	**573,072**

Starting with May 1, 2009 in accordance with the changes in the fiscal treatment of revaluation reserves according to the Government Emergency Ordinance no. 34/2009, amending the Fiscal Code, the revaluations made by the Group after 1 January 2004 and recorded in the statutory financial statements are taxable together with the deduction of tax depreciation, respectively at the time of removal of these fixed assets. Thus, the Group recognized a deferred tax liability for this revaluation reserve directly in equity.

14. OBLIGATIONS ON EMPLOYEES' BENEFITS

On 31 December 2017, the Group has a liability for employee benefits as described in Note 3 (t) in value of RON 91,630 thoudand (31 December 2016: RON 82,498 thousand).

Obligations regarding employees' benefits were determined by an independent actuary company, KPMG Advisory SRL (KPMG), and registered by the Group in the financial statements as at 31 December 2017.

(all amounts are expressed in RON unless otherwise stated)

The estimation of these obligations was made taking into account the following :

- The number of employees as at 31 December 2017 and the number of annually estimated employees based on the projected starting points of the Group and the statistical data on population mortality provided by the National Institute of Statistics ("INS"), other statistical data provided by the NIS.
- Basic salary on 31 December 2017 and basic salaries estimated by the Group for future periods;
- Inflation rate for January - December 2017 (including December 2017 data) published by the NIS and the inflation rate estimated by the Group for future periods;
- The electricity price on 31 December 2017 and the estimated price of the Group for future periods;
- The interest rate obtained taking into account the treasury certificates issued by the Ministry of Finance, country's risk estimation, the evolution of the EUR exchange rate issued by the European Central Bank.

In accordance with the requirements of the revised IAS 19, we present below the sensitivity of the amount of the provision when changing the underlying assumptions. The results of the sensitivity analysis are presented in relative value, and the tests are applied separately for each individual hypothesis.

Type of benefit	**December 31, 2017**	**December 31, 2016**
Jubilee bonus	49,917	38,056
Benefits at retirement	18,541	16,363
Electricity benefits related to active employees	4,818	3,215
Electricity benefits for retired employees	18,084	24,864
Total provision on 31 December 2016	**91,360**	**82,498**

(all amounts are expressed in RON unless otherwise stated)

In the table below we present the results of the sensitivity analysis for the 10% increase of the external assumptions of the model (the values presented in *lei* are only for Hidroelectrica):

Type of benefit	***PBO (Current Value of the Obligation)***	***PBO (mortality rate + 10%)***	***Impact (mortality rate + 10%)***	***PBO (invalidity rate + 10%)***	***Impact (invalidity rate + 10%)***	***PBO (update rate + 10%)***	***Impact (update rate + 10%)***
	a	**b**	**% c=(b-a)/a**	**d**	**% e=(d-a)/a**	**F**	**% g=(f-a)/a**
Provision for Jubilee bonus	44,146,406	43,810,369	-0,8%	42,467,396	-3,8%	42,899,140	-2,8%
Provision for benefits at retirement	16,748,949	16,501,077	-1,5%	16,973,119	1,3%	16,146,045	-3,6%
Electricity benefits related to active employees	4,818,504	4,599,435	-4,5%	4,906,444	1,8%	4,499,710	-6,6%
Electricity benefits for retired employees	10,228,704	9,839,315	-3,8%	10,228,704	0,0%	9,864,987	-3,6%
Total provision on 31 December 2017	**75,942,562**	74,759,064	**-1,6%**	74,648,120	**-1,7%**	73,450,669	**-3,3%**

The analysis shows a decrease of up to 3.3% of the updated value of the obligation as at 31 December 2017 if the discount rate used would increase by 10%.

(all amounts are expressed in RON unless otherwise stated)

In the following table we present the results of the sensitivity analysis in the case of the 10% increase of the internal assumptions of the model:

Type of benefit	*PBO (Current Value of the Obligation)*	*PBO (mortality rate + 10%)*	*Impact (mortality rate + 10%)*	*PBO (invalidity rate + 10%)*	*Impact (invalidity rate + 10%)*	*PBO (update rate + 10%)*	*Impact (update rate + 10%)*
			%		**%**		**%**
	a	**b**	**c=(b-a)/a**	**d**	**e=(d-a)/a**	**f**	**g=(f-a)/a**
Provision for Jubilee bonus	44,146,406	45,971,304	4,1%	42,450,475	-3,8%	44,146,406	0,0%
Provision for benefits at retirement	16,748,949	17,579,692	5,0%	15,598,658	-6,9%	16,748,949	0,0%
Electricity benefits related to active employees	4,818,504	4,818,504	0,0%	4,473,446	-7,2%	5,300,354	10,0%
Electricity benefits for retired employees	10,228,704	10,228,704	0,0%	10,228,704	0,0%	11,251,574	10,0%
Total provision on 31 December 2017	**75,942,562**	**78,634,315**	**3,5%**	**72,795,766**	**-4,1%**	**77,407,045**	**1,9%**

The analysis shows an increase of up to 1.9% of the updated value of the obligation on 31 December 2017 if electricity prices were 10% higher than initially estimated. Also, a 10% increase in probability of leaving the service would result in a 4.1% decrease in the current value of the obligation at 31 December 2017.

(all amounts are expressed in RON unless otherwise stated)

In the table below we present the results of the sensitivity analysis in case of a 10% decrease of the external assumptions of the model (published by the National Institute of Statistics or the National Bank of Romania):

Type of benefit	PBO (Current Value of the Obligation)	PBO (mortality rate + 10%)	Impact (mortality rate + 10%)	PBO (invalidity rate + 10%)	Impact (invalidity rate + 10%)	PBO (update rate + 10%)	Impact (update rate + 10%)
			%		%		%
	a	**b**	**c=(b-a)/a**	**d**	**e=(d-a)/a**	**f**	**g=(f-a)/a**
Provision for Jubilee bonus	44,146,406	44,486,322	0,8%	42,765,445	-3,1%	45,456,559	3,0%
Provision for benefits at retirement	16,748,949	17,001,508	1,5%	16,522,729	-1,4%	17,387,048	3,85
Electricity benefits related to active employees	4,818,504	5,058,255	5,0%	4,890,455	1,5%	5,167,298	7,25
Electricity benefits for retired employees	10,228,704	10,661,587	4,2%	10,228,704	0,0%	10,614,945	3,8%
Total provision on 31 December 2017	**75,942,562**	**77,197,507**	**1,7%**	**74,409,275**	**-2,0%**	**78,578,968**	**3,5%**

The analysis carried out shows an increase of up to 3.5% of the updated value of the obligation at 31 December 2017 if the discount rate used would fall by 10%.

(all amounts are expressed in RON unless otherwise stated)

In the table below we present the results of the sensitivity analysis in case of a 10% decrease of the internal assumptions of the model:

Type of benefit	***PBO (Current Value of the Obligation)***	***PBO (mortality rate + 10%)***	***Impact (mortality rate + 10%)***	***PBO (invalidity rate + 10%)***	***Impact (invalidity rate + 10%)***	***PBO (update rate + 10%)***	***Impact (update rate + 10%)***
			%		%		%
	a	**b**	**c=(b-a)/a**	**d**	**e=(d-a)/a**	**f**	**g=(f-a)/a**
Provision for Jubilee bonus	44,146,406	42,869,215	-2,9%	45,939,462	4,1%	44,146,406	0,0%
Provision for benefits at retirement	16,748,949	16,189,986	-3,3%	18,000,723	7,5%	16,748,949	0,0%
Electricity benefits related to active employees	4,818,504	4,818,504	0,0%	5,192,671	7,8%	4,336,653	-10,0%
Electricity benefits for retired employees	10,228,704	10,228,704	0,0%	10,228,704	0,0%	9,205,833	-10,0%
Total provision on 31 December 2017	**75,942,562**	**74,084,295**	**-2,4%**	**79,315,983**	**4,4%**	**74,478,078**	**-1,9%**

The analysis shows a decrease of up to 1.9% of the updated value of the obligation at 31 December 2017 if the electricity prices were 10% lower than the initial estimated value. Also, a 10% decrease in probability of leaving the service would result in a maximum 4.4% increase in the present value of the obligation at 31 December 2017.

(all amounts are expressed in RON unless otherwise stated)

15.OTHER LIABILITIES

On 31 December 2017, 31 December 2016, other liabilities are as follows:

	31 December 2017		31 December 2016	
	Current	**Long-term**	**Current**	**Long-term**
Advances from customers	324	-	532	-
Debts to the state	140,097	-	126,076	-
Payment of dividends	-	-	-	-
Good execution guarantees	34,229	-	24,949	26,452
Other borrowers	21,912	4	17,492	-
Total	**196,562**	**4**	**169,049**	**26,452**

16. PROVISIONS

	31 December 2017	31 December 2016
Provisions for litigation	78,871	61,447
Provisions for restructuring	56	4,215
Other provisions	33,204	14,329
TOTAL	**112,131**	**77,516**
Long term	-	-
Current	112,131	77,516
TOTAL	**112,131**	**77,516**

Provisions amounting to RON 112,131 thousand represent the value of provisions for litigation, salary and compensatory payments and other provisions as follows :

- Hidroelectrica S.A has been in insolvency proceedings since 20 June 2012, for which provision has been made for litigations related to receivables entered in the preliminary receivables table or for receivables rejected by the official receiver in the preliminary receivables table. These provisions are mainly:
  - for the litigation on penalties and interests requested by Termoelectrica and not admitted in the preliminary table of creditors amounting to **RON 8.499.251**;
  - a provision for the litigation that is being solved regarding the salary claims requested by the employees of Sebes Branch, amounting to **RON 1,605,042**, admitted in the preliminary table of creditors under condition.
- Provision for disputes regarding the expropriation of land related to the investment "Strei River Hydroenergetic plant on the Subcetate - Simeria Sector" amounting to **RON 12,199,093**;
- ANDRITZ HYDRO provision, execution of performance guarantee no.8813G1014112A001 for the project "Rehabilitation of CHE OLT Inferior" in value of **RON 35,618,248**;
- ANAF provision for corporate income tax litigation constituted in June 2012 - amortization correction **RON 19,214,124**;

(all amounts are expressed in RON unless otherwise stated)

- provisioning for restructuring amounting to **RON 33,349** - representing the gross compensatory salaries and the due contributions of the unit, based on the collective labor contract, to the dismissed employees;
- provisions recorded in Hidroserv's accounting are in the amount of RON 19,998,052 out of which other provisions for risks and expenditures amounting to RON 17,841,209.

	Provisions for litigation	**Provisions for restructuring**	**Other provisions**	**Total**
Balance on 1 January	**61,447**	**1,740**	**14,329**	**77,516**
Added provisions recognized through profit and loss account	20,538		22,373	42,911
Provisions reversed through the profit and loss account	(3,114)	(1,683)	(3,499)	(8,296)
Balance on 31 December	**78,871**	**57**	**33,203**	**112,131**

17. NUMBER OF EMPLOYEES

The Group's number of employees on 31 December 2017 was 4,603 and respectively on 31 December 2016, 4,672.

18. REVENUE FROM THE SALE OF ENERGY

The Group sold approximately 14,672 thousand MWh in 2017 (18,387 thousand MWh in 2016). The electricity price for the energy delivered on the regulated market is regulated by ANRE.

