



**2014** ANNUAL REPORT  
**electrica**  
s.a.



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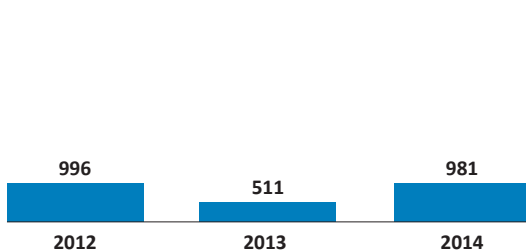
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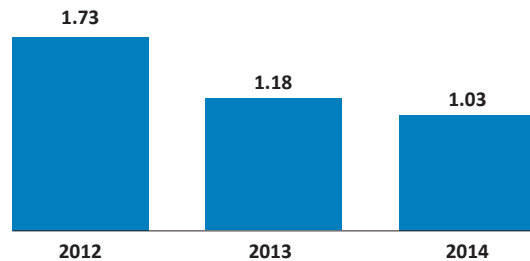
## KEY FIGURES ELECTRICA GROUP

	2012	2013	2014
<b>Operational results</b>			
Distributed energy (Twh)	16.26	16.07	16.30
Number of users (mil.)	3.6	3.6	3.6
Supplied energy (Twh)	10.7	9.0	9.7
Number of customers (mil.)	3.5	3.6	3.6
Number of employees at period end	13,217	12,780	11,740
<b>Financial results</b>			
Revenues (th. RON)	5,252,948	5,382,818	5,043,728
EBITDA (th. RON)	645,074	671,138	855,453
EBIT (th. RON)	243,229	345,450	496,941
Profit for the year attributable to the owners of the company (th. RON)	353,533	244,412	287,837
Profit for the year attributable to the owners of the company excluding the equity accounted investments (th. RON)	106,755	181,453	287,837
Net cash from operating activities (th. RON)	996,040	511,258	981,309
Investitii (mii RON)	405,527	366,845	465,232
EPS (RON)	1.73	1.18	1.03

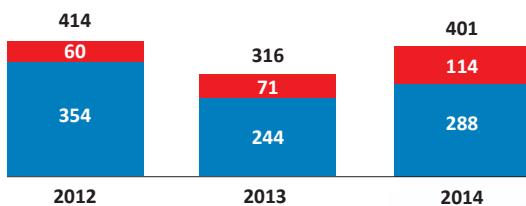
### NET CASH FROM OPERATING ACTIVITIES (MIL. RON)



### EARNINGS PER SHARE (RON)

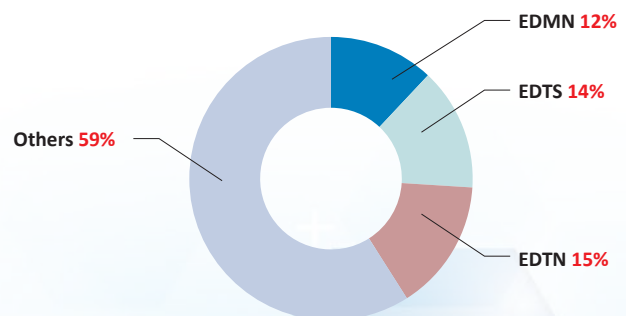


### NET PROFIT (MIL. RON)



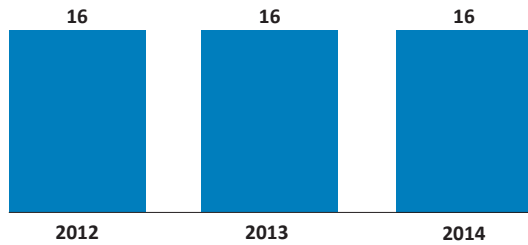
■ Profit attributable to non-controlling interests  
■ Profit attributable to owners of the Company

### DISTRIBUTION NETWORK AREA



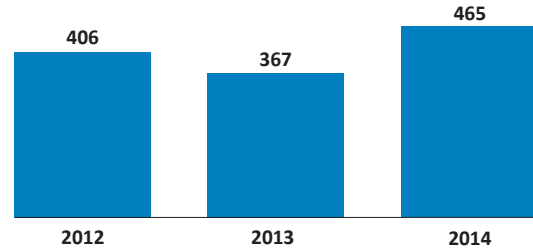
### DISTRIBUTION SEGMENT

Distributed energy (TWh)



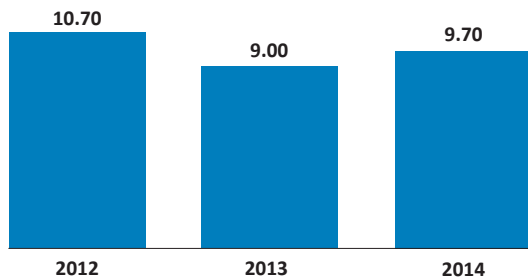
### CAPITAL EXPENDITURES

Capex 2012 – 2014 (mil RON)

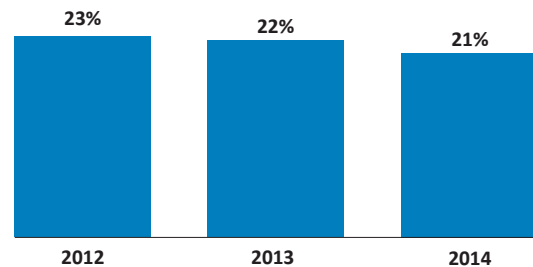


### SUPPLY SEGMENT

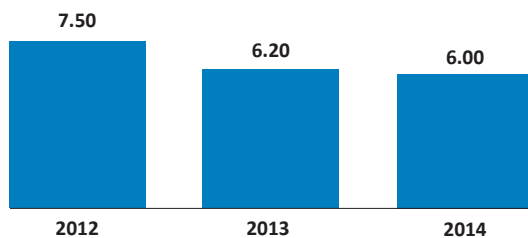
Supplied energy (TWh)



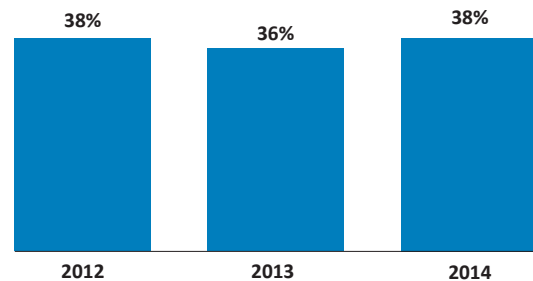
Supply market share



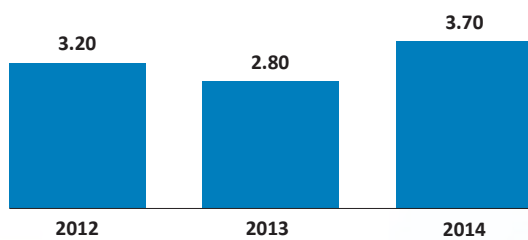
Supplied energy on the regulated market (TWh)



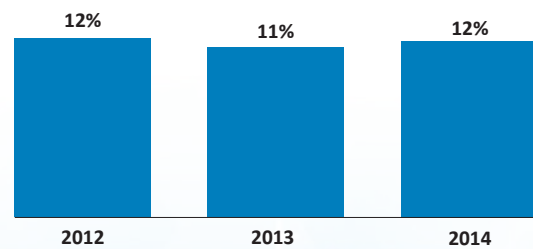
Share of regulated supply market



Supplied energy on the competitive market (TWh)



Share of competitive supply market





## VICTOR CIONGA

CHAIRMAN OF THE BOARD  
OF DIRECTORS OF ELECTRICA SA

### *Dear ladies and gentlemen,*

**A**s the global economy gradually recovers from the adverse effects of the financial crisis which began in 2008, the Romanian economy continued to show clear signs of growth. However, despite the rather noticeable favorable outlook and the expected positive impact it will trigger on the medium and long term both on the Romanian industrial sector and energy market, the road to full recovery and sustainable growth will most likely last at least over the medium term.

We are aware that, in order to ensure Electrica Group's sustainable growth on the long term, the strategy we will adopt, needs to be adapted to the future challenges raised by the technological development, regulatory framework and customers' demands. We believe that, to be able to respond to the sector's trends and perspectives, all energy market players, including Electrica Group, will focus their efforts on endeavors aimed at optimization and internal reorganization of their core business. Such measures will ensure effective cost control and capitalization of local market growth potential, especially on specific niches. To be in a position to implement certain projects, Electrica is keen to benefit, by setting mutually advantageous partnerships, from the expertise of similar companies carrying their business especially in Western Europe, as the outlook and trends of the respective markets are more distinct in that region.

2014 has been an important year and a turning point to Electrica's business and perspectives. The successful listing of its shares on the Bucharest and London stock exchanges, and more importantly, Electrica Group's ability to evolve in line with Romanian and foreign institutional investors' expectations, will be a solid argument in attracting new investors to the Romanian capital and energy markets.

With the listing, Electrica has initiated an extensive and complex transformation process, which mainly aims at improving performance and aligning to the highest standards and best practices in the Romanian electricity distribution and supply sector. We strongly believe in the medium and long term benefits of this process. An initial specific step towards enhancing transparency and promoting an integrity and ethical based organizational structure is the recent launching of the Code of Ethics and Professional Conduct implementation. This milestone followed the commitments undertaken during the public offering and the Framework

Agreement concluded with the European Bank for Reconstruction and Development.

We are confident that the directions and actions we propose as well as the targets we intend to reach on the medium term, reflect Electrica's vision, "to expand its leading position in the electricity distribution and supply market segments, both nationally and regionally". We consider it our mission to spare no efforts in order "to deliver long term value to our shareholders by distributing and supplying electricity and providing exceptional services to our customers in a safe, reliable, affordable and sustainable manner".

We strongly believe in the transformation and optimization of the Group's current business as a key driver of achieving the targets set. We acknowledge the significant efforts required to implement the directions and measures we envisage going forward. However, we firmly consider this to be the path to proceed so as to meet our strategic goals, namely to achieve excellence in conducting our business and to align Electrica Group to the current performance of its Romanian market peers.

In order to carry out the concrete steps of this continuous process, we will reach out to both internal resources as well as those available outside the Group and we will have a pragmatic cooperation with all stakeholders. The Board of Directors has recently approved the new organizational chart of Electrica S.A. which is designed to establish the proper setting for the transforming the company's operations.

Given the regulated nature of our business, specific to the Group's most significant part of operations, which has an important effect on the predictability of our activities as well as the sustainability of the Group's performance and results, we intend to dedicate our efforts towards capitalizing on the benefits generally afforded to regulated business sectors.

Electrica is a success story of the Romanian capital market, a potential public-to-private partnership model and an instrument to attracting foreign investment to Romania, to ensuring the national energy sector modernization and to supporting the capital market. Electrica's course of evolution is important not only to the company itself but also to the credibility of Romania overall. As part of its development, Electrica needs the joint input of its employees, management and shareholders.

”...

Electrica has initiated an extensive and complex transformation process, which mainly aims at improving performance and aligning to the highest standards and best practices

...”



## IOAN ROSCA

GENERAL MANAGER OF ELECTRICA SA

**2** 014 was a landmark year for Electrica since our company managed, in addition to its now historical public listing, to record outstanding performances. Despite the economic and regulatory context, and the new market challenges, Electrica obtained very good financial results, the high net profit level being a sign of the effectiveness of our strategy which was presented in the offering prospectus, a strategy through which we maintained a leading position in the distribution and supply of electricity in Romania.

