

**EURO INSOL PRESENTS HALF-YEARLY FINANCIAL SITUATIONS OF
S.C. HIDROELECTRICA S.A.**

Taking into consideration provisions of art. 51, paragraph 1, letter c) of Government Emergency Ordinance no. 109/2011 regarding corporate governance of public enterprises, please find attached company's half-yearly reports, and below brief considerations regarding their preparation and reasons of some decision adopted by the Judicial Administrator.

The following tables represent a summary of the company's financial position and performance on 30.06.2012:

RON million	01.01.2012	30.06.2012
Fixed assets	20,339	20,151.2
Current assets	611,8	379.1
Long term debts	1,507.5	1,669.1
Short term debts	2,639.1	2,328.3
Reported result	-5.1	-124.6
Equity	16,489.7	16,159.3

RON million	30.06.2011	30.06.2012
Net turnover	1,640	1,262.9
Operating result	60.4	-80.4
Financial result	-8.5	-119.3
Gross result (profit / loss)	51.9	-199.7
Income tax	28.5	2.4
Net profit (profit / loss)	23.3	-202.1

In the financial statements due to financial year 2011, the company registered a net profit in value of 6,444,266 RON out of which the value of 1,647,885 RON was deducted in order to increase the legal reserve, so that the remaining net profit to the company was 4.796.381 RON.

Considering:

1. Lack of conformity discovered by the judicial administrator to the applicable accounting regulations of society, mainly related to non-compliance

- method of calculation and recording depreciation expenses regarding fixed asset depreciation;
 - failure to impairment losses of doubtful receivables for which there were no legal possibilities for recovery or chances for recovery were extremely limited;
2. The fact that, after reviewing amounts requested by company's creditors by statements of claims submitted to be registered in the receivables preliminary table, were observed interests and penalties which were not registered in the company's accounting records.
 3. Taking into account that failure to register, totally or partially, the above mentioned amounts, has lead to significant distortion of the result revealed in the profit and loss account, both in the financial situations prepared for the financial exercise on 31.12.2011 and the trail balance prepared on 30.06.2012,

after 20.06.2012, date of initiation the insolvency proceedings and until 02.10.2012, date when the half-yearly reports were submitted, in company's accounting records a number of registrations were operated on account "reported result from accounting records" for events connected to financial exercise 2011 and regarding revenues and expenditures account for events focused on the first half of current year.

Thus, according to the balance sheet initially prepared by Hidroelectrica on 30.06.2012, the income statement registered a loss on the first 6 months of the 2012, in value of 45.936.793 RON, and after correction, as presented herein, company has registered in the amended balance sheet **a loss to be recovered due to 2011 financial exercise in value of 129.418.167 RON and a loss in the first six months of 2012 in the value of 202.139.669 RON.**

Please note that the loss recoverable submitted in half-yearly reports filled by the company is in value of 124.621.786 RON, representing difference between remaining net profit available to the company in value of 4.796.381 RON on 31.12.2011 and above mentioned loss in value of 129.418.167 RON.

1. Reported result deriving from accounting errors due to 2011 financial exercise:

The loss registered in the 2011 financial exercise in value of 129.418.167 RON presented in the reported results account deriving from accounting errors, arises from:

- Increase of total expenses with the amount of 149.238.874 RON, resulted from:
 - 17.092.610 RON – penalties, for 2011, accepted to be registered in the receivables preliminary table, which were not registered in company's accounting records. We should notice mainly here that penalties were connected to contract for supplying electricity concluded with Oltenia Energetic Complex in amount of 9.336.734 RON, penalties for dividends which were not paid to the Ministry of Economy, Commerce and Business Environment in value of 3.737.017 RON and penalties for unpaid contributions to Romanian Waters in amount of 2.828.733 RON;
 - 132.146.264 RON – additional depreciation resulted from recalculation using linear depreciation scheme (see chapter 9.1.2. letter d) of *“Report regarding clauses and circumstances leading to SC Hidroelectrica SA insolvency”* submitted by the judicial administrator pursuant to art. 59 of Law 85/2006 regarding insolvency procedure, with further changes and amendments);
- Increase of total revenues with an amount of 19.820.708 RON, out of which:
 - 452.934 RON – revenues from subsidies resulted after recalculating depreciation;
 - 19.367.774 RON – revenues from reducing expenditures with income tax as a result of the above mentioned records.

2. Financial result due to first half of 2012;

Preliminary result due to the first half of 2012, as presented by the company in the *“Director's report for period 15.07.2012-15.08.2012”* was revised, so as from an initial loss in value of 45.936.793 RON, after performing the above mentioned registrations, there is a loss in value of 202.139.669 RON, presented in the

amended balance sheet, and half-yearly reports submitted by the company on 02.10.2012. The increase of loss presented initially comes from:

- Increase of expenditures with a value of 156.354.795 RON, representing:
 - 47.052.356 RON – penalties for 2012, penalties registered in the receivables preliminary table, which were not registered in company's accounting records. We should point out especially the penalties in value of 45.023.722 RON due to the Ministry of Economy, Commerce and Business Environment for unpaid dividends, penalties in value of 985.059 RON due to Petrom, and penalties in value of 878.299 RON due to Fondul Proprietatea for unpaid dividends;
 - 63.004.857 RON – provisions for amounts due as penalties, amounts which were not accepted to be registered in the receivables preliminary table prepared by the judicial administrator, but resulting from payment failure on due terms established by commercial agreements, considering to be a major risk for this amounts to be registered in the receivables preliminary table after settlement of complaints. Under these provisions we should mention the amount of 41.163.420 RON coming from performance of electricity supplying contract concluded with S.N. Nuclearelectrica S.A, amount of 9.336.477 RON from the performance of contract concluded with Termoelectrica and amount of 8.698.964 RON from the performance of contract concluded with Romenergo;
 - 25.819.486 RON – adjustments for doubtful debts regarding recovery, for some of them even operating limitation. Under these adjustments for doubtful receivables we should highlight the adjustments for EUROPEC debt in amount of 20.676.734 RON, SMR Balș debt in amount of 3.449.764 RON and LUXTEN debt in amount of 1.433.325 RON.
 - 30.299.290 RON – additional depreciation resulting from correct application of the system of depreciation of fixed assets pursuant to applicable accounting regulations (Order of the Ministry of Public Finances 3055/2009);
 - 2.512.823 RON – exchange rate differences arising from the revaluation of receivables denominated in a currency other than the local currency;

- 325 RON – bank fees;
 - (12.334.342) – reduction of income tax expense due to the effect of additional accounting records of expenses and revenues accounts;
- Excess of revenue amounting 151.919 RON representing income from investment subsidies resulting from recalculation of depreciation.

Judicial administrator,

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By practitioner coordinator

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