Sales for the years ending 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	**31 December 2016**
Income from the energy delivered on the Regulated Market	112,537	323,812
Income from energy delivered on other Competitive Markets	2,737,315	2,664,423
Transport and ancillary services, market administration	393,284	325,585
Income from other sources	2,820	17,489
Total	**3,246,956**	**3,331,309**

(all amounts are expressed in RON unless otherwise stated)

19. PURCHASED ENERGY

Acquisitions for the years ended 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
Transelectrica SA (Balance Market)	44,944	15,592
Others	7,915	67,675
OPCOM	35,303	29,263
Total	**88,162**	**102,530**

20. OTHER OPERATING REVENUES

Other operating income is presented as follows:

	31 December 2017	31 December 2016
Resumption of deferred income	5,622	6,798
Income from provision of repair services	6,644	2,701
Other incomes	6,650	6,791
Total	**18,916**	**16,290**

22. OTHER OPERATING EXPENSES

Other operating expenses are as follows:

	31 December 2017	31 December 2016
Transport and distribution of energy	29,458	37,560
Turbinated water costs	304,588	370,277
Materials and consumables	-	-
Sub-contracted services for repair and maintenance works	491	593
Expenditure on provisions for current assets	30,549	19,245
Expenditure on provisions for fixed assets	25,781	40,386
Other provisions	53,639	(4,013)
Expenses with penalties	1,921	22,117
Expenditure on guarding	13,830	11,740
Transport costs	3,517	5,910
(Income) from the disposal of fixed assets	350	(6,461)
Expenditure on special construction tax	-	54,550
Expenditure on other taxes and charges related to buildings and land	40,980	41,651
Impact of revaluation of tangible assets	-	-
Other	72,566	54,369
Total	**577,670**	**647,924**

(all amounts are expressed in RON unless otherwise stated)

23. FINANCIAL RESULT

The financial result is as follows:

	31 December 2017	31 December 2016
Interest income	12,879	15,682
Other financial income	15,985	6
Income from embedded derivatives	-	187,972
Financial Income	**28,864**	**203,660**
Interest expenses	(2,824)	(4,719)
Other financial expenses	-	(951)
Expenditures on embedded derivatives	-	-
Financial expenses	**(2,824)**	**(5,670)**
Net loss from foreign exchange differences related to the financing activity	(5,746)	17
Financial Profit / (Loss)	**20,294**	**198,007**

24. THE FISCAL LEGISLATIVE FRAMEWORK

The tax system in Romania is in a phase of consolidation and harmonization with European legislation. In this respect, there are still different interpretations of tax legislation. In certain situations, the tax authorities may treat different aspects differently by calculating taxes and additional charges, interest and related late payments.

The inherent risks generated by taxes and other tax liabilities arise from the regime of perpetual and sometimes contradictory tax changes, but also from interpretations to the tax legislation given by the control bodies for the purpose of collecting more taxes to the state budget, the social insurance or the local ones.

Management considers that it has adequately recorded all tax liabilities in the attached financial statements; there is, however, the risk that tax authorities will adopt different positions on the interpretation of these issues. Their impact could not be determined until this date but management believes that it will not significantly affect the financial position and the Group's result.

In accordance with the provisions laid down by the Ministry of Public Finance which aim to tax share capital items that are not subject to income tax at the due date due to their nature, if the Group changes future revaluation reserve targets (by covering losses or distributing to shareholders) this will result in extra corporate income tax expense.

25. OPERATIONAL ENVIRONMENT

Although Romania is a member of the European Union since 1 January 2007, the Romanian economy has the characteristics of an emerging market with a high current account deficiency, a relatively underdeveloped financial market and fluctuations in exchange rates.

At the moment, international financial markets feel the effects of the 2008 global financial crisis. These effects were felt by the Romanian financial market in the form of a decrease in prices and liquidity on the capital markets and by an increase in the average interest rate caused by the global crisis of liquidity. Significant losses felt by global financial markets may affect the Group's ability to obtain new loans under terms and conditions similar to those used in previous transactions.

The financial statements do not include adjustments in respect of the recovery and classification of financial assets or the classification of liabilities that may arise if the Group is unable to continue operating as the going concern principle applies.

The management believes that the assumptions underlying the financial statements are justified, taking into account the strategic importance of the Company within the national energy system.

The financial status of the Group depends on the future measures to be taken in terms of the tariff and / or the support from the Romanian Government.

Taking into account that the Group's activity is partially controlled by ANRE, the most important risks they face are:

- The regulatory environment is relatively new and prone to changes, which may have an impact on the Company's performance;

- ANRE decisions on price changes may affect the Company's activity; (the energy price for distribution companies is not established only by the Company but regulated by ANRE);

The decommissioning of certain assets may result in a reduction in the regulated base, which may lead to lowering sales prices approved by ANRE, with a direct negative impact on the Group's profit.

26. COMMITMENTS AND CONDITIONALITIES

1) Contracts for the refurbishment and modernization of hydropower / hydro-aggregates

Refurbishment HEA VIDRARU (CHE Vidraru: Pi= 220 MW; Em= 409,4 GWh/year)
CHE Vidraru currently has an installed capacity of 220 MW and an annual average energy output of 400 GWh / year. After the plant will be upgraded, the installed power on the plant will remain the same, 220 MW, but power per group will increase to 58.8 MW and the annual average energy to 409.4 GWh / year.

In order to promote this investment objective, the Feasibility Study approved by GMS Hidroelectrica (10.03.2014) was elaborated and approved Technical project + Tender book documentation (18.12.2015).
In 2016 was notified and posted (Notice No. 35/2016) the TP + TB documentation, the SEAP acquisition documentation was prepared, and the offers were opened.
In 2017, following the analysis of the received offers, the contract was not awarded because the offers were inconsistent and was taken the decision to resume the acquisition procedure.
On 05.07.2017, following the decision of the new HE Directorate, another acquisition procedure was started for contracting design services for the preparing documentation:
"Updating the Feasibility Study" and "Updating the technical and economic documentation, an integral part of the awarding documentation, for the acquisition of AHE Vidraru Refurbishment works"; through the "Feasibility Study Update", a decrease in the estimated value of the investment was obtained; all the documentation required for the award procedure was posted in SEAP in December 2017 and is expected to be validated by ANAP. Currently the procurement procedure is in progress.

HEA SIRIU-SURDUC

In order to optimize the investment on strictly energetic criteria, starting with 2003, optimization studies were carried out as follows:

In 2003 a study was carried out on constructive solutions at HEA Surduc-Siriu, Cireşu-Surduc stage and Surduc-Nehoiaşu stage, with the main purpose of reducing the investment costs by technically optimizing the components of the fittings, the installed flow and of the power installed in CHE Nehoiasu II, subject to maintaining the annual electricity production approved by Decree 294/1981.

The optimized layout of Surduc - Nehoiaşu has the same elements as in the original design, but due to the change in energy conditions, the problem of reducing the flow rate installed in the two plants from 2x20 cbm/s to 2 x 13 cmb/s and of the useful volume of the Cireşu reservoir from 160 mil. cbm to 90 mil.cbm, corresponding to an NNR of 965.75mdM. The diameter of the adductions of the two power stations remained the same, of 4 m, and the diameter of the forced Surduc - Nehoiaşu gallery was reduced from 3.5 m to 3.1 m on the section 3 (horizontally and inclined).

Surduc dam weir, located on the river Bâsca Mare, will have the role of capturing and regulating the river to allow operation of the Surduc - Nehoiaşu step, independent of the execution of the Cireşu dam and of the Surduc plant. Surduc accumulation will have a useful volume of 282,000 cubic meters, between the shares 868,50 - 873,00 mdM.

For the continuation and completion of the investment objective is necessary to:
- obtaining the opinion of the Brasov Forest Guard and obtaining the approval of the Ministry of Waters and Forests for the final transfer of 1,17 ha of land necessary for the continuation of the works at the Surduc dam;
- obtaining the Government Decision for the approval of the optimized indicators.

AHE RASTOLITA

Documents for approval:
Decree no. 95/1989HGR 489/1996 - approves the optimization of the technical and economic indicators of the objective.

Necessity and opportunity
HEA Rastolita aims at exploitation the hydrological potential of the Rastolita River and the right tributaries of the Mures River on the Lunca Bradului - Bistra Mures sector. In the capture sections, these rivulets sum up a multiannual Qm = 5.92 cbm/s flow rate, and by realizing the Rastolita dam at the final N.N.R. quota 760.00 m.d.M. has a gross fall of 267.50m. Following the Environmental Agreement and the requirements of the National Energy System, the arrangement was optimized and approved by RGD no. 489/1996.

The optimized fitting scheme with the energy parameters Pi = 35.2 MW and Em = 116.5GWh / year at Qi = 17cbm / s was approved by BD of CONEL with Decision no. 17 / 31.05. 1995 and approved by the Inter-ministerial Commission of the Romanian Government on 21.03.1996.

In December 2017 HD 900/2017 was issued regarding the expropriation of the buildings located within the expansive corridor AHE Rastolita, which allows the continuation and finalization of the works from the first stage.

For the continuation and completion of the works it is necessary to deforest the accumulation, which means obtaining the GD for the final removal of the land from the forest fund and its handing over to Hidroelectrica SA.
To obtain this Decree, the following steps must be taken:

1. Submission to the Forest District the documentation for the final removal of the land from the forest fund, documentation containing also the Environmental Agreement. The Forest District draws up the Forestry Sheet with the calculation of the money obligations and the Memorandum in which it specifies the legal framing of the forestry fund.
2. Submission to the Board of Directors of the Forestry Sheet and the Memorandum for approval;
3. Submission to the National Forestry Directorate of the package consisting of the documentation for the final removal of the land from the Forest fund, the Forestry Sheet and the BD's FD notice, for the approval;
4. Submission to Forest Guard of the package consisting of the documentation for the final removal of the land from the forest fund, the forestry sheet and the obtained agreements. The Forest Guard verifies the documents and the land, issues an opinion which will be sent to the Ministry of Waters and Forests.
5. The Ministry of Waters and Forests approves the documents and promotes the Government Decision on the final removal of the land from the forest fund and its handing over to Hidroelectrica SA.
6. After issuing the GD for the final removal of the land from the forestry fund, follows the procedure for land transfer.

AHE STREI

Documents for approval Decree for approval the investment: no. 40/1989

Necessity and opportunity (according to documents for approval)
The investment ensures exploitation of the hydroelectric potential of the Strei River's lower course, by constructing hydro power plants with a total installed capacity of 84 MW and electricity production in the average hydrological year of 170,100 MWh.

The investment is located between Subcetate and the confluence of the Strei River with the Mureş River. The arrangement will have a complex character of use, with the following functions: electricity generation, development of irrigation system, protection of localities and lands against floods and also water supply.

The main objects of the layout scheme
The hydropower development of the Strei River, according to the approved scheme, consists of the construction of five dams and seven hydroelectric power stations that will ensure regularization of Strei River flow over a 32.5 km length with a 105 m fall and a flow of 100 cb.m/s, correlated with the existing power plants on the Mare River. The works have started in 1989.

An optimization study was carried out in 2003, which was endorsed by CTE Hidroelectrica with opinion no. 203/2003. The most advantageous economically and energetic option has been approved, with seven approximative equal steps and three lakes: Subcetate 5.74 million cubic meters, Strei of 1.8 million cubic meters and Simeria 1.8 million cubic meters.

In 2008 was prepared the study "Optimization of constructive solutions and energy indicators for CHE Strei, CHE Călan, CHE Băcia and CHE Simeria ".

HEA LIVEZENI-BUMBESTI

By implementing the project *HEA Jiu-Bumbeşti Livezeni* will be achieved:

- production of hydroelectric power from a renewable source, without pollutant emissions and greenhouse gas emissions, in CHE Bumbesti and CHE Dumitra (259 GWH / year)
- creation of new jobs, both during the construction and the exploitation period;
- improving transport routes in the area;

- economic development of localities in the area by including the objective in the fees and tax system.
- annual energy production of 259 GWh / year in hydroelectric power plants: Dumitra and Bumbeşti, represents about 50% of the current production of UHE Târgu - Jiu. Putting these energy objectives into operation will significantly contribute to increasing national energy security. As a consequence of equipping these plants with modern control systems, a sensible improvement in the quality of the power supplied to the system will be obtained.

The main objectives of the layout scheme
The project requires the realization of a hydropower development scheme, on the Jiu defile sector, for a length of about 20 km and a fall of 263 m, by achievement of two hydropower plants per derivation, namely: CHE Dumitra and CHE Bumbeşti.