Beyond the outstanding financial performance recorded in 2014, we made and we continue to make very important steps in developing an organizational culture based on performance and professionalism. Adherence to ethical values and principles is an already accomplished essential prerequisite for growth of trust capital on the part of our company's stakeholders. We are determined to continue in the direction of the strategy presented in the offering prospectus, to implement the best practices in corporate governance within the Electrica Group, to continue the application of efficiency measures in all the

business segments and to implement ambitious investment programs in our own network. All these generate added value in the long term for all stakeholders and enable us to adapt and evolve in a market where competition is becoming increasingly fierce.

Last year we went through a complex process successfully completed through the dual listing of the company on the Bucharest and on the London Stock Exchanges. This is the starting moment of transformation for our company, which must become a reference project for Romania. Our journey, very good throughout 2014, gives us the energy and the confidence to continue, confident that we chose the right path.

Looking ahead, we rely on the professionalism, passion and enthusiasm of our people in sustaining the irreversible process of implementing the changes that are so much more needed for a publicly traded company, as well as for maintaining the leadership position in the field.

”...  
 Our journey,  
 very good  
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 2014, gives  
 us the energy  
 and the  
 confidence  
 to continue  
 ...”



# **DIRECTORS' REPORT ELECTRICA S.A. FOR THE YEAR 2014**

(based on audited consolidated financial statements for the year 2014)



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# GLOSSARY

<b>ANRE</b>	Romanian Energy Regulatory Authority
<b>BPS</b>	Basis points
<b>CAGR</b>	Compound Annual Growth Rate
<b>CAPEX</b>	Capital expenditure
<b>CEE</b>	Central-Eastern Europe
<b>CPT</b>	Own Technological Consumption
<b>DSO</b>	Distribution System Operator
<b>EBIT</b>	Earnings before interest and tax
<b>EBITDA</b>	Earnings before interest, tax, depreciation and amortization
<b>EBRD</b>	European Bank for Reconstruction and Development
<b>EC</b>	European Commission
<b>EE</b>	Enel Energie
<b>EEM</b>	Enel Energie Muntenia
<b>EDD</b>	Enel Distributie Dobrogea
<b>EDB</b>	Enel Distributie Banat
<b>EDM</b>	Enel Distributie Muntenia
<b>EDMN</b>	Electrica Distributie Muntenia Nord
<b>EDTN</b>	Electrica Distributie Transilvania Nord
<b>EDTS</b>	Electrica Distributie Transilvania Sud
<b>EIU</b>	Economist Intelligence Unit
<b>EU</b>	European Union
<b>EUR</b>	European monetary unit
<b>GAAP</b>	Generally accepted accounting principles
<b>GDP</b>	Gross Domestic Product
<b>GWh</b>	GigaWatt hour
<b>HV</b>	High voltage
<b>kV</b>	kilovolt
<b>LV</b>	Low voltage
<b>MV</b>	Medium voltage
<b>MWh</b>	MegaWatt hour
<b>OPCOM</b>	Romanian Gas and Electricity market operator
<b>OPEX</b>	Operational expenditure
<b>PPA</b>	Power Purchase Agreement
<b>RAB</b>	Regulated Asset Base
<b>ROA</b>	Return on assets
<b>ROE</b>	Return on equity
<b>RON</b>	Monetary unit of Romania
<b>SAIDI</b>	System Average Interruption Duration Index
<b>SAIFI</b>	System Average Interruption Frequency Index
<b>SCADA</b>	Supervisory Control And Data Acquisition
<b>TSO</b>	Transmission System Operator
<b>TWh</b>	TeraWatts hour
<b>VAT</b>	Value added tax

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## IDENTIFICATION DETAILS ON REPORT AND ISSUER

**Report date:** March 26, 2015

**Name of the Issuer:** SC DFEE ELECTRICA SA

**Headquarter:** no. 9 Grigore Alexandrescu Street, 1st District, Bucharest, Romania

**Telephone/fax number:** +4021.208.5002; +4021.208.5004

**Fiscal Code:** RO13267221

**Trade Registry No:** J40/7425/2000

**Share capital:** RON 3,459,399,290 subscribed and paid (see Note 1)

Main characteristic of issued shares: 345,939,929 ordinary shares of 10 RON nominal value, issued in dematerialized form and freely transferable, nominative, tradable and fully paid.

Regulated market where the issued securities are traded: As at December 31, 2014 the Company shares are listed on the Bucharest Stock Exchange and Global Depository Receipts are listed on the London Stock Exchange. (see Note 2)

### Note 1

Pursuant to the registration certificate no. 2340001 and the resolution no. 78473/ 02.07.2014 issued by the National Trade Registry Office, the share capital was increased by 1,771,887,440 RON, following the successful completion of the process of underwriting new shares issued by the Company in the initial public offering. As at the date of the current report the subscribed and paid up capital of SC Electrica SA is 3,459,399,290 RON.

### Note 2

Following the completion of initial public offering, the Company's securities were admitted to trading on the Bucharest Stock Exchange (BSE) under the trading symbol EL and on the London Stock Exchange (LSE) under the trading symbol ELSA on July 3, 2014.

# 1 Electrica Group results in 2014

## 1.1 KEY CONSOLIDATED FINANCIALS

In 2014 Electrica Group financial results presented a consistent improvement compared to 2013, driven by an exceptional result in supply segment and by the improvement of the distribution segment profitability. Electrica's revenue in 2014 and 2013 amounted to RON

5,044 million and RON 5,383 million, respectively. The decrease of revenue by RON 339 million, or 6.30% in the 2014 as compared to 2013 resulted mainly from the decrease in revenues from supply activity that were partially offset by the increase in distribution revenues.

(RON mil)	2012 <sup>1</sup>	2013 <sup>2</sup>	2014
Revenues	5,253	5,383	5,044
Other income	124	128	177
Operating expenses	(4,765)	(4,862)	(4,350)
<b>Adjusted EBITDA<sup>3</sup></b>	<b>613</b>	<b>649</b>	<b>870</b>
<b>EBIT</b>	<b>246</b>	<b>345</b>	<b>497</b>
Profit before tax	468	397	510
<b>Net profit</b>	<b>416</b>	<b>316</b>	<b>401</b>

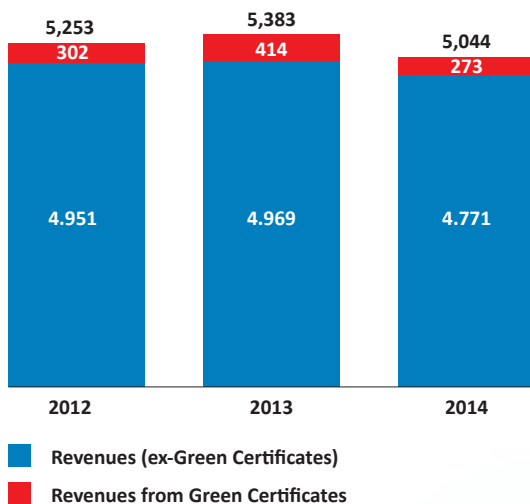
Source: Electrica S.A.

As it can be observed in the following graph, EBITDA margin sharply increased in 2014 as compared to 2013, presenting a strong margin growth, namely from **12% to 17% for EBITDA margin and from 5% to 8% in terms of net income margin (excluding net income**

**related to equity accounted investments).**

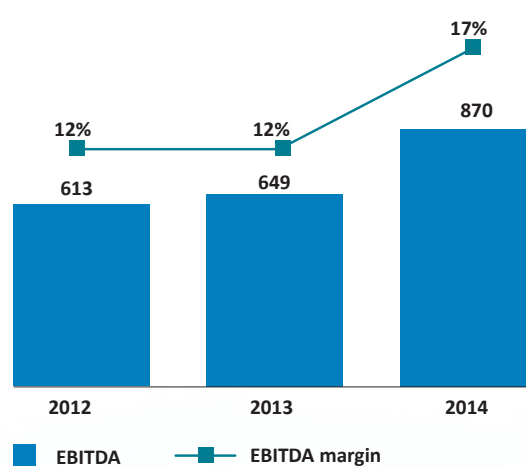
As of 31 December 2014, the Company has a **capital structure** driven by a negative Net Debt/(Cash) position of RON 2,551 million based on the proceeds from the IPO.

**FIGURE 1: CONSOLIDATED REVENUES OF ELECTRICA GROUP (RON mil)**



Source: Electrica S.A.

**FIGURE 2: ADJUSTED EBITDA (RON mil) AND ADJUSTED EBITDA MARGIN (%)**



Source: Electrica S.A.

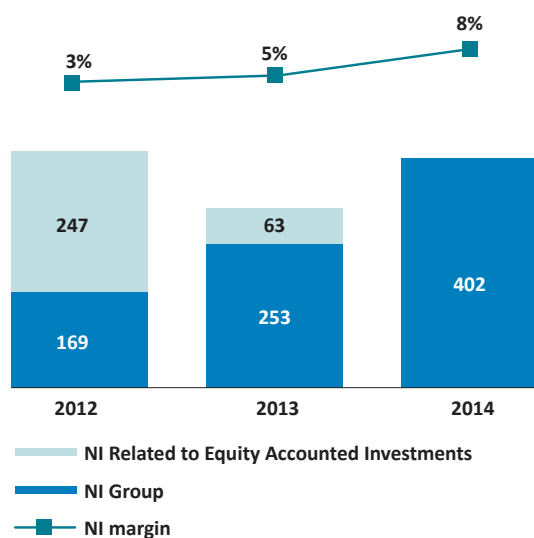
<sup>1</sup> No restatement has been performed for the year 2012, as a result of the application of IFRIC 12 starting with 1 January 2014

<sup>2</sup> Restated as a result of application of IFRIC 12 and new standards with a date of initial application of 1 January 2014 under IFRS-EU.

<sup>3</sup> The Company defines Group adjusted EBITDA as Group EBITDA adjusted for non-recurring events (i) consolidated impairment / reversal of impairment of trade and other receivables, net and (ii) consolidated write down / reversal of write down of inventories, net.

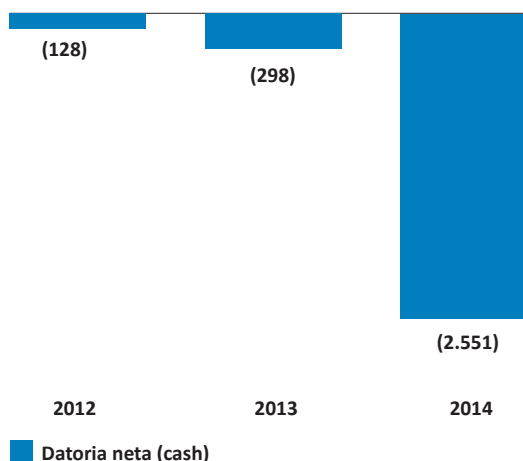
<sup>4</sup> Net debt/(Cash) is calculated as bank borrowings + bank overdrafts + financial leases + Financing of PP&E less cash and cash equivalents.

FIGURE 3: NET INCOME (RON mil)



Source: Electrica S.A

FIGURE 4: NET DEBT/(CASH) (RON mil)



Source: Electrica S.A

## LIQUIDITY

Cash and cash equivalents comprise cash balances and call deposits and deposits with maturities of three months or less from the acquisition date that are

subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

(RON mil)	31 December 2014	31 December 2013
Bank current accounts	77	109
Call deposits	1,352	542
Cash in hand	0,3	0,4
Treasury bills and government bonds with original maturity of less than 3 months	199	-
Total cash and cash equivalents in the consolidated statement of financial position	1,629	651
Overdrafts used for cash management purposes	(48)	(80)
<b>Total cash and cash equivalents in the consolidated statement of cash flows</b>	<b>1,581</b>	<b>571</b>
<b>Deposits, treasury bills and government bonds</b>	<b>1,221</b>	<b>-</b>

Source: Electrica S.A.

Cash and cash equivalents include treasury bonds denominated in RON with an amortized cost of RON 199 million with original maturity of 3M or less and an interest rate of 1.7% p.a.