The hydro-energetic development of the Jiu River in the Livezeni-Bumbesti sector according to the approved scheme, consists of the construction of a weir dam, 19.5 km of underground pipes and 2 hydroelectric plants that will ensure the use of Jiu River flow, capitalizing a 263 m fall and a 36 cbm/s flow.

In December 2015 the Addendum no.15 was concluded for the contract no.21 DI / 2004 for the turnkey execution of the investment objective, the contracted amount being RON 302.746 thousand.

Physical progress on 12.14.2017:
CHE Dumitra (Pi = 24.5 MW; Em = 91 GWh / year)
The power plant is 94% completed, the Livezeni dam and the power outlet 93%, MHC Livezeni 50%, the main headrace Livezeni-Dumitra 99%, Dumitra pressure node 96%.
CHE Bumbești (Pi = 40.5 MW; Em = 167 GWh / year).
The main headrace Dumitra - Bumbeşti was executed 92%; 87% Bumbeşti pressure node, 45% secondary capture, Bumbeşti CHE 75%.

Impediments to making the investment
The technical-economic indicators of Livezeni-Bumbesti investment were approved by Government Decision no. 10 on 09 January 2003, in accordance with the government's energy legislation and strategy on that date. Also, by Government Decision no. 1297 on September 20, 2006 the investment was declared of public utility, being considered work of national interest. The two Government Decisions were issued following the studies carried out between 1982 and 2002 when no protected areas were declared on the site of the works and the Community legislation did not operate on the territory of Romania.

National Park Jiu Defile was established by GD 1581 / 8.12.2005, almost 2 years after the issuing of the order declaring the works as investment objective and its inclusion in the Natura 2000 environment program took place in 2007, together with Romania's accession to EU.

By the Civil Decision no.5378 / 2017, given by the Bucharest Court of Appeal, the VII Administrative and Fiscal Contentious Division, the Authorization for construction issued by CC Hunedoara and CC Gorj were canceled, which requires the obtaining of a new Authorization for construction and elaboration of an appropriate environmental assessment study.

The company makes all the necessary steps to obtain the proper documents for the resumption of the works at the investment objective "Jiu River hydroelectric energy arrangement on the Livezeni-Bumbeşti sector" and considers that these proceedings will be finalized by the end of 2018.

HYDROENERGETIC FACILITY PROCESS OF OLT DEFILE ON THE CORNETU - AVRIG SECTOR.

CHE RACOVITA (Pi = 29.9MW Em = 46.4 GWh / year) the basic works for the Commissioning at the final project's quotas are conditioned by obtaining the Government Decision on land expropriation based on Law 255/2010.

For the commissioning of CHE Racovita, it is necessary to perform works on the retraction and deepening of the escape channel, outlet conduits Sebes rivulet, the SAT passing on the level with the railway and the demolition of the downstream road bridge.

The completion of the investment in the technical and economic parameters of the project is conditioned by the collaboration with the Ministry of Transport, for the accomplishment of the works at the railway bridges, in accordance with the provisions of the Decree 24/1989. On December 31, 2017, the investment realization percentage is approximative 95%.

2) Other arrangements:

In 2017, contracts were awarded for the following investments:

1. **Modernization of HA1 CHE Calimanesti**

P_{iCHE} = 38 MW, P_{iHA1} =19 MW, E_{mCHE} = 106 GWh/year, E_{mHA1} = 54 GWh/year

Modernization works will be carried out at HA1 to bring the project into parameters by replacing the hydro-generator stator, upgrading the rotor, modernizing the turbine (replacing the turbine blades) and upgrading the auxiliary facilities, its own services and the HA automation.

- In 2017 the contract was awarded and signed with S.S.H.Hidroserv SA Bucuresti
- Contract value: RON 23,699,524.09
- In 2018 - completion of modernization works.
- Value to be executed from the contract on 31.12.2017: RON 21.182.000

2. **Modernization HA1 CHE Slatina**

Reconditioning and modernization of the hydraulic turbine related to HA 1, generator, auxiliary installations and automation, and control system.

P_{iCHE} = 26 MW, P_{iHA1} =13MW, E_{mCHE} = 82 GWh/year, E_{mHA1} = 41 GWh/year

- In October 2017, the contract was awarded to the bidder SC ROMELECTRO SA Bucuresti.
- On 25.01.2018 the contract entered into force.
- Contract's value: RON 25,440,090
- Completing the contract: 2019

1. Given guarantees and received guarantees
1.1Given guarantees

On 31 December 2017, the Company has outstanding performance bonds and payment guarantees issued in RON, EUR and HUF, namely:

- Letters of performance bond from bank for external partners on OTC market amounting to EUR 500,000;
- Performance bond in the form of a collateral deposit to cover payment obligations derived from energy purchases on the Hungarian market amounting to HUF 15,000,000;
- Performance bonds executed in RON amounting to RON 73,214,455.19 out of which:
    - Performance bonds issued in favor of all partners in order to guarantee the obligation to supply electricity sold on Centralized market for universal service, amounting to RON 18,672,646.50;

  - Performance bonds in favor of all partners in order to guarantee the obligation to supply the electricity sold to CMBC and CMBC-CN, amounting to RON 49,976,428.74;
  - Performance bonds issued in favor of the various partners in order to guarantee the obligation to supply the electricity sold according to bilateral contracts concluded on SEAP, amounting to RON 4,565,379.95.
- Performance bonds secured by collateral deposits, issued in favor of OPCOM, in order to insure the payment obligations derived from the energy purchase transactions realized on NDM and IM, amounting to RON 7,871,691.04.

1.2 Received guarantees

The balance on 31.12.2017 of the received guarantees amounting to RON 436,588,116 is mainly made up of guarantees for the ongoing investments, as follows:

- Guarantees for various objectives under execution issued by Hidroconstructia SA amounting to RON 152,222,706;
- Guarantees for refurbishment of CHE Stejaru received Litostroj Power amounting to RON 50,843,073;
- Opening L/C according to the contract no.22 / 2016 RAIFFEISEN BANK amounting to RON 64,317,937;
- Guarantees for Bumbesti-Livezeni and Stejaru objectives issued from Romelectro S.A. amounting to RON 102,050,648;
- Guarantees for refurbishing of PF I and PF II issued by Andritz Hydro amounting to RON 33,936,165;
- Guarantees for various ongoing projects issued by Energomontaj SA amounting to RON 10,375,425;
- Guarantees for various ongoing projects issued by Constructii Hidrotehnice SA amounting to RON 13,974,797;
- Other guarantees issued to the Company in the amount of RON 8,867,365;

2. Arbitration litigation

On 31.12.2017 Hidroelectrica S.A. is involved in approximately 480 ongoing litigation in various procedural phases. Of the most important, we mention the following:

I. Arbitral file ICC 19414/MHM

Arbitral litigation regarding Contract no. 2I / 50765 / 09.11.2001 between Hidroelectrica and Andritz Companies - Rehabilitation and modernization of the HPP Portile de Fier II and HPP Gogoșu.

Petitioners: Andritz Hydro GmbH Germania and Andritz Hydro GmbH Austria

Defendant: Societatea de Producere a Energiei Electrice în Hidrocentrale „Hidroelectrica” SA

<u>Arbitrary litigation is represented by the following claims of Andritz companies</u>:

(i) To declare that Hidroelectrica is not entitled to require Andritz Companies to reinburse the amount of Euro 13,625,000, representing the advance payment made in May and June 2003 for Phase III of the PF II project, according to Contract 2I / 50675 / 09.11. 2001, as amended by Additional Acts 4 and 6 signed by the parties on 5 December 2002 and 26 March 2003.

(ii) To declare that the so-called Notification of Termination of Contract 2I / 50675 / 09.11.2001, sent by Hidroelectrica on 06.06.2013, is not valid and that the Contract 2I / 50675 / 09.11.2001 as amended and supplemented is still valid, subsists and produces its effects for the parties.

(iii) To oblige Hidroelectrica to pay to Andritz Companies the amount of EUR 6,362,905 plus an interest rate of 6% / year starting 26.06.2013.
(iv) To declare that Hidroelectrica cannot claim the recovery of the damages allegedly caused by the Andritz Companies because *"failing to deliver the parts of the last group at the Porțile de Fier II plant, to reduce costs and recover the advance paid for Gogosu and for certain technical issues which will remain open after the execution of the work currently being carried out in one of the groups in the project for the Porțile de Fier II plant's upgrading".*
(v) To order Hidroelectrica to issue the Final Reception Certificate for hydro aggregates 6 and 8 alternatively, the Arbitral Tribunal will issue the Final Reception Certificate for Hydro Aggregates 6 and 8 on behalf of Hidroelectrica.
(vi) Order Hidroelectrica to pay the arbitration costs.

The amount of the litigation is EURO 21,748,799
Arbitral Tribunal Miguel Virgós Soriano (Chairman), Georg von Segesser and Paolo Michele Patocchi.
Place of arbitration Geneva, Switzerland
The state of the arbitration litigation:
On 1 September 2017, the Arbitral Tribunal decided to rule on the heads of claim 1-4 (i) and (ii), formulated by Andritz companies based on the documents (including witness' statements and expert reports) without the need to organize the hearings. On the same date, the Court authorized the simultaneous submission by the parties of memoranda of written concussions, memoranda which were filed on 9 October 2017. On substantiations 4 (iii) and 5 made by Andritz; hearings will take place during 19-22 March 2018.
Between 23 and 28 October 2017, additional tests were carried out at HA 6 and 8 of HPP Portile de Fier II, coordinated by the neutral expert, Groupe E.
On February 26, 2018, the neutral expert submitted the Final Report of the Technical Expert.
The parties will submit their written conclusions on May 18, 2018 and thereafter, the cost memos (the date of which is not yet established). The arbitral tribunal will then deliberate and issue the final decision.

II. Arbitral file ICC 20861/MHM

Arbitral litigation regarding Contract no. 2I / 50765 / 09.11.2001 between Hidroelectrica and Andritz Companies - Rehabilitation and modernization of the Portile de Fier II Hydro Power Plant and the Gogosu Hydro Power Plant.
Petitioner: Societatea de Producere a Energiei Electrice în Hidrocentrale „Hidroelectrica" SA
Defendants: Andritz Hydro GmbH Germania and Andritz Hydro GmbH Austria
The arbitral litigation is represented by the following claims of Hidroelectrica:
(i) order Andritz Companies to hand over to Hidroelectrica on inventory basis the equipment and machinery related to hydro aggregate no. 1 that were not incorporated in the works.
(ii) order Andritz Companies to pay Hidroelectrica compensation as a result of the damage caused by the failure of Andritz Companies to sell the machinery and equipment.
(iii) order Andritz Companies to pay the arbitration costs.

The value of the litigation Estimated Euro 8,957,375 representing Euros 6,834,000 (the estimated value at the end of application number 1) and Euros 2,124 thousand plus a monthly sum of EUR 129,000 and a statutory interest rate of 6% per annum (the estimated value of the application number no.2).
The Arbitral Tribunal Eduardo Silva Romero (Chairman), Michelangelo Cicogna, Inka Hanefeld
Place of Arbitration Bucharest, Romania

The state of the arbitration litigation:
By the Partial Arbitration Judgment on June 14, 2017, the Arbitral Tribunal rejected the exception to Andritz's lack of jurisdiction and retained its jurisdiction to settle Hidroelectrica's claims in substance.
By Procedural Order no. 3 on 20 June 2017, the Arbitral Tribunal suspended the arbitration proceedings until the ICC 19414 / MHM arbitration case will be solved and rejected Andritz's request for the disclosure to the Court the case files ICC 19414/MHM.
The substantive debates will resume after the final arbitration award in file ICC 19414 / MHM. Two rounds of memoranda will be filed. The dates for the hearings on the merits and the final arbitration award have not yet been established.

III. Arbitral file ICC 20540/MHM

Arbitral litigation regarding Contract no. 23.534 / h.700.116004 on the refurbishing of the hydroelectric plants located on the Lower Olt: Ipotești, Drăgănești, Frunzaru, Rusănești și Izbiceni
Petitioner: Societatea de Producere a Energiei Electrice în Hidrocentrale "Hidroelectrica" S.A.
Defendant 1: Voith Hydro Holding GmbH & CO KG (Voith)
Defendant 2: Andritz Hydro GmbH (Andritz)
Object of the file
The petitioner requested the arbitral tribunal to issue a decision whereby (the petition was stated in terms of value by the Memorandum on the merits because of completing the expertise amount submitted together with the Memorandum on the merits on 24.09.2015):

(i) oblige the Defendants to replace defective works with conforming works in accordance with the Contract in order to fulfill the object of the Contract or, alternatively, to pay the amount of EUR 35,539,620.57 representing the contractual value of the works with deficiencies (for both hypotheses) plus interest calculated from the date of the payment made by the Petitioner until the date of full repayment by the Defendants in the amount of Euro 10,254,001 (at the 2015 level);
(ii) order the Defendants to pay compensations for the damage suffered as failing to fulfil the object of the Contract, in the form:

- the full ownership of deficient works by the Petitioner either in the case of the replacement by the Defendants or by a third party of works permitting the conclusion of the final acceptance report, according to the law, or paying for the value of the works with deficiencies,
- payment of compensations for any damage suffered as a result of non-fulfillment of the Contract's object within the term set by the Contract, namely in the amount of (i) EUR 2,229,091.15 and USD 17,733,678 if the Defendants will be obliged to replace the works with deficiencies or alternatively (ii) USD 138,133,678 and the amount of Euro 2,229,091.15 of which the amount of 35,539,620.57 will be deducted if the Defendants will compensate the Petitioner by paying the value of the works with deficiencies.

(iii) order the Defendants to bear the cost of arbitration;
(iv) have other measures considered appropriate in favor of the Petitioner.

With respect to the counterclaim lodged by the Defendants, the Petitioner requested the arbitral tribunal:

I. to reject all claims in the counter-claim, more precisely:
   (i) to reject the Defendant's request on changing orders, the Plus / Minus list, the 10% final price for the Cascade equipment and the associated interest as not included in the procedural framework established by this arbitration. In the alternative, dismiss them as inadmissible. In the second alternative, dismiss them as unfounded.

(ii) reject the claim of the Defenders regarding bonus completion and related interest, as they are deprived of the right to request. In the alternative, dismiss the application as inadmissible. In a second subsidiary, dismiss the application as unfounded.

(iii) reject the Defendants' request for cascade equipment and the Bank Guarantee claim as well as interest, as inadmissible. In the alternative, dismiss those claims as unfounded.

(iv) reject the claims of the Defendants in respect of the arbitration costs and the relevant interest as unfounded.

II. to order the Defendants to bear the cost of arbitration.

The Defendants applied to the arbitral tribunal by memorandum dated 12 April 2017 (which also made a counterclaim, authorized in the proceedings by Procedural Order 10 on 6 June 2017):

(i) not to take account of the Applicant's claim no.(iv)

(ii) reject the Petitioner’s claims in its entirety;

(iii) grant the Defendants their claims made in the counterclaim and order the Petitioner to pay the Defendants a total amount of EUR 13,705,308.70 with interest as follows:

- EUR 3,239,140.63 (from plus/minus list) plus interest of 6% p.a. calculated from September 24, 2015, or any subsequent date determined by the Arbitral Tribunal, up to full payment
- EUR 255,650.00 (based on Andritz Change Orders) plus interest of 6% p.a. calculated from September 24, 2015, or any subsequent date determined by the Arbitral Tribunal, up to full payment
- EUR 255,650.00 (based on Andritz Change Orders) plus interest of 6% p.a. calculated from September 24, 2015, or any subsequent date determined by the Arbitral Tribunal, up to full payment,
- EUR 1,771,534.20 (for Cascada Equipment) plus interest of 6% p.a. calculated from 25 May 2014 for EUR 1,300,000.00 and 12 December 2014 for EUR 471,534.20, or a further date to be determined by the Arbitral Tribunal up to full payment,
- EUR 350,338.84 (on the Completion Bonus) plus interest of 6% p.a. calculated from 29 January 2015, and any subsequent date to be determined by the Arbitral Tribunal up to full payment, and
- EUR 7,949,355.25 in respect of Bank Guarantees, plus interest of 6% p.a. calculated from 3 July 2015 for EUR 1,423,904.98 and 6 July 2015 for the amount of EUR 6,525,450.27, up to full payment.

(iv) *in eventu* and, alternatively, reject the Petitioner’s claims (i) to order the defendants to replace the deficient works, and,

- with regard to the corroded parts and affected by the linear and round indications, order only the repair, conditional on the Petitioner’s payment to the Defendants, to increase the cost of repair in relation to those which the defendants would have incurred in 2014, provisionally estimated at EUR 2.8 million, and to order neither replacement nor financial compensation, nor the reimbursement of the price of deficient work;
- in any situation regarding oil leakage, to claim in its entirety and order neither replacement nor financial compensation;
- on the difference in temperature, to reject the application in its entirety and to order neither replacement nor financial compensation, considering that a reduction in the price constituting the only possible remedy, was not demanded

by the applicant and that the applicant had already deducted more than adequate by collecting the bank guarantees of the Defendant 2;

- and in any event reject payment claims in full, in eventu, to take into account the amount granted for any claim from the counterclaim submitted to the Defendants by offsetting, if any financial claim is made;

(v) to award costs incurred in connection with arbitration and interest of 6% p.a..

The value of the dispute it results from the Object of the file: approx. EUR 150,000,000 for the main claim and EUR 13,705,308.70 for counter-claim.

The Arbitral Tribunal Patrick Thieffry – Arbitrator appointed by Hidroelectrica
Siegried H. Elsing – Arbitrator appointed by Voith/Andritz
The President of the Arbitral Tribunal, Mr. Yves Derains, resigned on September 12, 2016.
The new President of the Arbitration Tribunal is Philip De Ly

Stage of Procedure On November 10, 2017, the Parties filed simultaneously the Memoranda of Remedies. Between 13-15 December 2017 hearings were held on remedies and quantum, including hearings of Parties' Quantum Experts. On 15 December 2017, at the end of the hearings, a case conference was held, during which the following procedural deadlines were set: (i) 22.12.2017 - The Petitioner submitted a letter stating the end of the application 2 (ii) 15.01.2018 - The Petitioner to submit any new legal evidence in respect of the legal evidence submitted by the Defenders in connection with the counter-claim on 11.12.2017,
(iii) January 15, 2018 - The Petitioner shall submit his variants of translation versus the alternative translations of the Petitioner's evidence submitted by the Defendants on 11.12.2018,
(iv) 15.02.2018 - The parties shall communicate to the Arbitral Tribunal the agreement they reach in respect of above mentioned translations. The Petitioner filed, as indicated by the Arbitral Tribunal, a letter specifying the end of application 2 a) of the arbitration request, as follows:
„2. Order the Defendants to pay penalties for the damage suffered as a result of failing to fulfill the object of the Contract, in the form of: a) the full detention by Petitioner of works until their replacement in any of the following cases:
- In the case of their replacement by a third party in a form which permits the conclusion of the final acceptance report according to the law, or
- In the event of replacement by the Petitioner at the expense of the Defendant."

Between 06 - 07 March 2018, the final parties' pleadings were held in Vienna, Austria. During the hearings, it was established that the arbitral tribunal would return with supplementary instructions on the completion of the proceedings in the file, regarding: (i) any further clarifications that would be required by the tribunal on certain points in the case file, if applicable, and (ii) form and timing of submission by the Parties of memoranda on arbitration costs.
17.04.2018 The Arbitral Tribunal issued the Procedural Order no. 11
30.04.2018 - The applicant submitted written notes on the procedural objections raised by him during the hearings in March 2018
18.05.2018 - 27.06.2018 - The applicant and the defendands filed written concussions after the arbitration.
The Arbitral Tribunal will return with additional instructions on the procedure in the file.

IV. Arbitral file 20901/MHM

Arbitral litigation on Contract no. 16636 / 31.10.1997 regarding the refurbishing and to increase the power of the 6 hydroelectric units of HPP Porțile de Fier I
Petitioner: Societatea de Producerea Energiei Electrice în Hidrocentrale "HIDROELECTRICA"
Defendant: ANDRITZ HYDRO AG

The object of the file
The applicant requested the arbitral tribunal to give a ruling by which:
1.A. Mainly: order the Defendant to pay to Petitioner damages for the loss suffered as a result of the non-fulfillment of the object of the Contract in the amount of USD 388,322,602 plus interest, calculated up to the day of payment, of 6% per annum. The amount also includes replacement work in accordance with the Replacement Program in the Quantum Report MWH.
1.B. In the alternative, in so far as the Arbitral Tribunal considers that the Repair Program in the Quantum MWH Report will be able to satisfy the Petitioner's right to a hydroelectric plant in accordance with the contractual provisions, order the Defendant to pay the applicant the amount of USD 295,623,602 plus interest calculated up to the day of payment, of 6% per year.
2. Order the Defendant to bear the costs and expenses of the arbitrators, the ICC, the costs of lawyers, experts and consultants as well as internal costs and to compensate the Petitioner for the costs of preparing and conducting arbitration, including its internal costs.
3. Order any other measure the Court considers appropriate to be in favor of the Petitioner.
Value of litigation USD 388,322,602
Arbitral Tribunal: Alan Redfern (Chairman), Anne Marie Whitesell, Georgios Petrochilos
Status of the dispute: The Defendant will file on 20 April 2018 a Memorandum as a response of the Memorandum amid the case filed by the petitioner on 18 September 2017. The parties did not agree on the future procedural calendar, following that the Arbitral Tribunal would take a decision to do so and set forth the future deadlines.

V. Arbitral file UNCITRAL Ad Hoc [EFT]

Arbitral litigation concerning the Contract RO 22 E having as object the supply of electricity by Hidroelectrica to EFT Energy Financing Team AG.
Petitioner: EFT Energy Financing Team (hereinafter *EFT*)
Defendant: Societatea de Producere a Energiei Electrice în Hidrocentrale „Hidroelectrica" SA
Arbitrary litigation is made up of the following claims of EFT:

- (i) Order Hidroelectrica to pay damages for the non-performance of the Contract RO22E in the amount of EUR 42.6 million (initially approximately EUR 80 million)
- (ii) To pay 5% interest on the amount in point (i) from 6 December 2013 (Median date)
- (iii) Order Hidroelectrica to pay arbitration costs, including in-house costs

The amount of the litigation EUR 42.6 million, plus interest and other damages, the amount is provisionally mentioned.
The Arbitral Tribunal Luca Radicati di Brozolo (Președinte), Alexis Mourre and David P. Roney
Place of Arbitration Bern, Switzerland
The state of the arbitration litigation:
Hearings on the merits took place in Geneva, Switzerland from October 31 to November 2, 2016. On 16 November 2016, the Arbitral Tribunal issued Procedural Order no. 4, on the content of the Post Hearing Briefs, in which it requested completions regarding (i) the impact of ANRE regulations in force at the date of signing the Contract and of the ICCJ decision in file no. 7774/1/2011 on its validity; (ii) the probative power of administrative (non-final) decisions in arbitral proceedings, including on Swiss law; (iii) the substantive (and factual) effects in Switzerland of foreign judgments in insolvency.
Under the agreement of the parties on 3 December 2016, which the Arbitral Tribunal has taken note of, both parties filed the Post Hearing Briefs simultaneously, on 28 February 2017. On April 28, 2017, the petitioner submitted exclusive comments on the novelty elements invoked by Hidroelectrica.
Following the delivery of the Civil Sentence no. 3524 / 06.10.2017 by the Bucharest Court of