Deposits, treasury bills and government bonds include treasury bills and government bonds of RON 901 million denominated in RON with original maturity of more than three months with an average interest rate of 1.6% and deposits with maturity of more than three

months of RON 319 million.

The treasury bills and government bonds were classified as investments held to maturity.

## USE OF IPO PROCEEDS

The Company's strategy was to place the IPO money through the Underwriter banks, member of the Syndicate, in risk-free titles and deposits, on short-term.

IPO Proceeds Inflows	<b>Cashing from IPO: 4 July</b> Raiffeisen Bank – value of shares: 1,556mn RON Less amount held for stabilization : 74mn RON <b>Received: 1,482mn RON</b>	<b>Cashing from IPO: 7 July</b> Citi Bank – value of GDR's: 387mn RON Less amount held for stabilization: 19mn RON <b>Received: 368mn RON</b>	<b>Cashing of amounts not used by the banks in the stabilization process: 7 August</b> Raiffeisen Bank – 16.7mn RON <b>Received: 16.7mn RON</b>	<b>Cashing of amounts not used by the banks in the stabilization process: 21 August</b> Citi Bank – 0.2mn RON <b>Received: 0.2mn RON</b>			
Placements	<b>4 July</b> T-bills: 1,224mn RON Deposits: 258mn RON <b>Total amounts placed: 1,482mn RON</b>	<b>28 July</b> T-bills: 988mn RON (reinvested from the amounts cashed in from T-bills expired) <b>Total amounts placed: 988mn RON</b>	<b>7 August</b> T-bills: 17mn RON <b>Total amounts placed: 17mn RON</b>	<b>7 October</b> T-bills: 100mn RON Deposits: 211mn RON <b>Total amounts placed: 311mn RON</b>	<b>27 October</b> T-bills: 685mn RON Deposits: 721mn RON <b>Total amounts placed: 1,406mn RON</b>	<b>5 November</b> T-bills: 78mn RON <b>Total amounts placed: 78mn RON</b>	<b>7 July</b> T-bills: 58mn RON Deposits: 311mn RON <b>Total amounts placed: 369mn RON</b>
	<b>31 July</b> T-bills: 1mn RON <b>Total amounts placed: 1mn RON</b>	<b>1 October</b> Deposits: 201mn RON <b>Total amounts placed: 201mn RON</b>	<b>9 October</b> T-bills: 142mn RON Deposits: 86mn RON <b>Total amounts placed: 228mn RON</b>	<b>31 October</b> T-bills: 259mn RON <b>Total amounts placed: 259mn RON</b>	<b>7 November</b> T-bills: 86mn RON <b>Total amounts placed: 86mn RON</b>	<b>27 January</b> T-bills: 723mn RON <b>Total amounts placed: 723mn RON</b>	<b>28 January</b> T-bills: 211mn RON <b>Total amounts placed: 211mn RON</b>

Source: Electrica S.A

## 1.2 KEY EVENTS 2014

Main events in the year 2014 related to the core business:

- An IPO organised between 11 and 27 June 2014, referring to an offering by the Company of 177,188,744 ordinary shares in the form of shares and in the form of GDRs, each GDR representing four shares. The allocation of shares and GDRs and the offering prices were concluded on 27 June 2014. The transfer of ownership rights on new shares and the collection of cash by the Company took place on 2 July 2014;
- Starting 4 July 2014 the Company's shares are listed on Bucharest Stock Exchange, and the GDRs are listed on London Stock Exchange;
- Following the IPO, Electrica has made major steps towards aligning to best practices of publicly listed companies by putting in place a corporate governance action plan, defining clear lines of responsibility and accountability, implementing a code of ethics and professional conduct, evaluating management through an external party and implementing a whistleblowing policy;
- Electrica continued the strict monitoring and reduction of costs, in order to achieve the targets imposed by the regulator for the regulated activity, as well as to increase the efficiency in the competitive area;
- Multiple meetings and discussions with ANRE regarding the change in the methodology for establishing the electricity distribution tariffs; modified methodology was published on 29 October 2014 (ANRE Order 112/2014);
- RRR was modified from 8.52% to 7.7% through ANRE Order no.146 published on 12 December 2014;
- Distribution tariffs applicable starting 1 January 2015 were published during 18-21 December 2014 while the supporting documentation detailing the tariff elements were made available by ANRE on 9 January 2015;
- Preparation of the updated investment plans for the 3 distribution operators in accordance with the IPO prospectus, with the efficiency gains requested by the regulator and amended following the changes of the regulatory framework at the end of 2014; the total value of the investment plans accepted by ANRE is 3.1 billion RON (in nominal terms, adjustable with inflation);
- Electrica and its subsidiaries have filed against ANRE, as claimant, legal actions for the annulment of the Order No. 146/2014 and for repealing Article 122 of the Methodology for establishing the tariffs for electric energy distribution services; Electrica has also requested by the same legal proceeding, as a direct consequence of the annulment of Order 146/2014, the annulment of the orders setting the tariffs for the DSOs; the Group has also initiated legal proceedings against ANRE for the annulment of the tariff decisions applicable starting 1 January 2015;
- Since 1 September CFR is no longer a client of Electrica Furnizare;
- At the beginning of July, a Government Decision for the exemption from payment of green certificates for energy intensive consumers was published, which entered into force on 1 December 2014;
- Electrica Furnizare concluded significant contracts with several large consumers, among which Metrorex and Daewoo-Mangalia Heavy Industries;

- The price liberalisation calendar continued. Since July 1st EF has purchased 30% of the electricity for regulated retail customers from the competitive whole sale market.

Regarding distressed subsidiaries, the process of reducing their activity was thoroughly continued:

- SE Moldova – voluntary liquidation procedure, all personnel being dismissed; tenders have been organised by the liquidator for valorification of the assets;
- SE Dobrogea – entered bankruptcy in January 2015, all personnel being dismissed; tenders have been organised by the liquidator for valorification of the assets;
- SE Banat entered bankruptcy procedure in August 2014;
- SE Oltenia – insolvency with reorganization since May 2014; the judicial administrator prepared a reorganization plan (Feb 2015); 246 employees as at end of 2014;
- SE Muntenia – insolvency with reorganization since November 2014; 505 employees as at end of 2014.

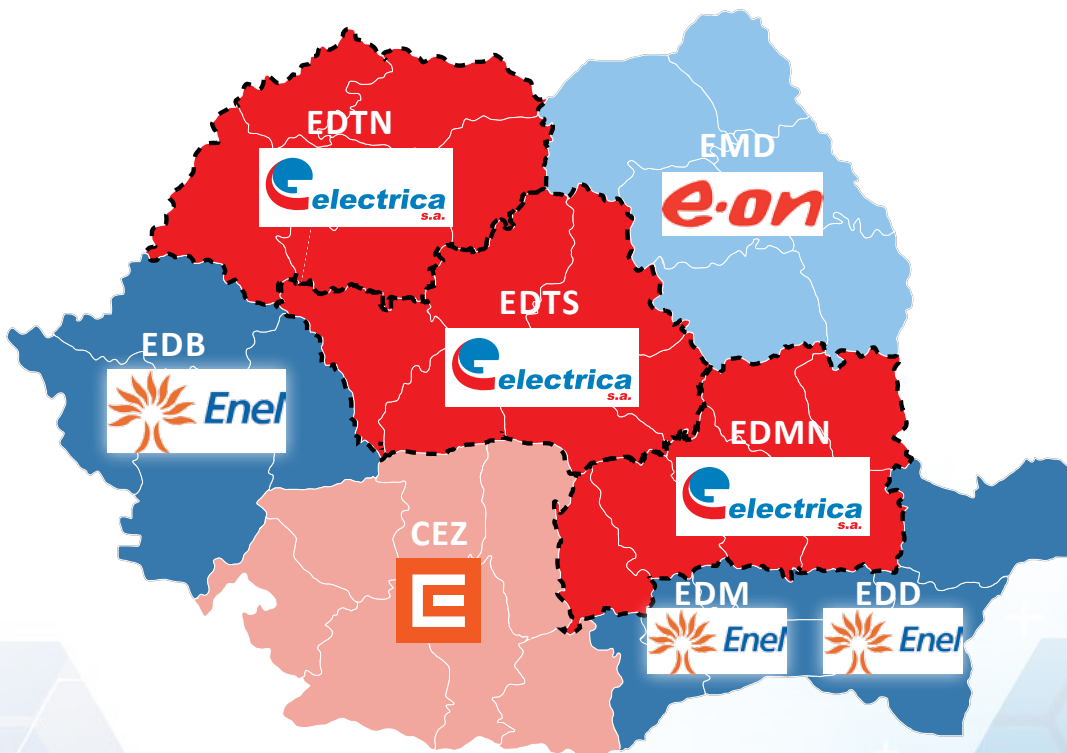
## 1.3 KEY FINANCIALS BY SEGMENTS

### DISTRIBUTION SEGMENT

#### Key Facts

- Electricity distribution in Romania is currently controlled by eight licensed electricity distribution companies;
- Each company is responsible for the exclusive distribution of electricity within its licensed region, based on a concession agreement with the Romanian State acting through the Ministry of Energy, Small and Medium Enterprises and Business Environments;
- Electrica and Enel own three distribution companies each, while CEZ and E.ON own the other two;
- Electrica is a leading player in the distribution sector, both in terms of area and users covered;
- 2014 Regulated asset base (RAB) of RON 4,169mil;
- 189,376 km of voltage lines (8,410 km HV; 45,775 km MV; 135,191 km LV) (H1 2014);
- Area of operation: 97,996 km<sup>2</sup>, 40.7% of Romania's territory;
- 3.56 million users (2014) for distribution activity;
- 16.3 TWh of electricity distributed in 2014, stable compared to 2013;
- 39% market share for distribution of electricity to end users in 2014.

FIGURE 5: ROMANIAN ELECTRICITY DISTRIBUTION MAP

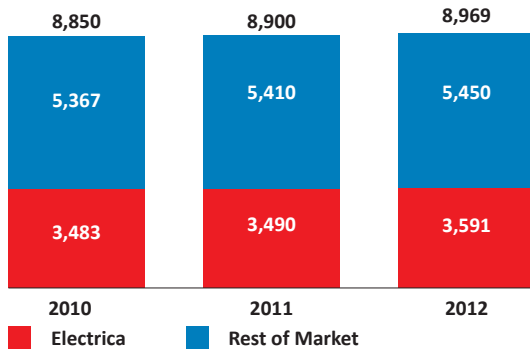


Source: Electrica S.A.

The three electricity distribution companies part of Electrica Group have served in 2014 an estimated 3.56 million customers (equivalent of a volume of about 16 TWh). As such, Electrica's DSOs have distributed approximately 39% of total electricity distributed

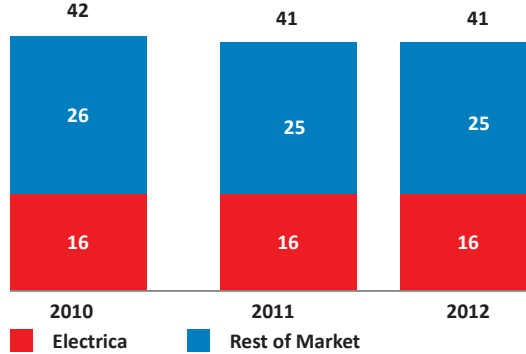
nationwide in 2014, maintaining an average of market share of approximately 39% during the period 2012-2014 and estimated to remain at this level for the following period.

**FIGURE 6: NUMBER OF USERS (thousand)**



Source: Electrica S.A.

**FIGURE 7: DISTRIBUTED VOLUME (TWh)**



Source: Electrica S.A.

## KEY FINANCIAL METRICS

### Distribution segment

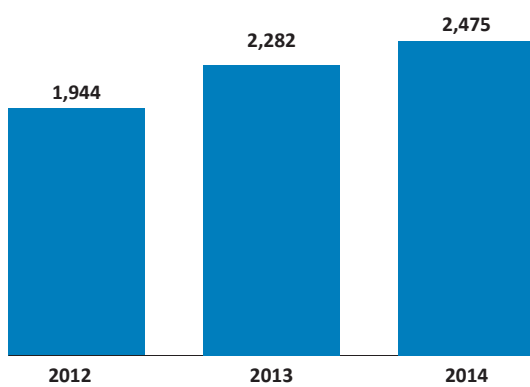
Revenue from the distribution segment increased by RON 193million, or 8%, to RON 2,475 million in 2014 from RON 2,282million in 2013. This increase was mainly attributable to the increase of the average regulated distribution tariff. Electrica Serv slightly improved the external revenues (services rendered to companies outside the group) from RON 11 million in

2013 to RON 22 million in 2014.

The increase in revenues together with the decrease in network losses costs as well as the improvement in employees costs and other operational expenses led to a RON 85 million or 14% increase in the segment's EBITDA.

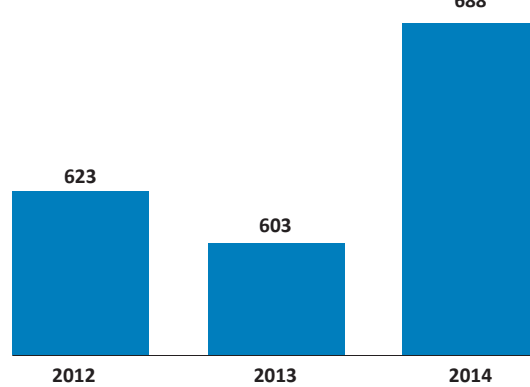
The EBITDA margin gained 140 bps in 2014, from 26.4% in 2013 up to 27.8% in 2014, mainly driven by the EDTN's performance (a 400 bps improvement y-o-y).

**FIGURE 8: DISTRIBUTION REVENUES (RON mil)**



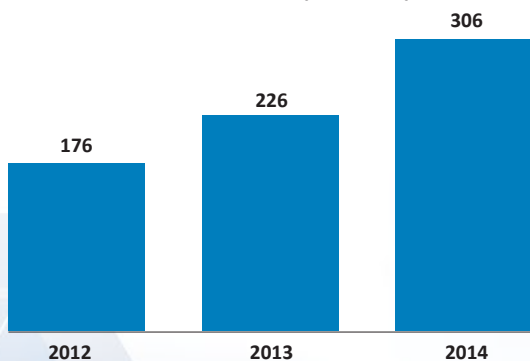
Source: Electrica S.A.

**FIGURE 9: EBITDA (RON mil)**



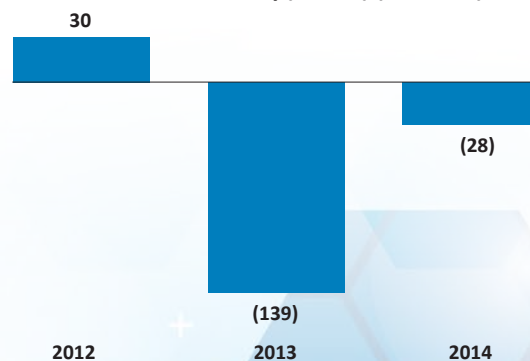
Source: Electrica S.A.

**FIGURE 10: NET INCOME (RON mil)**



Source: Electrica S.A.

**FIGURE 11: DNET DEBT/( CASH) (RON mil)**



Source: Electrica S.A.



**Supply Market Overview**

**Key Facts**

- Supply market consists of regulated and competitive segments;
- The regulated segment comprises 5 companies, integrated within the same group as the corresponding distribution operators;
- The competitive segment comprises 62 players, 54 of which are relatively small (<4% market share);

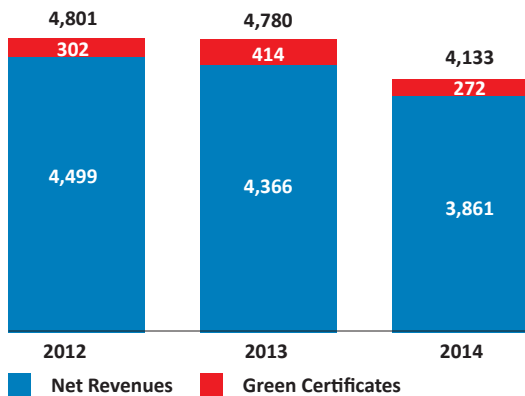
Electrica Furnizare is the market leader also on the regulated and competitive market with a market share of 36% and 11% respectively in 2013. In 2014, the total electricity supplied by Electrica increased by approximately 7.7% as compared to 2013. In the same period, the Company experienced also a slight increase in the number, especially on the competitive market due to the 100% liberalization of the market for non-household consumers starting with 1st of January 2014. From a financial point of view, Electrica Furnizare had a strong increase at EBITDA level and a significant

improvement of its cash level in 2014. The increase in Electrica Furnizare profitability was mainly due to some non-recurring circumstances, namely the electricity acquisition at reduced prices during the year.

Net revenue from the supply segment decreased by RON 505 million or 13%, to RON 3,861 million in 2014 from RON 4,366 million in 2013. This decrease was mainly attributable to the decrease in energy prices that offset the 8% increase in quantity supplied as well as to a 5% decrease in the average supply tariff. An improved cost structure implementation programme and better sales strategyled to a RON 116 million or 99% increase in the supply segment EBITDA, that combined with the decrease in revenues led to a 320 bps improvement in EBITDA margin, from 2.4% in 2013 up to 5.6% in 2014.

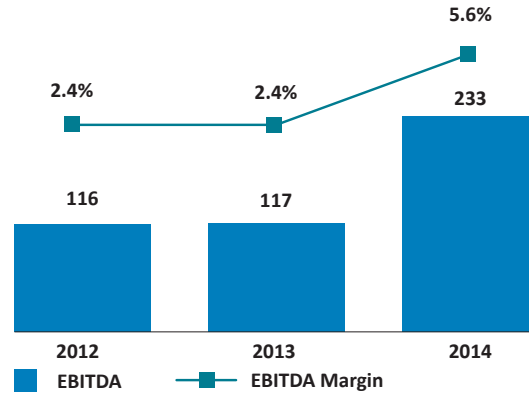
The supply segment presents a strong financial position, namely a negative cash position of RON 403 million, mainly influenced by the very strong 2014 financial results.

**FIGURE 12: SUPPLY REVENUES (RON mil)**



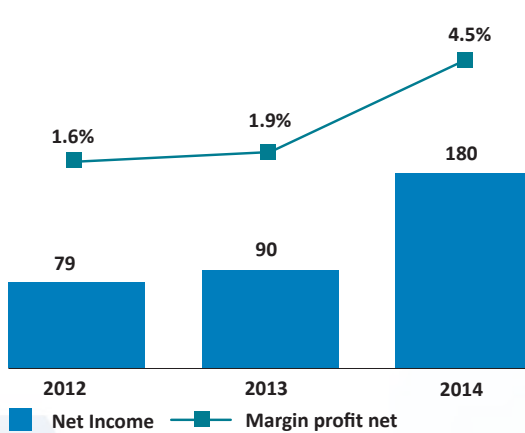
Source: Electrica S.A.

**FIGURE 13: EBITDA (RON mil)**



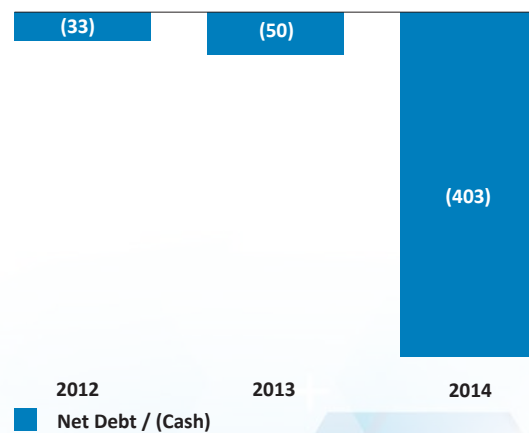
Source: Electrica S.A.

**FIGURE 14: NET INCOME (RON mil)**



Source: Electrica S.A.

**FIGURE 15: NET DEBT / (CASH) (RON mil)**



Source: Electrica S.A.

## 2 Group overview

### 2.1 GENERAL OVERVIEW

Electrica S.A. ("The Company") is the majority shareholder of SC Electrica Distributie Transilvania Nord S.A. ("EDTN"), SC Electrica Distributie Transilvania Sud S.A. ("EDTS"), SC Electrica Distributie Muntenia Nord S.A. ("EDMN"), SC Electrica Furnizare S.A. ("Electrica Furnizare"), SC FISE Electrica Serv S.A. ("Electrica Serv"), SC Servicii Energetice Moldova S.A. ("SE Moldova"), SC Servicii Energetice Oltenia S.A. ("SE Oltenia"), SC Servicii Energetice Muntenia S.A. ("SE Muntenia"), Servicii Energetice Dobrogea ("SE Dobrogea"), together "the Group" or "Electrica Group". The Company holds all shares of SC Servicii Energetice Banat ("SE Banat"), but starting November 2014, it has lost control over SE Banat, as a result of SE Banat entering bankruptcy proceedings in August 2014 and, consequently, SE Banat was not

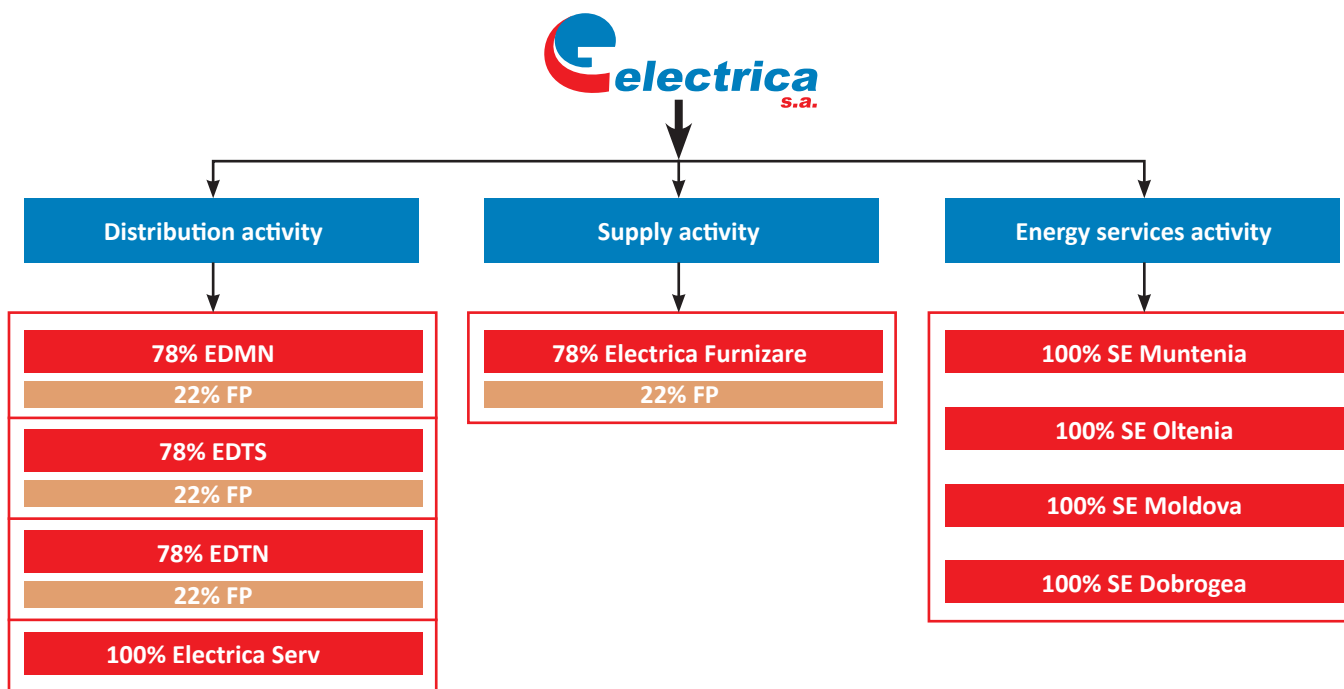
consolidated in the financial statements.