Appeal in file no. 3810/2/2016, by which cancelled the Competition Council Decision no. 82/2015 on the EFT AG, the Arbitral Tribunal requested the parties to submit comments on this Sentence, through a report to Hidroelectrica's main defense, namely the nullity of the Contract RO 22 E on trespassing Competition Agreement, based on the Competition Council's decision. Hidroelectrica submitted clarifications on 27.11.2017. Both parties filed Post Hearing Briefs simultaneously on February 28, 2017, and the Petitioner made exclusive comments on the novelty elements invoked by Hidroelectrica.
On 21 December 2017, the General Court handed down the Partial Final Decision, which dealt exclusively with the issue of possible liability on the substance of Hidroelectrica, by reference to the counter-claim and the substantive defense of Hidroelectrica: Hidroelectrica defended its insolvency proceedings in Romanian law and the powers attributed by the Romanian law to the Official receiver, the Tribunal declared that official receiver has validly denounced the EFT Agreement on 1 August 2012. The Arbitral Tribunal reserved its decision on the possible damages to which EFT would be entitled for at a later date, and will shortly be asking the Parties for a list of questions regarding the applicable law to this issue (i.e. the Romanian law - Article 86 (2) of Law 85/2006 - or the Swiss law), rules and calculation methods. Please note that the Court of First Instance did not indicate a time limit to which the questions would be communicated to the Parties and no procedural timetable for the next phase. The issue of arbitration costs (the amount and assignment) is also reserved for the final decision. The Arbitral Tribunal approved the timetable proposed by the parties:

- 27.04.2018 – EFT Memorandum on the basis and amount of damages due to the valid denunciation of the Contract by the Official receiver;
- 22.06.2018 – Hidroelectrica’s Memorandum on the basis and amount of damages due to the valid denunciation of the Contract by the Official receiver;
- 20.07.2018 – Response Memorandum of EFT;
- 03.09.2018 – Response Memorandum of Hidroelectrica;
- 22-23.10.2018 – hearings on the merits, if necessary.

The Arbitral Tribunal shall declare the closure of the proceedings and shall give the arbitral award at a later stage, after following the phases described above.

VI. Arbitral file ICC 22047/MHM

Arbitral litigation regarding Contract no. 23.534 / H.700.116004 concerning the refurbishment of the hydroelectric plants located on the Lower Olt: Ipotești, Drăgănești, Frunzaru, Rusănești și Izbiceni.
Petitioner: Andritz Hydro GmbH Germania (hereinafter „*Andritz*”)
Defendant: Societatea de Producere a Energiei Electrice în Hidrocentrale „Hidroelectrica” SA
Arbitrary litigation is represented by the following claims of Andritz:

(i) Declare unlawful and inoperative the compensation [operated by the Hidroelectrica’s Official receiver between EUR 7,262 thousand, representing part of the Andritz receivables unconditionally recorded in Hidroelectrica's list of creditors, and the amount of Euro 13,625 thousand representing the advance payment made by Hidroelectrica in May and June 2003 for Phase III of the PF II project, according to Contract 2I / 50675 / 09.11.2001, as amended by Supplementary Documents 4 and 6 signed by parties on December 5, 2002 and March 26, 2003];
(ii) To declare exigibile Andritz's claim against Hidroelectrica in the amount of EUR 7,262 thousand plus 6% interest calculated from 30 June 2013;
(iii) To determine Hidroelectrica to pay Andritz the amount of EUR 7,262 thousand plus the 6% interest calculated from June 30, 2013;
(iv) Order Hidroelectrica to pay the arbitration costs;

(v) Have any other remedies / remedies that the Arbitral Tribunal considers appropriate.
Litigation amount: Euro 7,262,095 (Andritz evaluation according to Request for Arbitration)
The Arbitral Tribunal: Stavros Brekoulakis – President Mag. Martin Platte – co-arbitrator nominated by the Applicant; Dr. Beata Gessel-Kalinowska vel Kalisz - co-referee nominated by Hidroelectrica
The state of the arbitration litigation:
By Procedural Order No 2 of 30 January 2017, the Arbitral Tribunal ordered the suspension of the trial, according to the parties' agreement, until the file ICC 19414 / MHM is solved, and the Andritz appeal against Hidroelectrica's insolvency proceedings.

VII. Arbitral file ICC 22482/MHM

Arbitral litigation regarding Contract no. 2 I / 50765 / 09.11.2001, between Hidroelectrica and Andritz Hydro GmbH (formerly VA Tech Hydro GmbH & Co) - subject of the contract: capital repairs and modernization of the Portile de Fier II Hydro Power Plant. By the Additional Act no. 2 / 22.03.2002 the object of the contract was extended to the modernization of the auxiliary equipment of 8 units (Phase II) and by the Additional Act no. 4 / 05.12.2002 were added units 9 and 10 (Phase III)).
Petitioner: Andritz Hydro GmbH (former VA Tech Escher Wyss GmbH) and Andritz Hydro GmbH (former VA Tech Hydro GmbH& Co)
Defendant: Societatea de Producere a Energiei Electrice în Hidrocentrale „Hidroelectrica" SA
The arbitral litigation is represented by the following claims of Andritz Hydro GmbH:

- Order the Defendant to pay the amount of EURO 13,015,329.06,
- Order the Defendant to bear all the costs arising from the present arbitration dispute.

The value of the dispute: Compared to the claims made so far by the arbitral action, we estimate the following value - EURO 13,015,329.06 (the estimated value of the end of application number 1) and a legal interest rate of 6% per year. Hidroelectrica filed a counterclaim requesting the applicants to be ordered to pay the sum of EURO 3,481,016.4
Arbitral Tribunal: the constitution phase has been completed
Status of the arbitral litigation: In April 2018, the procedural timetable for arbitration is to be established.

2. Other litigations

General Tax Inspection

Hidroelectrica was subject to the general tax inspection, the period under control being between 01.01.2006 and 30.06.2012. The National Agency for Fiscal Administration ("ANAF") issued the Taxation Decision no. F-MC 851 / 21.01.2014 regarding additional tax liabilities, the amount of payment retained in charge of Hidroelectrica being in value of RON 232,570,429 representing profit tax, VAT, social contributions and accessories, related to these categories of taxes, fees and contributions. By the decision on resolution of the preliminary tax appeal no. 406 / 18.12.2014, ANAF General Directorate for Solving Complaints partially upheld the appeal filed by Hidroelectrica, ordering the annulment of the Taxation Decision for the total amount of RON 18,185,217 from the payment of which Hidroelectrica was exonerated.
Consequently, the obligations established by the Taxation Decision were reduced to a total amount of RON 214,385,212.

Against Decision no. 406 / 18.12.2014, Hidroelectrica filed a complaint at the Bucharest Court of Appeal - Administrative Litigation Section, within the legal frame of 6 months from the date of the decision, setting File no. 3288/2/2015.

Considering that Hidroelectrica was not insolvent at the time of issuing the Taxation Decision (21.01.2014), it could be enforced because the Taxation Decision became enforceable on 20.02.2014. The tax decision would become enforceable under the conditions set out in Annex 1 of the Order of the Minister of Finance no. 1021/2013: *"The difference of tax, fee or contribution found by the tax inspection bodies and established to be paid, as well as the related obligations, are paid according to the date of communication of the present tax decision, as follows: - until the 5th day the following month, when the date of communication is within the first 1-15 days of the month; - until the 20th day of the following month, when the communication date is within 16-31 days of the month."* According to the provisions of art. 148^1 of the Fiscal Procedure Code (version 21.01.2014) the forced execution was suspended or would have not commenced if Hidroelectrica had submitted to the competent fiscal body a bank guarantee letter at the level of the contested tax obligations with a validity of at least 6 months from the date of issuance.

In order to capitalize the insolvency procedure, the Taxation Decision, on 17.12.2014, ANAF registered in the Hidroelectrica insolvency file no. 22456/3/2012* a request for payment, based on the provisions of art. 64 par. (6) of Law 85/2006 on Insolvency Procedure. In accordance with the provisions of this law, payment obligations incurred during the insolvency proceedings are paid in accordance with the documents resulting therefrom, without requiring registration in the creditor's group. ANAF claimed that, by issuing the Taxation Decision on 21.01.2014 (i.e., during the insolvency proceedings), the receivable from the Taxation Decision acquires the current receivable character, which is paid with priority, without enrolling in the List of creditors.

Euro Insol Official receiver, by measure taken on December 2014 in the Activity Report and published in BPI no. 1310 / 22.01.2015, found that:

• the receivable from the Taxation Decision is not current (appeared during the insolvency procedure) but before the procedure, as it targeted the debits established for the period 01.01.2006 - 20.06.2012;

• as they are past receivables, they had to be declared at the creditor's group in the period stipulated by Law 85/2006 (06.08.2012 in the case of Hidroelectrica);

• failure to file the claim in the legal term attracts the decline, according to the provisions of art. 76 par. (1) of the Law no. 85/2006;

• as such, the Official Receiver, Euro Insol has found that ANAF has no right in respect to that claim, neither in the procedure nor after its closure, in accordance with the provisions of Art. 76 par. (1) of Law 85/2006.

Against this measure of the Official Receiver, ANAF filed an appeal in accordance with the provisions of Insolvency Law 85/2006 (Article 21). File no. 3288/2/2015 was suspended until the appeal against the request for payment submitted by ANAF was rejected by the Hidroelectrica's Official Receiver.

By civil sentence no. 6458 / 17.07.2012 filed by the syndic judge in the file 22456/3/2012 */ a1, the court rejected ANAF's appeal with the following reasoning: "carrying out fiscal inspection and issuing the tax decision after the opening of the insolvency proceedings, but for fiscal debts related to a period prior to respective moment, cannot transform the nature of the claims, classified from this point of view by Law no. 85/2006 in past and subsequent receivables, which attract different legal regimes in respect of the declaration, the registration or not in the list of creditors and their payment. Due to these considerations and appreciating, referring to the nature of the claim as born prior to the opening of the insolvency proceedings, that the official receiver had correctly considered that the provisions of art. 64 par. 6 of the Law no. 85/2006,

the court will reject the appeal ". Therefore, the court validated the reasoning of the Euro Insol Official receiver, who found that the claim for damages claimed by ANAF did not exist. Sentence 6458 / 17.07.2012 was appealed by ANAF. Bucharest Court of Appeal - 5th Civil Division, by decision no. 135 / 10.03.2016 pronounced in the file 22456/3/2012 * / a1, dismissed ANAF's appeal and maintained the sentence as legal and solid.
File no. 3288/2/2015 has resumed its procedural course and is currently being solved. Next hearing: 06.06.2018.
In 2016, the Company signed with ING Bank the credit agreement no. 16271 / 09.02.2016 for ING Bank to issue a bank guarantee letter in favor of ANAF, in value of RON 214,385,212. On 18.02.2016 ING Bank issued the Letter of Guarantee No. GI-16/0826 in favor of ANAF, in value of RON 214,385,212 with validity till 18.08.2016. By Decision no. 21 of 18.08.2016, the Supervisory Board approved the non-extension of the Bank Guarantee Letter (BGL) No GI-16/0826 and, if applicable, the exercise of contestation against execution of any enforceable acts initiated by ANAF, on the basis of the taxation decision no. F-MC 851 / 21.01.2014 in the absence of a valid bank guarantee letter validly extended, according to the Code of Fiscal Procedure.
On 18.08.2016 ING Bank informed the Company that ANAF sent to the bank a notice for executing the Bank Guarantee Letter no. GI-16/0826. ING BANK will analyze its compliance and will decide on the execution of the BGL within 5 business days. On 25.08.2016 ING Bank submitted to ANAF the refusal to pay. On September 6, 2016, ANAF started enforcement against ING Bank as a result of its refusal to respond to ANAF's request for payment of the Bank Guarantee Letter. By address no. 100178 / 14.09.2016, the Company was informed that, following the enforcement order issued by ANAF on 06.09.2016, ING Bank paid to ANAF the amount of RON 214,385 thousand. Both ING Bank and Hidroelectrica filed an appeal against ANAF enforcement. At the trial date set for 17.10.2017 in the litigation regarding the contestation of the execution in file 38194/299/2016 *, the 1st District Court of Bucharest remained in the ruling on the contestation of enforcement, which was postponed for the date 31.10 .2017. The solution of the court was as follows: *"It rejects the exception of the lack of the procedural capacity of Hidroelectrica SA, invoked by the intimate General Directorate for Public Finances of Bucharest - the Ministry of Public Finance Administration Sector 1 as unfounded. Rejects the contestation of the execution submitted by the Hidroelectrica in contradiction with the General Direction of Public Finances of Bucharest - the Administration Sector 1, the General Tax Administration and ING Bank N.V. Amsterdam, Bucharest Branch, as unfounded. Rejects the application for interlocutory intervention in the interest of the opposing party formulated by Fondul Proprietatea SA as unfounded. Rejects the challenge to enforcement that forms the subject of the related file no. 38330/299/2016*, formulated by ING Bank N.V. Amsterdam, the Bucharest Branch in contradiction with the General Directorate of Public Finances Bucharest - the Administration Sector 1, as unfounded. Dismisses the application for interim relief in the interests of ING Bank N.V. Amsterdam formulated by the Hidroelectrica SA as unfounded. Takes note of the waiver of the request for an incidental intervention filed by Fondul Proprietatea SA in the interests of the challenger of ING Bank. With right to appeal within 10 days from communication. The appeal is filed with the Court of Bucharest District 1, under the sanction of nullity. Delivered today, 07.11.2017, and making the solution available to the parties through the Registry of the Court."*