The registered office of the Company is 9 Grigore Alexandrescu Street, Sector 1, Bucharest, Romania.

The Company has unique registration number 13267221 and Trade Register registration number J40/7425/2000. According to Decision no. 627 of July 13th 2000, Romanian Government approved the setting up of Societatea Comerciala de Distributie si Furnizare a Energiei Electrice "Electrica" - S.A.

As at 31 December 2014 the major shareholder of Electrica SA is the Romanian State, represented by the Ministry of Energy, Small and Medium-sized Enterprises and Business Environment (48.78%), after the ownership dilution following an initial public offer. The second shareholder based on the share of ownership is EBRD with 8.66%.

**FIGURE 16: GROUP ENTITIES AS OF 31 DECEMBER 2014**



Source: Electrica S.A.

## PRESENTATION OF GROUP SUBSIDIARIES

Subsidiary	Activity	Registration code	Headquarters	% stake as of 31 December 2014
Electrica Distributie Muntenia Nord S.A.	Electricity distribution in North Muntenia geographical area	14506181	Ploiesti	78.0000021%
Electrica Distributie Transilvania Nord S.A.	Electricity distribution in Northern Transylvania geographical area	14476722	Cluj-Napoca	77.99999%
Electrica Distributie Transilvania Sud S.A.	Electricity distribution in Southern Transylvania geographical area	14493260	Brasov	78.0000019%
Electrica Furnizare S.A.	Trading of electrical energy	28909028	Bucharest	77.99997%
Electrica Serv S.A.	Services in the energy sector (maintenance, repair, construction)	17329505	Bucharest	100%
Servicii Energetice Muntenia S.A.	Services in the energy sector (maintenance, repair, construction)	29384120	Bucharest	100%
Servicii Energetice Moldova S.A.	Services in the energy sector (maintenance, repair, construction)	29386768	Bacau	100%
Servicii Energetice Oltenia S.A.	Services in the energy sector (maintenance, repair, construction)	29389861	Craiova	100%
Servicii Energetice Dobrogea S.A.	Services in the energy sector (maintenance, repair, construction)	29388378	Constanta	100%
Servicii Energetice Banat SA* (in bankruptcy)	Services in the energy sector (maintenance, repair, construction)	29388211	Timisoara	100%

Source: Electrica S.A.

\*) Electrica S.A. has lost control over Servicii Energetice Banat SA in November 2014

The main activities of the Group include operation and development of electricity distribution networks and activities related to electricity supply to final consumers. The Group is the electricity distribution operator and the main electricity supplier in Muntenia Nord area (Prahova, Buzau, Dambovita, Braila, Galati and Vrancea counties), Transilvania Nord area (Cluj, Maramures, Satu Mare, Salaj, Bihor and Bistrita-Nasaud counties) and Transilvania Sud area (Brasov, Alba, Sibiu, Mures, Harghita and Covasna counties), operating with transformation stations and 0.4 kV and 110 kV power lines.

The Company's distribution subsidiaries (Electrica Distributie Muntenia Nord, Electrica Distributie Transilvania Nord and Electrica Distributie Transilvania Sud) invoice the electricity distribution service to electricity suppliers (mainly to Electrica Furnizare SA subsidiary, the main electricity supplier in Muntenia

Nord, Transilvania Nord and Transilvania Sud areas), which further invoice the electricity consumption to final consumers.

Electrica Furnizare SA is the supplier of last resort (defined as supplier designated by the regulatory authority to deliver the universal service of electricity supply under specific regulated conditions) in Muntenia Nord, Transilvania Nord and Transilvania Sud areas. According to the regulations issued by the National Authority for Energy Regulation ("ANRE"), the suppliers of last resort have the obligation to ensure the electricity supply to the final customers which have not exercised their eligibility right – this is the right to choose their electricity supplier (hereinafter named captive consumers).

The electricity supply to captive consumers is made based on regulated contracts, with prices that are regulated by ANRE.

## 2.2 MISSION, VISION, VALUES

To continue succeeding over the next ten years, the Group has set its Vision, Mission and Values which will serve as a foundation for formulating and implementing its corporate goals, objectives and strategy and for communicating them to internal and external stakeholders.

### VISION

The Group's vision is to expand its leading position in the electricity distribution and supply market segments, both nationally and regionally.

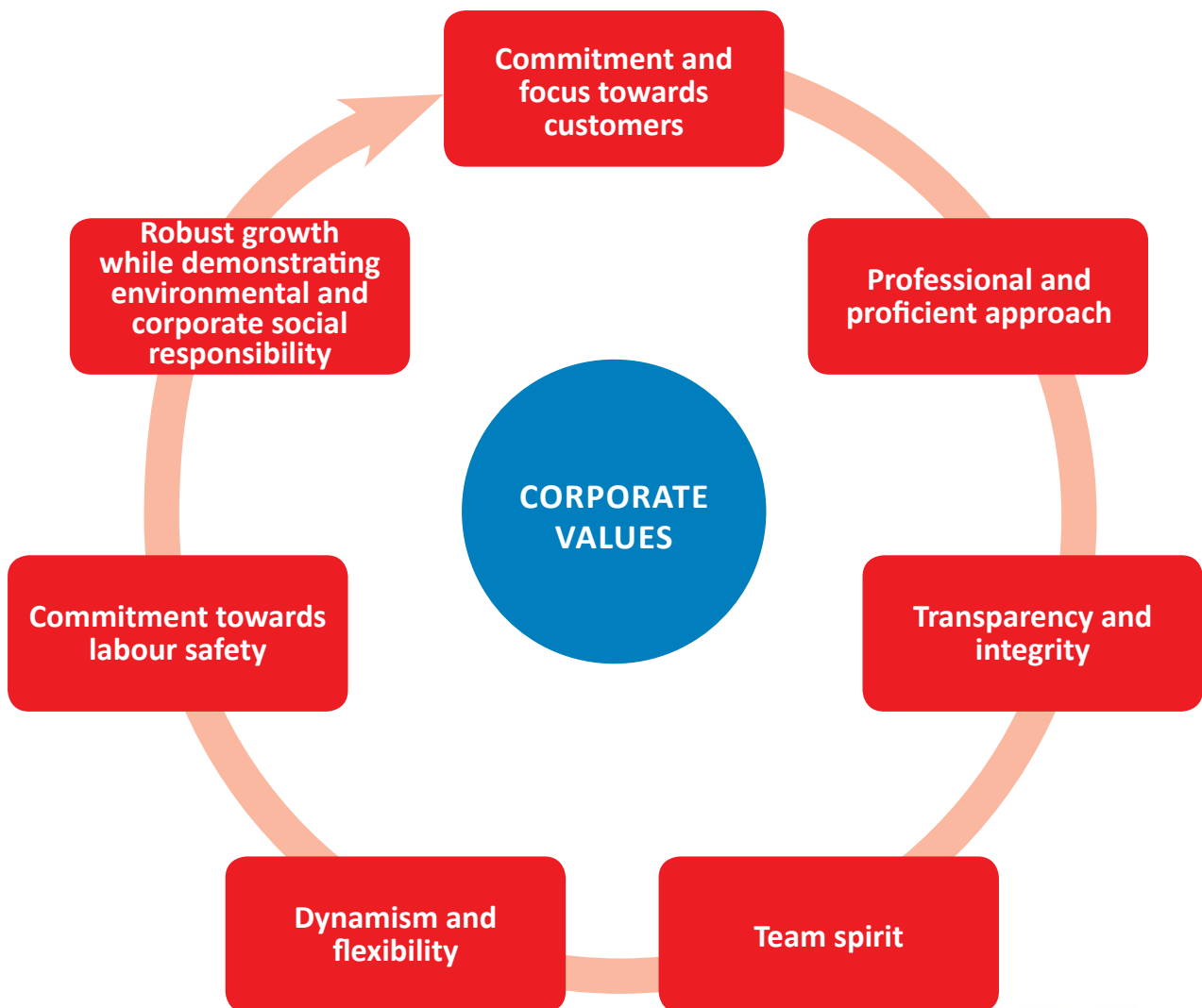
### MISSION

The mission of the Group is to deliver long term value to our shareholders by distributing and supplying electricity and providing exceptional services to our customers in a safe, reliable, affordable and sustainable manner.

### VALUES

The values exercised across all structures of the Group are presented in the figure below.

**FIGURE 17: ELECTRICA GROUP CORPORATE VALUES**



Source: Electrica S.A.

## 2.3 STRATEGIC OBJECTIVES

The Group's overriding **goal is to create sustainable long term return on investment for our shareholders.**

For reaching this overriding goal, the Group has set the following strategic goals:

- To achieve sustainable growth
- To maintain financial stability

- To improve operational efficiency
- To actively manage the portfolio of businesses and build synergies
- To ensure the availability of a committed and qualified workforce
- To adopt high standards of corporate governance
- To enhance sustainability profile

## 2.4 OUTLOOK

The regulatory framework has experienced major changes in the past decade, including market liberalization, unbundling, and support scheme for renewable energy. Other legislative changes that have recently occurred in Romania refer to the remuneration of the Romanian DSOs- according to the ANRE Order no. 146/2014, starting with 2015 the distribution operators' WACC will be reduced to 7.7% from 8.52%.

ANRE's changes of the distribution tariff setting methodology, including the change in remuneration (ie. the RRR) all these during the regulatory period, indicate a lack of predictability and stability of

regulatory environment and a negative impact on the Groups' distribution operators' operational and financial performance.

Although these changes had the overall aim of converging the Romanian legislation towards EU legislation, the process has not been completed, and major changes are expected to occur in the following years in all EU countries in order to progress towards completing the Internal Energy Market. Amongst these changes, we could mention: the implementation of a harmonized set of rules across member countries, increase in regional cooperation and a more active role for consumers.

**TABLE 1: KEY DRIVERS FOR CHANGE WITHIN THE ELECTRICITY MARKET**

Key driver	Description	Impact on
GDP evolution and industry structure	Economic growth is a key determinant of electricity demand. Although there is not a one-to-one relationship between GDP growth rates and electricity demand growth rates, there is a positive correlation, mainly between the industrial demand for electricity and economic growth. In the future, household and industrial electricity demand will also be influenced by energy efficiency policies.	Electricity consumption
Changes in Regulation	The regulatory framework has experienced major changes aiming to align the Romanian legislation with EU legislation. Although important steps have been accomplished, major changes are expected to occur in the next decade influencing the electricity price, the demand and the supply patterns.	Electricity prices
Increase in environmental awareness	Romania has adapted the EU 20-20-20 targets, aiming to reduce greenhouse gas emissions, improve energy efficiency and rising the share of renewable energy. According to the latest discussions about EU framework for climate and energy policy projected, these targets will further be increased.	Electricity prices and consumption, regulatory framework
Technological development	Smart grids and smart meters will create benefits for end-consumers, distributors and suppliers in terms of energy efficiency and smarter use of energy, through a more efficient utilization of information.	Electricity prices and consumption

Source: Electrica S.A.

## 3 Business overview

### 3.1 OPERATING SEGMENTS

#### DISTRIBUTION SEGMENT

Distribution segment contributes with the highest share to the operational profitability of Electrica. Electricity distribution is a regulated activity in Romania and specific tariffs applicable to distribution services must be approved by ANRE as a “tariff basket price cap” mechanism as established by Order no. 31/2004 (applicable in the first regulatory period 2005-2007), no. 39/2007 (applicable in the second regulatory period 2008-2012), no. 51/2012 (applicable in the transition year 2013) and no. 72/2013 (applicable in the third regulatory period 2014-2018). The methodology “tariff basket price cap” plans to reduce income fluctuations and avoid significant

fluctuations in the electricity prices charged to consumers. The tariff model is based on the principle of remuneration through tariffs of controllable costs recorded by the distribution operator, the Distributor’s main source of profit being the rate of return on capital invested in the distribution activity. ANRE sets regulated annual income levels required for each year during the regulatory period, which is based on projections submitted by the distribution operators, in line with the methodology requirements. Details regarding the tariff setting methodology are available in Annex 3. Starting 1 January 2015, electricity distribution tariffs approved by ANRE are as follows (RON/MWh).

**TABLE 2: ELECTRICITY DISTRIBUTION TARIFFS AS OF JANUARY 1, 2015**

Tariff (RON/MWh)	ANRE Order no.	High voltage	Medium voltage	Low voltage
Transilvania Nord	155/15 December 2014	21.10	47.34	112.15
Transilvania Sud	156/15 December 2014	23.41	46.85	122.39
Muntenia Nord	154/15 December 2014	18.47	42.84	138.61

Source: ANRE Order

#### SUPPLY SEGMENT

Electricity market is divided into regulated market and competitive market. On both markets, electricity can be sold or purchased wholesale or retail.

##### Regulated market

After the implementation of the Second Energy Package of EU, the liberalization of the electricity market in Romania started on 1 January 2007. The tariffs of electricity supply to industrial consumers have been fully liberalized and only the tariffs for the electricity supply to households are still subject of approval by ANRE.

Households are free to change their electricity supplier, but still have access to regulated tariffs for electricity supply until this market will be fully liberalized in 2018. Starting 1 January 2014, the tariffs of electricity supply to industrial consumers are determined by the market and freely negotiated. It is possible that increasing competition on this market segment that does not any longer work under regulated tariffs will lead to the switch of electricity suppliers by consumers and may result in an increased consumer migration to the competitors of the Group. Electricity supply market in Romania could also record migration within the segment of householder consumers segment and the equivalent thereof, as

the liberalization process will advance. However, as a result of small or no savings that could be obtained by changing household electricity supplier, the Management expects that the effect of liberalization in the segment of households to be relatively small. Currently, Electrica is “the Provider of last resort” for approximately 3.56 million consumers. A Provider of last resort is under Energy Law, a supplier designated by the regulatory authority to provide universal service for electricity supply under specific regulated conditions. Until 2018, when liberalization of households segment is planned to be completed, tariffs on households must be approved each year by ANRE based on relative cost categories as well as on regulated profit margin. Tariffs are calculated in order to cover the cost of electricity (including transport costs, network services, distribution costs and a profit margin regulated). ANRE’s previous methodology provided a maximum profit of 2.5% applied to the cost of electricity purchased for supply to households until 1 December 2013. The new methodology (ANRE Order no. 82/2013) provides a maximum profit per unit of electricity sold to consumers tariff setting and CPC tariffs of 4 RON/MWh and operating cost supply of 4.5 RON/client/month, following that, until the application of competitive criteria for selecting suppliers of last

resort, the value of profit per unit of electricity sold to consumers to be established by ANRE. Furthermore, Electrica records supply costs including closing costs of contracts, billing, bill collection, database management and costs of IT and telecommunications infrastructure.

Starting 1 September 2012 and with the implementation of Order no. 82/2013 to the ultimately providers is allowed to determine for final consumers who have not used the entitlement to switch suppliers, a new tariff that consists of a mix of regulated tariff component and a "component of the competitive market" (CPC) approved by ANRE. Purchase prices paid to producers controlled by the state for the purchased electricity to provide to consumers on the regulated market are established by ANRE. CPC component of the tariff is based on average acquisition price of the electricity which the relevant supplier purchase on the centralized electricity market to be supplied to industrial consumers and may not exceed a legal amount with this price multiplied by 1.1. Any difference between estimated and realized tariff components made by suppliers of electricity in the last month of a given period of liberalization in the regulated tariff elimination schedule will be adjusted in the next period of liberalization.

Cost categories of ultimately provider recognized in the prices of final consumers, but only up to the level considered to be justified by ANRE are the following:

- Acquisition costs of electricity and CPC, depending on the allocation level of the necessary electricity by ANRE through the regulated contracts;
- Cost for electricity transmission service;
- Costs related to system technological and functional services;
- Costs related to services provided by the operator of the centralized electricity market to the

participants on the centralized electricity market;

- Costs related to service charges for electricity distribution;
- Costs related to electricity supply activity of electricity for final consumers who have not used the entitlement;
- Occasional costs incurred by force majeure (if applicable).

According to Law no. 134/2012, since September 2012, the cost of Green Certificates which are billed to final consumers separately from tariffs for electricity. Electricity providers have a legal obligation to purchase Green Certificates every year based on annual targets or quotas calculated by ANRE based on gross production from renewable sources and the final net consumption of electricity in Romania.

Although the cost of Green Certificates has been shown separately in electricity bill, for reasons of transparency, since September 2012, ANRE did not properly reduced the regulated tariff by the supply. This has led to incurring of double cost with the Green Certificates to consumers (through the inclusion of these costs in the regulated tariff and the separate invoicing of the cost of Green Certificates) for the period September 2012- July 2013.

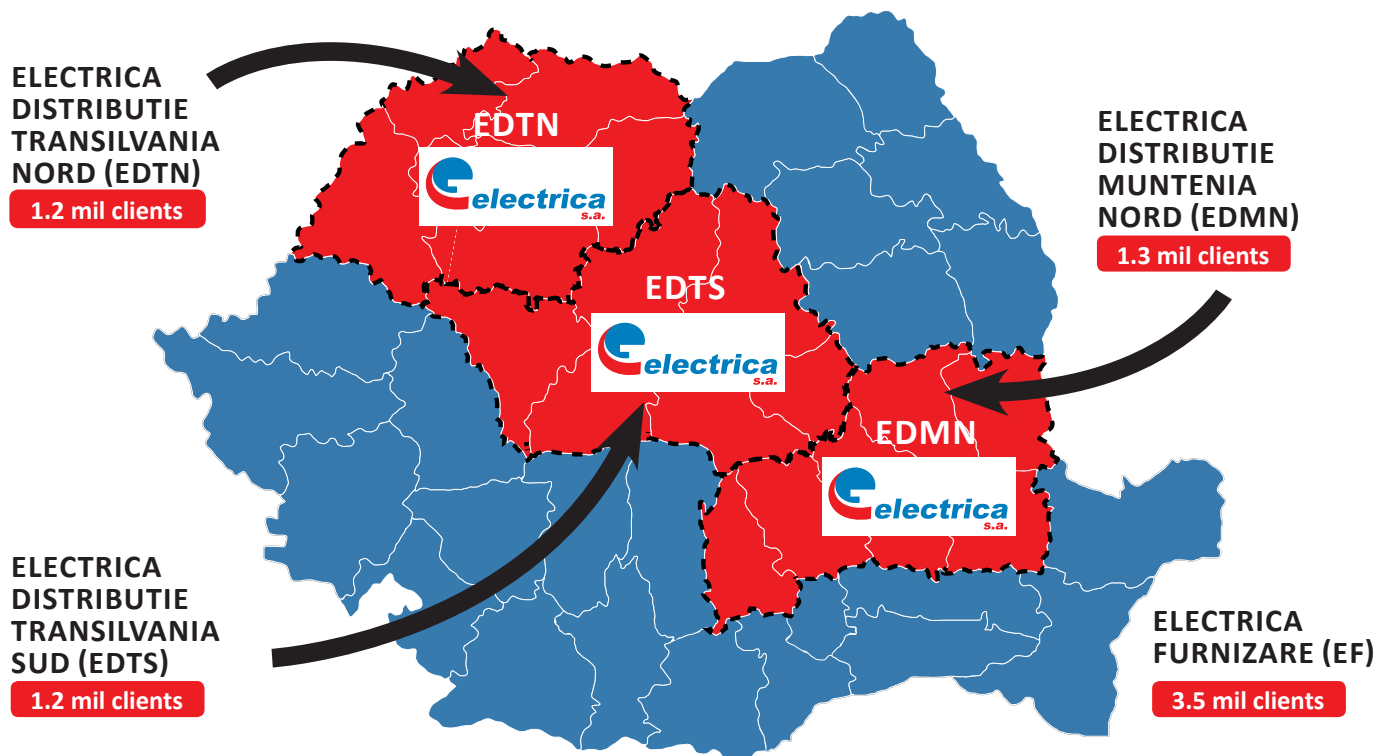
#### *Competitive market*

Trading on competitive wholesale market is transparent, public, centralized and non-discriminatory. Prices may be freely negotiated by the parties on the competitive retail market. Participants on wholesale Market can trade electricity on the basis of bilateral agreements concluded on the dedicated centralized market. Since 19 July 2012 Energy Law does not allow contracts of sale on the wholesale electricity market outside centralized markets, unless for import/export energy contracts.



In the following figure are shown the areas covered by the subsidiaries of the Group and the number of clients they serve:

**FIGURE 18: THE COVERAGE OF COMPANIES IN THE ELECTRICA GROUP**



Source: Electrica S.A.

Electrica's distribution segment operates through its subsidiaries: EDMN, EDTN, EDTS and Electrica Serv, the latter mainly through maintenance and repair services of distribution networks, and the activity is limited geographically and through the services provided, being the operator of electricity distribution in North Muntenia region (counties Prahova, Buzau, Dambovita, Braila, Galati and Vrancea), Northern Transylvania (counties Cluj, Maramures, Satu Mare, Salaj, Bihor, Bistrita-Nasaud) and Southern Transylvania (counties Brasov, Alba Sibiu, Mures, Harghita and Covasna), operating transformer stations and transmission lines with voltages of 0.4 kV and 110 kV. The Group holds exclusive distribution licenses for these regions which will still be valid 13 years with the possibility of extension. In the distribution business, Electrica provides equipment maintenance services, repair and other services for its network and with a lesser extent, to third parties.

Electricity supply segment operates through its subsidiary, Electrica Furnizare and delivers electricity

to consumers in both the regulated electricity market (in geographic regions in which the Group operates its distribution segment), and in the competitive market throughout Romania. The Group holds two licenses covering the entire supply on the territory of Romania, with a remaining period of validity of 7 and 8 years respectively, and extendable.

The Group's portfolio also includes the energy services segment (equipment maintenance, repair and other additional services related to the network), performed almost entirely by the distribution subsidiaries.

Energy services segment consists of Servicii Energetice Dobrogea S.A., Servicii Energetice Moldova S.A., Servicii Energetice Oltenia S.A. and Servicii Energetice Muntenia S.A.

Servicii Energetice Dobrogea S.A. and Servicii Energetice Moldova S.A. are in the process of liquidation, which is expected to conclude by the end of 2015; also Servicii Energetice Oltenia S.A. and Servicii Energetice Muntenia S.A. are in the process of reorganization.



## 3.2 PROCUREMENT

Electrica S.A. will continue to centralize its acquisition process within the Group, by means of which centralized acquisition will be delegated to Electrica S.A. The aim is to reduce costs, optimize acquisition

and ensure a unified policy within the Group. The centralization process will enable a standardized acquisition process and at the same time will lead to an increased level of integrity.