Economic and Financial Inspection at SH Portile de Fier, finalized with Mandatory Disposition CRR-AIF 778 / 10.03.2017

At the end of 2016 and early 2017 at the headquarters of SH Portile de Fier, took place an inspection of the Regional General Directorate of Public Finances - Craiova, the Economic and Financial Inspection. The inspection was carried out on the basis of the Emergency Ordinance no. 94/2011 regarding the organization and functioning of the economic-financial inspection approved with the modifications and completions by Law no. 107/2012 and GD no. 101 / 28.02.2012 for the application of the Methodological Norms regarding the establishment, organization and functioning of the economic-financial inspection. The economic and financial inspection was registered in the Sole Inspection Register series A no. 0858500 of the economic operator at position 84 / 14.09.2016, and the period under inspection was 01.01.2011-31.12.2015. As a result of the inspections carried out, the fiscal inspectors, through the Inspection Report, reported a series of possible irregularities, with remedying measures. Hidroelectrica, within the legal term, pursuant to art. 7 of the Law no. 554/2004 of the Administrative and Fiscal Contentious has filed a preliminary complaint with the Ministry of Public Finance, the competent institution to resolve the preliminary complaint, according to the law, which was solved by Decision no 89 / P / 20.11.2017.
To the measures ordered by Mandatory Disposition no. CRR-AIF 778 / 10.03.2017, Hidroelectrica took the following steps:

- notifying the companies SERV BARATIN SRL, GARDIAN GRUP CDSG SRL and HIDROSERV PORTILE DE FIER SA to repay the amounts unduly received and the legal penalties, but they categorically refused, underlining that "the services were rendered and there are no recorded outstanding debts to Hidroelectrica”;
- a preliminary complaint was filed against Mandatory Disposition no. CRR-AIF 778 / 10.03.2017, and subsequently, the appeal against the mandatory disposition and the decision to solve the preliminary complaint was promoted to the administrative contentious court, which is the subject of the file no. 4915/2/2017;
  Pronunciation on 26.02.2018: Admits the action as amended. Cancels the Minutes of Economic and Financial Inspection concluded on March 20, 2017, filed with the applicant under no. 29 918 / 03.21.2017; The Economic and Financial Inspection Report, concluded on 7.03.2017 under no. CRR-AIF 777 / 10.03.2017, Obligatory Provision no. CRR-AIF 778 / 10.03.2017 and Decision no. 89 / P / 11.20.2017. Accepts the suspension request. Suspends the execution of the Mandatory Provision no. CRR-AIF 778 / 10.03.2017, pending the final settlement of the present case. Law Enforcement. With right of appeal within 5 days of communication, for the application and for suspension within 15 days of communication, on the basis of the request.
- a request for provisional suspension of the measures ordered by Mandatory Ordinance no. CRR-AIF 778 / 10.03.2017, to the competent court which formed the object of the file no. 3828/2/2017, but the court rejected this request, a request that Hidroelectrica resumed also in the application for annulment of the Obligatory Disposition no. CRR-AIF 778 / 10.03.2017, which is the subject of the court file no. 4915/2/2017, with judgment on 04.12.2017. In file no. 3828/2/2017 Hidroelectrica filed an appeal, a file for the regularization procedure, but by admitting the action in file 4915/2/2017 the present case had no purpose.

Labor disputes

Labor disputes represent a significant part of the company's litigation portfolio. Reported to the cause that generated the disputes of the respective work, those can be divided into the following categories:

1. Labor litigation resulting from redundancies;
2. Labor disputes arising from requests for the establishment of special conditions of employment and employees' registration in various groups based on the Order of the Ministry of Labor no. 50/1990 for the specification of the workplaces, activities and professional categories with special conditions that belong to groups I and II of work for retirement, on the Government Decision no. 1025/2003 regarding the methodology and criteria for registering persons in work places under special conditions and on the Government Decision no. 261/2001 - regarding the criteria and the methodology of registering the work places in special conditions;
3. Other labor disputes arising from the current employment relationship between Hidroelectrica S.A. and its employees or former employees or precursor companies;
4. Collective litigation initiated for employees by the Hidroelectrica's Trade Union "Hidrosind":

   i. File 3032/3/2017, Bucharest Tribunal - Compensation following the reporting of the salary scale to the current minimum wage. Current Situation of the Dispute: The litigation was suspended until the appeal brought by intervener, Fondul Proprietatea S.A. Since the appeal was rejected, a time limit was set for the continuation of the trial on the case on 07.11.2017. The litigation was solved, the court's decision being as follows: "It rejects the exception of the lack of active procedural quality. Dismisses the action as unfounded. Orders the applicant to pay the amount of RON 3000 to the defendant in respect of the costs of the proceedings. Appeal within 10 days of communication, which is filed with the Bucharest Court of Law - Section VIII Conflicts of Labor and Social Insurance. Pronounced in public session, today, 21.11.2017. "

   An appeal was made by the Hidrosind Hidroelectrica Trade Union Appeal term: 29.05.2018 in the file no.320 / 2/2018 at the Court of Appeal Bucharest.

   ii. File 3036/3/2017 Bucharest Tribunal - Compensations following the salary scale reporting to the current minimum wage. Current Situation of the Dispute: The litigation was suspended until the appeal brought by intervener, Fondul Proprietatea S.A. On March 22, 2018 the Bucharest Court of Appeal issued the appeals formulated by the Federatia Universul and Fondul Proprietatea against the closing session of 31.05.2017. Appeal: Dismisses as unfounded the appeals made by the defendant SC de Producere a Energiei Electrice in Hidrocentrale Hidroelectrica and by the interveners of the Univers National Federation of Unions in Electricity, Fondul Proprietatea. The file will be pending for further judgment.

   iii. File 6803/3/2017 Bucharest Tribunal - Compensation following the reporting of the salary scale to the current minimum wage. Current situation of the Litigation: The litigation was suspended on 10.08.2017 until the appeal brought by the interveners, Fondul Proprietatea S.A., The Bucharest Court of Appeal rejected the appeal as unfounded on 02.10.2017. The litigation was settled on the merits, as follows: "Dismisses the exception of the lack of active procedural quality. Dismisses the action as unfounded. Appeal within 10 days of communication, which is filed with the Bucharest Court of Law - Section VIII Labor Conflicts and Social Insurance. Pronounced in public session, today, December 20, 2017. " Appeal declared on April 10, 2018 by the Hidroelectrica Hidrosind Union. File in the regularization procedure.

iv. File 19577/3/2017, Bucharest Tribunal - Compensation following the salary scale reporting to the current minimum wage. The litigation was settled on 7 February 2018, with the exception of the limitation of the material right to action in respect of wage entitlements corresponding to fortnight in May 2014. The action concerning the wage rights corresponding to fortnight as May 2014, as prescribed. Dismisses the remainder of the action as unfounded. It orders the applicant to pay the defendant the amount of RON 6000 in respect of costs representing a resuced lawyer fee. With right of appeal within 10 days of the communication to the Bucharest Tribunal.

v. File 22456/3/2012 * / a6 * Bucharest Tribunal - restitution of differences in classes and bonuses. Current situation of the dispute: the main action was dismissed as unfounded. An appeal was filed by Hidrosind at the Bucharest Court of Appeal with deadline of 23.05.2018.

vi. File 41672/3/2016 Bucharest Tribunal - requesting indemnification and cancellation of the provision of the Collective Labor Agreement on systematic overtime work. Current state of the dispute: By the judgment of 03.05.2018 the application was partially admitted, the Company being obliged to pay compensation in value of RON 183,507, which will be updated with the inflation until the date of payment.

vii. File 41868/3/2017 Bucharest Tribunal - application for vacation bonus according to the provisions of the Collective Labor Agreement of 2017 formulated by the Hidroelectrica Hydrosind Union for a number of 2819 employees.
Pronounced on 13.04.2018: "Admits action. Determin the defendant to pay to each applicant the salary rights representing the due vacation bonus balance under 2016 and / or 2017 according to labour contract applicable for the company on 2016, 2017, unpaid, and updated with the inflation index at the actual payment date, at which the statutory interest will be calculated from the due date to the actual payment date. Takes note that the applicant will seek separate court costs. "

viii. File 92/3/2018 Bucharest Tribunal – applcation made by the Univers National Federation of Unions in Electricity requesting Hidroelectrica to pay indemnities related to the overtime work (15 minutes prior to taking the shift according to the job description) and granting 100% of base salary for the supplementary hours starting with 01.01.2015 and up to 31.12.2017, to which will be add the legal interest. Deadline 08.05.2018.

ix. File 90/3/2018 Bucharest Tribunal - application for vacation bonuses according to the provisions of the 2017 Collective Labor Contract, formulated by the Univers National Federation of Unions in Electricity for a number of 82 employees. Sentence on mertits on 03.04.2018: "Admitted in part the action, obliges the petitioner to pay to the plaintiffs a compensation representing the equivalent of the due vacation bonuses to each, related to the 2017 holiday leave, made by the applicants after 01.07.2017. Obliging the defendant to pay compensation to the petitioners, as legal interest in respect of the amounts representing vacation bonuses due to each of the applicants, which was ordered to pay, according to the present sentence, calculated from maturity for each applicant up to the date of actual payment. Otherwise, the action is dismissed as unfounded. Notes that the defendants are seeking separate court fees.”

Litigation concerning immovable property taken over for the cause of public utility
The company is involved in a number of legal disputes in real estate (mainly land) used in current business. It is important to note that on 31.03.2018 the company was involved in a number of 47 litigations having as object expropriations, still to be solved, in different procedural stages.

Litigation arising from water use

The company as a defendant was involved in a number of litigations mostly having as object the annulment of the permits issued by the Apele Romane Administration in process of settlement, out of which a number of 7 cases were favorably solved by admitting the actions made by Hidroelectrica; a number of 28 litigations have been rejected and the remaining 15 litigations are pending. Most of these disputes arise from Hidroelectrica's obligations by the Apele Romane Administration, which were assessed as outside the concession contract, applicable legislation and / or the technical possibilities of the hydropower plants.

Litigation on the Jiu River's Hydropower Project on the Livezeni-Bumbesti Sector"

Disputes were initiated in 2016 by Bankwatch Association Romania, the Neuer Weg Association and the Energy Justice Association and had as object the suspending and canceling the Building Authorization no. 7/2016 issued by the Hunedoara County Council and the Building Authorization no. 16/2012 issued by the Gorj County Council. The main reason why the applicants consider building permits to be inadequate is the lack of a new environmental assessment, including an appropriate Evaluation Study regarding Jiu River Hydropower Project on the Livezeni-Bumbesti Sector".