## 3.3 SALES ACTIVITY

The following summary describes the operations of each reportable segment.

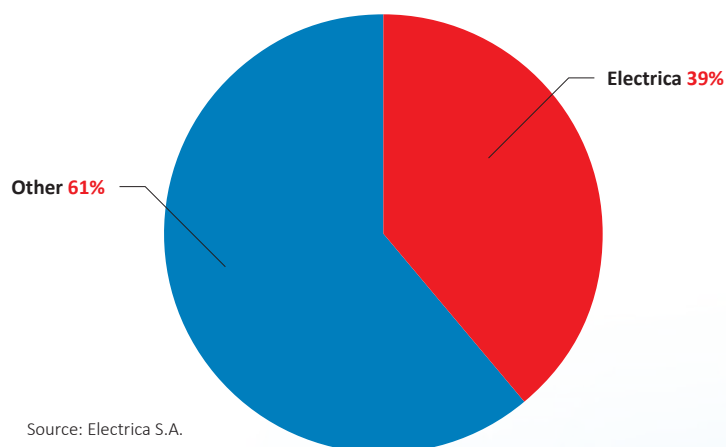
Reportable segments	Operations
Electricity supply	Buying and supplying electricity to final consumers (includes Electrica Furnizare SA and the supply activity of Electrica SA)
Electricity distribution	Electricity distribution service (includes Electrica Distributie Muntenia Nord SA, Electrica Distributie Transilvania Nord SA, Electrica Distributie Transilvania Sud SA, Electrica Serv SA and the investments in the distribution activity done by Electrica SA)
External electricity network maintenance	Repairs, maintenance and other services for electricity networks owned by other distributors (includes Servicii Energetice Banat SA, Servicii Energetice Dobrogea SA, Servicii Energetice Moldova SA, Servicii Energetice Oltenia SA and Servicii Energetice Muntenia SA)
Headquarter	Includes corporate services at parent level

Source: Electrica S.A.

The main drivers of Electrica revenues is represented by the distribution and supply segment. In 2014, the contribution of the electricity distribution segment and electricity supply segment to the revenues of Electrica are expected to be 37% and 62% respectively. In comparison, in 2013 the contribution of the electricity distribution segment and electricity supply segment in total revenues of Electrica was 34.58% and 61.08% respectively.

The Group's distribution operators are natural monopolies in their respective markets and as such, they enjoy a dominant position. Also, the Group's distribution operators have a legal monopoly in their relevant regions and hence, other entities cannot set up a competing electricity distribution business. The following figure shows the national market shares held by Group subsidiaries in the segment of distribution of electricity.

**FIGURE 19: MARKET SHARE DISTRIBUTION SEGMENT**



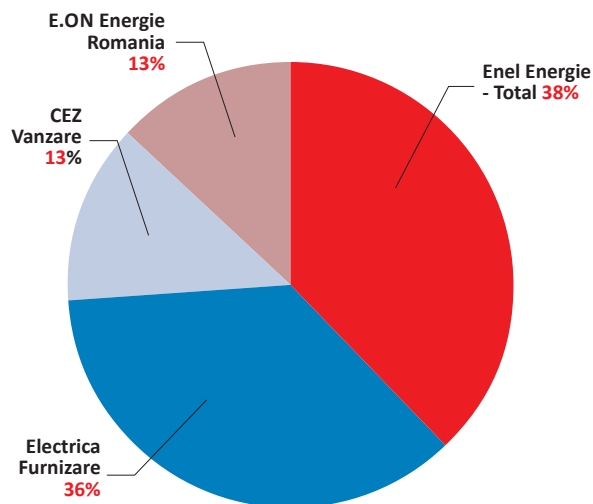
Source: Electrica S.A.

In addition, the Group's supply operations enjoy a dominant position on the electricity supply market, due to it being a supplier of last resort. On the hand, Electrica faces a growing competition on the supply competitive market. Supply market consists of Regulated and Competitive segments:

- The regulated segment comprises 5 companies, integrated within the same group as the corresponding distribution operators
- The competitive segment comprises 62 players, 54 of which are relatively small (<4% market share)

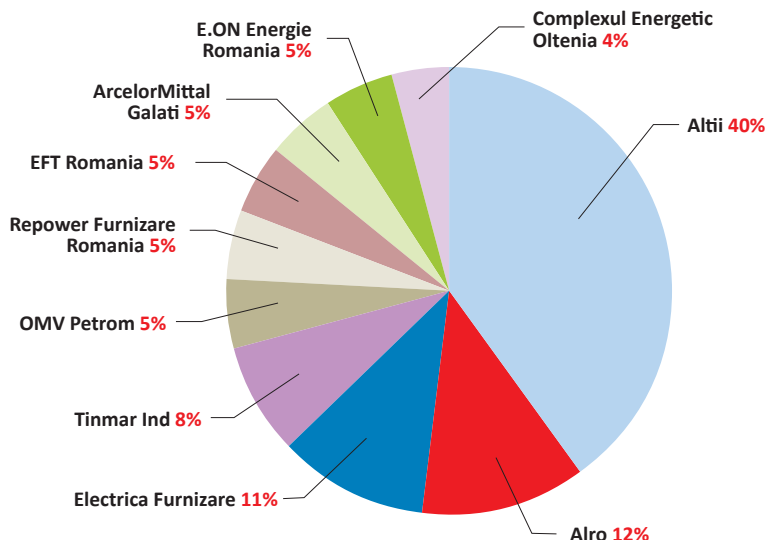
The following figure presents the market share of Electrica supply business:

**FIGURE 20: REGULATED MARKET, 2013**



Source: ANRE

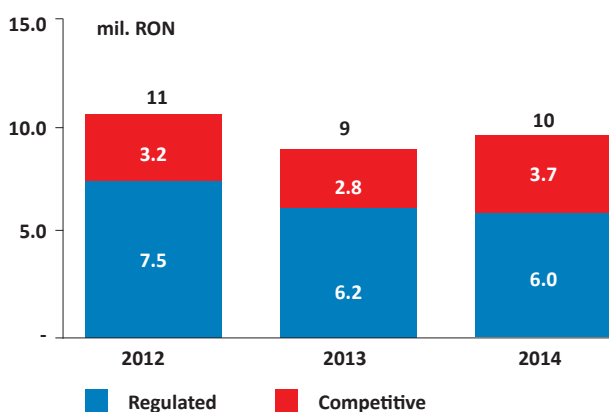
**FIGURE 21: COMPETITIVE MARKET, 2013**



Source: ANRE

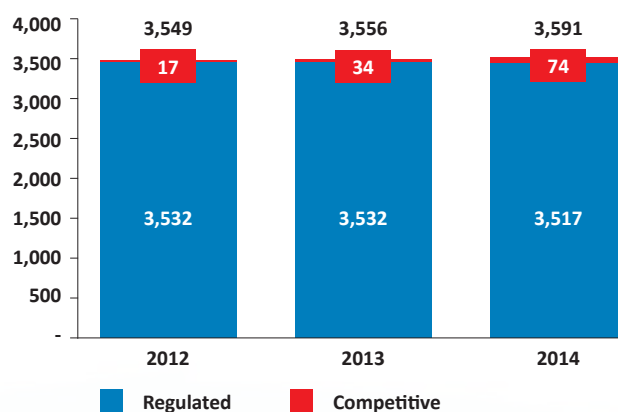
Total number of consumers was 3.59 mil in 2014, with 176 sale points.

**FIGURE 22: VOLUME OF ELECTRICITY SUPPLIED ON RETAIL MARKET (TWh)**



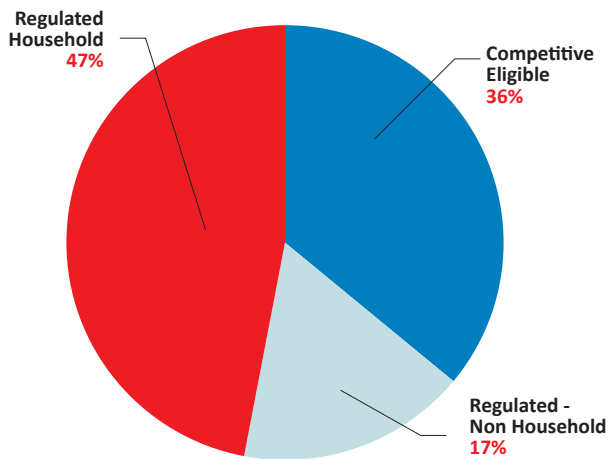
Source: Electrica S.A.

**FIGURE 23: GROWING NUMBER OF CONSUMERS ('000'S)**



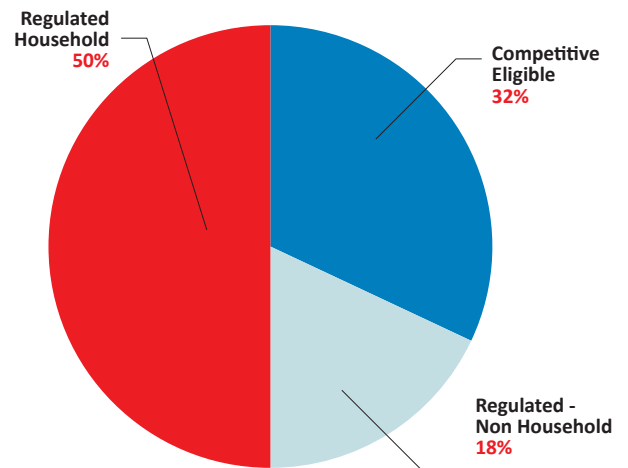
Source: Electrica S.A.

FIGURE 24: CONSUMERS BY VOLUME, 2014



Source: Electrica S.A.

FIGURE 25: CONSUMERS BY REVENUES, 2014



Source: Electrica S.A.

### MAJOR CLIENT EXPOSURE

Electrica does not have a significant exposure to a certain client or group of clients that could influence drastically its activity.

However, under Romanian law, certain electricity consumers, such as hospitals, rescue stations, schools,

retirement homes, or air, naval and railroad traffic services are deemed of special importance, and cannot be disconnected by an electricity supplier. As a result, electricity must be provided to them by Electrica Furnizare even if they are in payment default.

## 3.4 REORGANIZATION AND SPIN-OFF OF ASSETS

On 18 December 2013, an EGMS of the Company proposed the transfer of the Company's interests in: ENEL Energie Muntenia S.A., ENEL Distributie Muntenia S.A., ENEL Distributie Banat S.A., ENEL Distributie Dobrogea S.A., ENEL Energie S.A., E.ON Moldova Distributie S.A., E.ON Energie Romania S.A., Electrica Soluziona S.A., Bursa Romana De Marfuri S.A. and Hidro Tarnita S.A. to a newly formed entity Societatea de Administrare a Participatiilor in Energie ("SAPE") through the Spin-off. As part of the Spin-off, which was approved by the court in April 2014 and registered with the Trade Registry in May 2014, Electrica reduced its capital by approximately RON 431 million through

the cancellation of 43,123,780 Shares.

In 2013 the Company approved the liquidation of 3 subsidiaries: Servicii Energetice Banat, Servicii Energetice Dobrogea and Servicii Energetice Moldova.

In January 2014 the Board of Directors of Servicii Energetice Oltenia and in October 2014 the Board of Directors of Servicii Energetice Muntenia decided the commencement of the insolvency process with a view to reorganization. Servicii Energetice Banat entered in bankruptcy in November 2014 and consequently the Company discontinued consolidation at that date as it no longer has control over it.

### 3.5 PERSONNEL

As of 31 December 2014, the Group employed 11,740 people.