The technical-economic indicators of Livezeni - Bumbesti investment were approved by Government Decision no. 10 on 09 January 2003, in accordance with the government's energy legislation and strategy of that date. Also, by Government Decision no. 1297 on September 20, 2006 the investment was declared of public utility, being considered a work of national interest. The two Government Decisions were issued following studies carried out between 1982 and 2002, when no protected area was declared on the site of the works and the Community's legislation did not operate on the territory of Romania. National Park Jiu Defile was established by GD no. 1581 / 8.12.2005, almost 2 years after the issuance of the order for commencing the works to this investment objective, and its inclusion in the Natura 2000 environment program took place in 2007, together with Romania's accession into the EU.

On the role of the courts there were and there are the following disputes regarding the existence of the National Park Jiu Defile:

- The litigation that was the subject of file no. 30624/3/2016 on the merits of the Bucharest Tribunal Second Section of Administrative and Fiscal Litigation and which is aimed at suspending the authorizations for the construction of hydroelectric power plants on the Jiu river until a new environment assessment is made. The applicants' request was dismissed as inadmissible on 19.05.2017 and no appeal was declared.
- The litigation that is the subject of file no. 10058/3/2017 on the merits of the Bucharest Tribunal Court Second Section of Administrative and Fiscal Litigation and having as its object the annulment of the authorizations for the construction of hydroelectric power plants on the Jiu river until a new environmental assessment is made. On June 22, 2017, the Bucharest Court dismissed the petition for legal action, being appealed by the petitioners. At the time of judgment on 07.12.2017, in the appeal, the Bucharest Court of Appeal gave the following solution: *"Admit the appeal. It partially cancels the civil sentence no. 4021 / 22.06.2017 of the Bucharest Tribunal and reanalyzing decides: Dismisses the exception of the delay in invoking the plea of illegality. It rejects the plea of illegality as unfounded. Accept the action. Cancels the building permit no. 7/2016 issued by the Hunedoara County Council and building permit no. 16/2012 issued by the Gorj County Council. Still retains the recurring sentence. Final. Pronounced in public session today 14.12.2017".*

- Hidroelectrica, by lawyers, has formulated extraordinary ways of attack, considering to be entitled to appeal to the courts by way of appeal in annulment and by reviewing the appeal court's decision.
- The dispute which is the subject of file 1239/2/2018 having as object the annulment of administrative act 5378 / 14.12.2017 of file 10058 / 3/2017 from the Bucharest Court of Appeal, Section VIII Administrative and fiscal contentious registered on February 22, 2018, and is currently in the regularization procedure.
- Litigation subject to file 804/2/2018 having as object the administrative act annulment dec. no. 5378 / 14.12.2017 of file no.10058 / 3/2017 (opposition in annulment-appeal), on the Bucharest Court of Appeal, Section VIII Administrative and fiscal litigation, filed on 05.02.2018. The contestant is Hidroelectrica, 08.06.2018.
- The litigation making the object of file 911/2/2018 having as object the annulment of administrative document file 10058/3/2017, 5378 / 14/12/2017 (review-appeal), on the Court of Appeal Bucharest, Administrative and fiscal litigation section VIII, registered on 08.02.2018. Hearing 19.04.2018.
- Litigation, making the subject of the file 720/33/2017 filed by the Cluj Court of Appeal, the 3rd Administrative and fiscal litigation section, having as object the annulment of the administrative act. The Applicant "Efectul Fluture" Association requested in contradiction with the Romanian National Waters Administration and Hidroelectrica to cancel in full the Water Management Approval No.410 / 15.08.2005 issued for the Jiu River Hydro energetics Project on the Livezeni Bumbesti Sector. The case is pending, the next court term being granted by the court on 07.05.2018 for: 1.) court to return with address to the Government of Romania requiring to communicate the annexes and acts that were the basis for the issuance of the Government Decision no. 1297/2006; 2.) to return with the address to the Romanian National Waters Administration requesting to communicate the documentation underlying the issuance of the Initial Water Management Notice no. 188 / 14.02.2003; 3.) for the court to prepare a letter to the Ministry of Environment and to the Romanian Water Administration requesting to communicate all the documentation related to Order no. 1044 / 27.10.2005 on the procedure for consultation of water users, riparian and the public in decision-making in the field of water management, related to respective objective on Jiu river hydropower project on the Livezeni Bumbeşti sector, with Hidroelectrica SA as project holder.

File 34693/3/2017 in which Hidroelectrica S.A. has the capacity of defendant, the petitioner being Fondul Proprietatea, for the cancellation of some parts of the GMS decision no. 11 / 03.08.2017. The brief solution of the court on 12.02.2018 is: "Notice the absolute nullity of points 6, 8 (1-6), 9, 10, 11, 12 of OGMS No. 11 / 03.08.2017. Decides to keep the mention of the decision in the Trade Register and the publication in the Official Gazette "for which, at the moment of communicating the motivation of the solution adopted by the court, the Company will file an appeal. All the Supervisory Board Decisions' adopted between 20.08.2017 - 18.09.2017 were ratified by the Decision of the Supervisory Board no. 15 of 13.03.2018.
The Decisions of the OGMS no.11 / 03.08.2017 which are the subject of the file 34693/3/2017 are:
"6. By majority of votes rejects from the agenda item 6, on the approval of the form of the mandate contract that will be concluded with the members of the Supervisory Board of the company, as submitted by Fondul Proprietatea prior to the GMS through Fondul Proprietatea note no. 514 / 18.07. 2017 registered at Hidroelectrica under no. 73 905 / 18.07.2017
8. Choose as temporary members of the Supervisory Board of SPEEH Hidroelectrica SA the following persons:

- *By majority of votes, Mrs. Lambru Ioana-Andreea, Romanian citizen, born on 12.04.1985 in Bucharest Sec. 5, domiciled in Bucharest*

- *By majority of votes Mrs. Negru-Ciobanu Andreea, Romanian citizen, born on 19.05.1981 in Targu Ocna, Bacau county, domiciled in Voluntari, Ilfov county*
- *By majority of votes Mr. Cojocaru Radu Spiridon, Romanian citizen, born on 12.12.1947 in Com. Cetateni, Arges county, domiciled in Voluntari*
- *By majority of votes Mr. Borbely Haroly, Romanian citizen, born on 26.07.1976 in Hunedoara, Hunedoara county, domiciled in Bucharest*
- *By majority of votes Mr. Tudor Laurentiu Dan, Romanian citizen, born on 07.08.1966 in Gusoeni, Valcea county, domiciled in Bucharest*
- *By majority of votes Mr. Gambuteanu Horia-Marian, Romanian citizen, born on 07.09.1982 in Bucharest, sector 2, domiciled in Bucharest*
- *By majority of votes Mrs. Oana Valentina Truta, Romanian citizen, born on 20.08.1980 in Targu Mures, Mures county, domiciled in Bucharest*

9. By majority of votes, sets the term of office of the temporary members of the Supervisory Board of SPEEH Hidroelectrica SA to be of 4 (four) months, according to the provisions of art. 641 of GD no. 109/2011 on Corporate Governance of Public Enterprises, approved with amendments and completions by Law no. 111/2016, starting August 20, 2017;
10. By majority of votes established the fixed remuneration of the members of the Supervisory Board of SPEEH Hidroelectrica SA, equal to twice the average of the last 12 months from the monthly gross average earnings for the activity performed, according to the main object of activity registered by the company, of the activities' classification in the national economy, communicated by the National Institute of Statistics prior to the appointment.
11. By majority of votes, approves the form of the mandate contract that will be concluded with the members of the Supervisory Board of SPEEH Hidroelectrica SA according to the proposal of the shareholder Ministry of Energy, Annex no. 2 to the Order of the Minister of Energy no. 156 / 26.07.2017.
12. By majority of votes empowered the representative of the shareholder of the Ministry of Energy, Mr. Teodoru Sorin, to sign, on behalf of the shareholders, the mandate contract with the members of the Supervisory Board."

Criminal litigation

The company is involved in a number of 10 criminal cases dealing with corruption offenses, manslaughter, misconduct, and embezzlement, files in which the Company is constituted as a civilian party or a civilly liable party. No amounts are identified for these files that might have a material effect on the financial statements.

1. Criminal file no. 3555/109/2015
Subject: Corruption offenses - Law 78/2000
Stage file: Call. Term 19.04.2018
Defendants: Oprea Octavian Florin, Vulparu Stefan, Stoian Florin Nicolae, s.a
2. Criminal file no. 3321/109/2016
Subject: Corruption offenses - Law 78/2000
Defendants: Vulparu Stefan, Oprea Octavian Florian, Metehoiu Bogdan Alexandru, Metehoiu Constantin, Dragu Vlad Alexandru, Oae Vasile, Dima Teodor, s.a
3. Criminal file no. 2303/1/2017
Subject: Corruption offenses - Law 78/2000, giving bribery, taking bribery, tax evasion, abuse of service
Stage file: Call. Term 09.05.2018
Defendants: Udrea Elena Gabriela, Obreja Rudel.
4. Criminal file no. 2751/277/2015
Object: killing from fault (Article 178 paragraph 2 of the CP, article 290 paragraph 1 CP, article 37 paragraph 3 with reference to paragraph 1 article 38 paragraph 4 with reference to paragraph 1 of the Law No 319/2006)
Stage file: Fund. Term 21.06.2018

Defendants: Margulescu Virgil
5. Criminal file no. 2883/P/2012 The Prosecutor's Office attached to the Drobeta Tr. Severin Court
Object: embezzlement -art. 295 par. (1) C.P. and negligence in service-art. 298 PC
Stage file: Criminal investigation
Defendants: Petru Elena Natalia
6. Criminal file no. 3267/P/2016 The Prosecutor's Office attached to the Drobeta Tr. Severin Court
Object: theft art. 228 paragraph (1) C.P. and destruction art. 253 paragraph (1)
Stage file: Criminal investigation
Defendants: unknown
7. Criminal file no. 5168/P/2015 The Prosecutor's Office attached to the Piatra Neamt
Object: theft art. 228 paragraph (1) C.P and destruction art. 253 paragraph (1)
Stage file: Criminal investigation
Defendants: unknown
8. Criminal file no. 207776/05.05.2016 Prosecutor's office attached to Panciu Court, Vrancea County
Object: the offense of qualified theft, the act provided by art. 228 par. 1 lit. d) and art. 2 lit. b) PC
Stage file: Criminal investigation
Defendants: unknown
9. Criminal file no. 496/P/2016 The Prosecutor's Office attached to the High Court of Cassation and Justice The National Anticorruption Directorate of Bucharest
Subject: Corruption offenses - Law 78/2000
Stage file: Criminal investigation
Defendants: unknown
10. Criminal file no. 53/P/2017 The Prosecutor's Office attached to the High Court of Cassation and Justice The National Anticorruption Directorate of Pitesti
Object: offenses of abuse of service Article 13 of Law 78/2000 related to art. 297 paragraph 1 of the Criminal Code
Stage file: Criminal investigation
Defendants: unknown

3) Onerous contracts

An onerous contract is a contract in which the mandatory costs for the performance of contractual obligations exceed the economic benefits to be obtained. These mandatory costs reflect at least the net cost of terminating the contract, which represents the minimum of the cost of fulfilling the contract and any compensation or penalties resulting from its non-fulfillment. The management of the company is not aware of the existence of onerous contracts when the consolidated balance sheet was prepared and has not made provisions in this respect in reagard to unconsolidated financial statements.

27. RELATED PARTIES - TRANSACTIONS WITH OTHER COMPANIES OWNED BY THE STATE

The Group is an entity with majority state ownership. The Ministry of Energy ("ME") holds 80.0561% of the Group's shares. The value of the Group's transactions with the Ministry of Energy and the entities controlled by the State or over which the State has significant influence represent an important part of the sales and purchases recorded in the financial year 2017.

(all amounts are expressed in RON unless otherwise stated)

28. REMUNERATION FOR COMPANY'S MANAGEMENT

The Group has no contractual obligations regarding the payment of pensions to former managers and administrators and has not granted any credits to managers and administrators during thier exercise. The salary expenses granted to the managers and administrators of the Group during 2017 are in amount of RON 1,960 thousand (31 December 2016: RON 1,268 thousand).

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Legislative and regulatory changes have prompted the Group to address the issue of risk management in a proactive manner that continues to be developed.

According to the Order of the Ministry of Public Finance no.946 / 2005 for the approval of Code of Internal Control including internal management / control standards in public entities and for the development of the managerial control system, completed and updated, both within the branches and in the executive of the Company, decisions were issued to appoint committees to monitor, coordinate and guide the process of implementing the internal management / control standards.

Both the Branches and the Executive of the Group have developed programs of measures for the development of the internal / managerial control system.

Strategic risks of major importance, management and mitigation have been identified as follows:

Risk related to the economic environment

The process of risk-adjusted according to international financial markets standards in recent years has affected their performance, including the financial and banking market in Romania, leading to a growing uncertainty about future economic developments.

The trading partners of the Group may be affected by liquidity crisis, situations that could affect their ability to honor their current debts. Deteriorating the operating conditions of creditors could also affect cash flow forecasting and impairment analysis of financial and non-financial assets. To the extent that information is available, management reflected revised estimates of future cash flows in its impairment policy.

Identifying and assessing investments influenced by a less liquid lending market, analyzing compliance with credit agreements and other contractual obligations raises also other challenges.

The management of the Company cannot estimate the events that could have an effect on the banking sector in Romania and what effect could then have on the economic agents' tendancy towards consumption.

	31 December 2017	31 December 2016
Finacial assets		
Cash and cash equivalents	114,950	220,787
Other short-term financial assets	1,687,518	1,479,163
Assets at fair value through profit or loss account		
Clients and assimilated accounts	587,654	649,674

(all amounts are expressed in RON unless otherwise stated)

Financial liabilities

Liabilities at fair value through profit and loss account	-	-
Liabilities at amortized cost	687,472	797,241

Price risk

At present, the price of electricity delivered on the regulated market is not exclusively influenced by the Group's decisions but is periodically agreed and reviewed by the National Regulatory Authority for Energy with the approval of the Competition Office and the price to the final consumers of electricity is monitored by the Government and the World Bank.

The current legislative framework allows producers to sell electricity to eligible consumers on the free market by concluding bilateral contracts. The risk of possible price fluctuations is not covered by derivative financial instruments.

Counterpart risk

Counterparty risk is the risk that the Group will suffer a financial loss as a result of non-fulfillment of contractual obligations by a client or a counterparty to a financial instrument, and this risk arises mainly from trade receivables, cash and cash equivalents.

Counterparty risk treatment is based on the Group's internal and external success factors. Successful external factors - which have a systematic effect on risk reduction are: restructuring of the energy market, privatization of some subsidiaries belonging to SC Electrica SA, liberalization of the energy market and improvement of market operator’s activity. Successful internal factors in counterparty risk management include portfolio diversification.

Financial assets, which may involve the Group in collection risk, are primarily trade receivables. The group has put in place a number of policies ensuring that sales of services are made to customers with an appropriate cashing. The amount of non-current provision receivables represents the maximum amount of the cash-at-risk.

The cash collection risk of these receivables is limited, as these amounts are mainly owed by state-owned companies.

Maximum exposure to non-incidence risk at reporting date was:

	31 December 2017	**31 December 2016**
Clients	346.781	397.088
Other current assets	240.873	252.586

The seniority of the receivables at the reporting date was:

	31 December 2017		**31 December 2016**	
	Gross value	**Value adjustments**	**Gross value**	**Value adjustments**
Unmatured	583,004	-	634,039	(4,723)
Maturing between 0 - 90 days	3,229	(6)	27,725	(11,864)
Maturing between 90-180 days	251	(90)	2,823	(64)

(all amounts are expressed in RON unless otherwise stated)

Maturing between 180-365 days	35,111	(34,787)	1,668	(1,618)
More than one year	51,418	(50,476)	34,774	(33,085)
Total	**673,013**	**(85,359)**	**701,028**	**(51,354)**

Liquidity risk

Liquidity risk (also called financing risk) represents the risk that an entity may encounter difficulties in procuring the funds required to meet the commitments of financial instruments. Liquidity risk may result from the inability to quickly sell a financial asset at a value close to its fair value.

	31 December 2017	**31 December 2016**
Assets		
Monetary assets in RON	2.351.368	2.270.290
Monetary assets in foreign currency	38.753	79.335
	2.390.121	**2.349.625**
Liabilities		
Monetary liabilities in RON	(366.749)	(353.946)
Monetary debt in foreign currency	(216.049)	(12.804)
	(582.798)	**(366.750)**
Net monetary position in Lei	**1.984.619**	**2.105.827**
Net monetary position in foreign currency	**(177.295)**	**(271.650)**

Liquidity risk may also arise from the difficulty in selling assets at a value close to their fair value.

The prudent management of liquidity risk involves maintaining sufficient cash and available credit lines by continuously monitoring the estimated and real cash flow and by correlating the maturities of financial assets and liabilities.

The following table shows the contractual maturity of financial liabilities:

31 December 2017	**Net value**	**< 12 months**	**1 - 5 years**	**> 5 years**
Financial liabilities	173,306	165,848	7,458	-
Suppliers and assimilated accounts	196,566	193,740	2,745	81
Other debts	200,123	89,397	110,726	-
Long-term loans	12,804	12,804	-	-
Total	**582,799**	**461,789**	**120,929**	**81**

(all amounts are expressed in RON unless otherwise stated)

31 December 2016	**Net value**	**< 12 months**	**1 - 5 years**	**> 5 years**
Financial liabilities				
	(167,150)	(167,150)	-	-
Suppliers and assimilated accounts	(195,502)	(169,049)	(26,452)	-
Other debts	(335,521)	(136,481)	(199,040)	-
Long-term loans	(12,776)	(12,776)	-	-
Total	**(710,949)**	**(485,456)**	**(225,492)**	**-**

Hydrological risk

Hydrological situation - The level of production is limited by both the installed capacity and the prevailing hydrological situation. Unfavorable low rainfall conditions affect the ability to produce and meet contractual obligations, while wet weather conditions offers the opportunity to try to maximize revenue from additional production. If the Group cannot change the hydrological situation it can mitigate the risks through:

- monitoring their conditions and trends to get the best data that will be used in forecasts and estimates;
- a prudent approach to contractual obligations ;
- monitoring markets for maximum revenue from non-contract sales, in the event of a surplus ;
- taking into account diversification strategies, through alternative production sources, including unconventional sources .

Interest rate risk

The Group's cash flows are affected by variations interest rate, mainly due to foreign currency borrowings contracted with external financing banks .

Changes that may occur in exchange rates and level of rates and interest rates in the sense of their increase, may affect the Group .

If interest rates would be higher/lower with 1% (100 base points) and all other variables would be constant, the Group’s net results will decrease/increase with RON 6,216 thousand.

The cash risk associated with the interest rate is the risk related to interest, and hence expense, may fluctuates over time. The Group has significant long-term loans with variable interest rates that may expose the Group to both price and cash risk.

	31 December 2017	**31 December 2016**
Long term and short term loans	212.926	348.297
Cash and cash equivalents	(1.687.518)	(1.479.163)
Other short-term financial assets	(114.950)	(220.787)
	(1.589.542)	**(1.351.653)**
Net liabilty		
	17.204.585	17.248.579

Own equity	n/a	n/a

Currency risk

The currency used on the domestic market is the Romanian leu, and for external loans the financing costs are expressed in different foreign currencies. As a result, foreign currency loans are subsequently denominated in RON. The resulting differences are included in the income statement and do not affect the cash flow until the debt is cleared.

At the date of these unconsolidated financial statements, the Group did not enter into transactions and did not acquire foreign currency hedging instruments..

31 December 2017	**EUR**	**USD**	**RON**	**CHF**	**HUF**	**TOTAL**
Monetary assets						
Clients and assimilated accounts	-	-	346,781	-	-	346,781
Other current assets	-	-	240,830	44	-	240,874
Other short-term financial assets	-	-	1,687,518	-	-	1,687,518
Cash and cash equivalents	38,279	178	76,420	27	225	114,949
Monetary liabilities						
	(15,926)		(353,946)			(369,872)
Trade payables and other payables	(200,123)		(12,804)			(212,927)
Short and long term loans	**(177,770)**	**178**	**1,984,619**	**71**	**225**	**1,807,323**

31 December 2016	**EUR**	**USD**	**RON**	**CHF**	**HUF**	**TOTAL**
Monetary assets						
Clients and assimilated accounts	-	-	397,088	-	-	397,088
Other current assets	32,478	-	220,064	44	-	252,586
Other short-term financial assets	36,569	-	1,442,594	-	-	1,479,163
Cash and cash equivalents	10,105	95	210,543	29	15	220,787
Monetary liabilities						
Trade payables and other payables	(15,292)	(172)	(151,686)	-	-	(167,150)
Short and long term loans	(335,521)	-	(12,776)	-	-	(348,297)
Net Exposion	**(217,661)**	**(77)**	**2,105,827**	**73**	**15**	**1,834,177**

(all amounts are expressed in RON unless otherwise stated)

The following exchange rates were applied during the year:

	31 December 2017	31 December 2016
Lei / EUR	4,6597	4,5411
Lei / USD	3,8915	4,3033
Lei / CHF	3,9900	4,2245
Lei / 100 HUF	1,5011	1,4627

Sensitivity analysis :

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

	Profit Increase 31 December 2017	Profit Increase 31 December 2016
EUR	(17,777)	(27,166)
USD	18	(8)
CHF	7	7
100 HUF	1	1

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

	Profit Decrease 31 December 2017	Profit Decrease 31 December 2016
EUR	17,777	27,166
USD	(18)	8
CHF	(7)	(7)
100 HUF	(22)	(1)

Legislative risks

Tax controls are common in Romania, consisting of detailed audits of taxpayers' registers. Such controls occur sometimes after months or even years after the payment obligations have been established. The penalty regime is positive. Consequently, depending on the results of these controls, companies may owe additional taxes and fines. In addition, tax legislation is subject to frequent changes, and authorities' often inconsistently interpret legislation. However, the Group's managers believe that adequate reserves for all significant tax liabilities were established.

According to the provisions issued by the Minister of Public Finance, which regulates the tax regime of the capital items that were not subject to the calculation of the corporate tax at the date of their registration in the accounting due to their nature, if the Group will change in the future the destination of the revaluation reserves (through loss or distribution to shareholders), this will lead to additional tax liability.

(all amounts are expressed in RON unless otherwise stated)

The real value of financial instruments

Financial instruments held to maturity are included in the balance sheet at cost of acquisition or redemption, as the case may be. The real value is the value at which the financial instrument may change in ordinary transactions, other than those determined by liquidation or forced sale. Actual values are obtained from quoted market prices or cash flow models, as appropriate.

On 31 December 2017, cash and other cash, trade receivables and payables and other short-term liabilities (including amounts owed to credit institutions) are approaching their real value due to their short maturity.

30. SUBSEQUENT EVENTS

Hidroserv S.A. Insolvency

At the request of the designated Official receiver of Hidroserv S.A., through Civil Sentince no. 658 / 07.02.2018, given in the file no. 31485/3/2017, the syndic judge has raised the right of administration of the debtor Hidroserv SA.

Execution of Bank Guarantee Letter no . GI-16/0826

On April 20, 2018, was published the motivation of the Civil Decision 8725/2017 by which the ANAF appeal against the execution of the letter of guarantee No. GI-16/0826 was rejected. The Company filed a lawyer's appeal.

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