The table below provides an overview of employment in the Group, by business segment, as follow:

	As at 31 December		
	2012	2013	2014
<b>Electricity distribution</b>	<b>9,450</b>	<b>9,347</b>	<b>9,386</b>
EDMN	2,111	2,092	2,156
EDTN	2,025	2,007	2,011
EDTS	1,859	1,874	1,874
Electrica Serv	3,455	3,374	3,345
<b>Supply</b>	<b>2,332</b>	<b>2,059</b>	<b>988</b>
Electrica Furnizare	2,332	2,059	988
<b>Services related to other distribution networks</b>	<b>1,236</b>	<b>1,225</b>	<b>1,217</b>
SE	1,236	1,225	1,217
<b>Headquarter</b>	<b>199</b>	<b>149</b>	<b>149</b>
Electrica	199	149	149
<b>Total</b>	<b>13,217</b>	<b>12,780</b>	<b>11,740</b>

Source: Electrica S.A.

The reduction in number of employees of the Group during the year 2014 is the result of liquidation or reorganization procedures of energy services subsidiaries.

As of 31 December 2014 approximately **58%** of the Group's employees are directly productive and **42%** indirectly productive, which includes technical, economic, social and administrative personnel.

The table below presents the Group's employment, broken down by age as follows:

	31 December 2013	31 December 2014
Below 18 years of age	0%	0%
18-30	6.76%	6.16%
31-40	21.39%	20.37%
41-50	38.42%	38.90%
51-60	28.85%	29.90%
above 60 years of age	4.58%	4.67%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Source: Electrica S.A.

As of 31 December 2014, approximately 98% of the Group's employees are members of labour unions and their employment conditions are governed by a collective bargaining agreement that is renegotiated at least every two years and filed with the relevant labour authorities in Romania.

None of Electrica and its subsidiaries has experienced any strike or other form of labour disturbances that have interfered with its operations, and management considers its relationship with employees of the Group to be appropriate.

Electrica SA and its subsidiaries have in place internal regulations that generally relate to general employment provisions, non-discrimination, labour safety and health, rights and obligations of the employer and of the employees, employee complaint procedures, rules on labour discipline, disciplinary sanctions and disciplinary infringements, rules regarding disciplinary procedure, the criteria and procedure for the professional evaluation of employees and final provisions.

Electrica's training programmes aim to upgrade the skills of the Group's employees so they can adapt to broader tasks to better utilise its existing resources. Management believes that its emphasis on training and development helps its employees meet business challenges effectively.

### **SAFETY AND HEALTH AT WORK**

Achieving safety and health at work at Electrica SA level represents an integrated part of designing, organizing and conducting work processes and includes the measures and actions assembly which results in preventing accidents and professional disease and improvement of work environment.

The surveillance audit of quality, environment, health and work safety integrated management system took place in 2014, resulting that the activity of work safety and health being carried out in compliance with standard OHSAS 18001/2009.

Electrica SA is focused on training the employees, in compliance with the legislation in force, and also focusing on danger awareness trainings, with the purpose of eliminating the accidents and professional disease identified by assessing the risk level in all the workplaces. The Labour Health and Security Comitee coordinated by at Electrica SA coordinating level, meets periodically to analyze and solve the problems identified in a common and unitary manner, for all hierarchic levels. In 2014, was conducted the analysis of work health and security for 2013 and also the analysis of individual protection equipments, proposed for centralized acquisition for employees, mainly the electricians.

#### *Preventive actions in the field of work safety and health*

Mentoring and controlling actions regarding the

compliance with the legal requirements for work health and security, including defense against fire, were conducted in compliance with the framework approved by Electrica SA and respectively by each subsidiary level. Some impairments were operational eliminated during the control and for the others are set corrective/preventive measures with specific deadlines. The measures established are followed and reported upon maturity by the designated project management towards the protection and prevention service of each subsidiary, finally being forwarded to Electrica SA for the aggregated analysis of Labour Health and Security Comitee.

#### *Implementing the measurements programme*

To ensure the safety and health status for 2014, the prevention and protection plan at each subsidiary level set measures that require funds allocation. At Electrica SA level it was approved a expense budget of 18 thd RON for implementing the program, mainly representing production funds.

For conducting operational activity in maximum security conditions, namely for preventing work accidents and professional diseases, each subsidiary individually acquired protection equipment (EIP) in 2014, through out approved budget for work health and security.

### **The status of Electrica S.A. group's work accidents**

In 2014, Electrica SA group had no mortally working accident.

There were eight accidents with temporary unavailability of working (ITM) with 9 injured workers, namely:

- 3 accidents at FDEE Electrica Distributie Transilvania Sud, in branches SDEE Alba, SDEE Sibiu, SDEE Harghita;
- 4 accidents at FISE Electrica Serv, at SISE Transilvania Sud – AISE Brasov and SSE Sf.Gheorghe (with 2 injured workers) and at SISE Transilvania Nord – AISE Oradea (2 accidents);
- 1 accident at Servicii Energetice Muntenia.

Because of the 2014 accidents, a total amount of 494 days of unavailability of working was recorded.

The causes and favouring factors for each accident were separately analysed by committee set up for this exact purpose, and the investigating files were approved by the Territorial Labour Inspectorate. It is worth mentioning that there was just one labour accident caused by electric risk, the rest of the accidents were caused by mechanical risks (fall, failure in respecting the technological specifications, other causes).

The statistical analysis revealed no factors that might lead to imposing general measures, but only specific measures for each case.

Most of the accidents are recorded for the 40 and 49 years age group (6 out of 9 injured workers), 4 injured workers with more than 25 years seniority, and in terms

of qualification the injured workers were: electrician, electrician-driver, mechanical locksmith and driver. As in previous years, the labour accidents are caused by complementary causes, mainly of human nature factor (distraction, lack of technological discipline, lack of control/supervision).

In Electrica SA electrical installations there were reported 8 external injuries, out of which 6 died being electrocuted. The accidents are mainly caused by unauthorized intervention to the electrical installations, in order to substitute metallic components.

#### Status of Electrica SA employees' health in 2014

Surveillance of the employees' health is conducted by doctors employed by FISE, based on a services agreement and also outsourcing contracts. The control of health of all Electrica's employees and diagnosis of professional diseases, respectively the work related diseases, is conducted by the labour medicine specialized doctor, by interpreting a series of statistical indexes included in the framework operational procedure, received from each subsidiary.

The main health indicators are given by the degree of impacting the ability to work, respectively medical/

psychological chronic diseases that limits the ability to work, physical efforts, working in heights, work under voltage, and the total number of days of temporary incapacity to work (medical leaves caused by chronic and/or acute medical conditions).

Thus, in 2014, the conditional aptitude indicator is estimated at 9% out of total number of employees, out of which one third is represented by cardiovascular issues, rest of the issues being of ophthalmological/psychological nature.

In 2014, the main causes for temporary inability to work that lead to medical leaves, are caused by injuries occurred outside of workplace (sprains, fractures, contusions), cardiovascular conditions (hypertension, ischemic heart disease, chronic venous insufficiency), malignant tumors, musculoskeletal disorders (discopathy, arthrosis), respiratory diseases, pregnancy and confinement, digestive disorders, psychiatric disorders.

Prevention is achieved through medical consults by occupational doctors, other than the mandatory ones, medical laboratory analyzes, anti-influenza vaccination, occupational medicine and first aid training and checks of hygienic conditions.

## 3.6 ENVIRONMENTAL CONSIDERATIONS

In developing the activities and implementing its business strategy, the Group promotes environmentally friendly policies and procedures. For example, the implementation of smart grid networks and the expected reduction in network losses, in order to improve energy efficiency and a reduction in CO<sub>2</sub> emissions.

The Group's Management systems in relation to environmental and health and operational safety matters are implemented and operated on a standalone basis by each of the Group's subsidiaries. The annual capital investment budgets of each of the Group's subsidiaries include expenditure for environmental matters.

The Group's activities impact the environment, principally as a result of emissions of noise by equipment and transformer posts from the transformers' stations, and secondly, because the Group uses equipment containing insulating oil with polychlorinated biphenyls or "PCBs", sulphuric acid and other polluting substances, whose operation is subject to regulation, being subject to specific environmental laws and regulations, including the provisions of the EGO no. 195/2005 relating to environmental protection (the "Environmental Protection Law"). The Group's functions based on environmental authorisations and environmental authorities monitor the compliance with granted

authorisations and endorsements, which may be suspended for compliance failures. In addition to compliance with the Environmental Protection Law, the Group is also subject to:

- EGO no. 68/2007 on the environmental liability with respect to the prevention and remedying of environmental damage to land water and air in the case of pollution event;
- Law no. 104/2011 regarding air quality published in the Official Gazette on 28 June 2011, which relates to restrictions on atmospheric pollutants and the elaboration of air quality plans;
- Law no. 211/2011 on waste management, published in the Official Gazette on 25 November 2011, which relates to ensuring a high level of environmental protection and the safety of the public's health through management of waste and prevention or reduction of the adverse impact of waste generation; and
- other specific restrictions relating to package and packaging waste, disposal of waste oils, batteries, tyres, PCBs and other materials used in the distribution segment's business;
- the privatisation legislation regarding the notification of National Agency for Environmental Protection and obtaining the confirmation that is not necessary to set environmental obligations in the privatisation process, except for EDMN in respect of compliance with the

regulation of the special regime on management and control of PCBs and AISE Buzau, AISE Galati, AISE Ploiesti, AISE Targoviste, AISE Focsani, AISE Brasov, AISE Miercurea Ciuc, AISE Sibiu, AISE Bistrita, AISE Baia Mare, AISE Satu Mare, AISE Cluj, AISE Braila.

As at the date of this report, the Group holds all 193 material permits required for it to conduct its

business, and the Group's business is conducted in compliance with all specific environmental regulations. Integrated Quality, Environment, Occupational Health and Safety management systems certified in accordance with ISO 9001:2008, ISO 14001:2014 and EN OHSAS 18001:2007 have been implemented in each of the Group's subsidiaries.

### 3.7 RESEARCH AND DEVELOPMENT ACTIVITIES

With respect to Electrica's concern ***for promoting technological innovation by participating in research and development projects cofinanced through European funds***, namely for testing new technologies, simulating and managing behaviours which can be integrated in the distribution electricity networks, Electrica stress out the involvement in accessing funds by participating in calls for VSYNC, SINGULAR and Horizon 2020, among:

- **"VSYNC", a FP6** cofinancing project, was designated to test a virtual sincron generator in a network node where generation sources could have a bigger share compared to the energetic system. Various functioning regimes were simulated and emphasis was made on the role of an electricity storage system in a low voltage network, where the voltage level is highly influenced by consumption evolution from turstic areas. Systems for measuring and distance control through GSM confirmed the premises of the project through the demonstrations performed;
- **"SINGULAR "**, an ongoing research project, **cofinanced through FP7**, has the purpose to test software programs aimed at forecasting loads in network nodes and the production generated by wind power plants and photovoltaic plants, based upon measures from counters read from the

distance. Managing of forecasted consumption/production in a network island area might ensure allocation of electricity losses and an improved monitoring aimed at mitigating losses. Moreover, testing software applications on a real network for optimizing power flows followed by demos constitutes a way to develop methodologies in determining electricity losses in networks with renewable sources, in order to obtain energy and operational efficiencies for network with an increased degree of penetration of renewable sources;

An additional important endeavour in promoting technological innovation constitutes the dissemination of improvement solutions for electricity networks related to smart grid concepts. As such, Electrica is organizing every year in November conferences with international attendance which have as an alternative theme smart grid solutions in one year and smart metering solutions in the next year. Best practices in the field for each investment category are presented. Moreover, we can emphasize the participation at international conferences organized by the World Energy Council, CIGRE and CIRED international conferences which aim at tackling technological innovation and promoting new technologies which improve operational efficiency.

### 3.8 RISK MANAGEMENT

#### RISK MANAGEMENT AND INTERNAL CONTROL

Underlying legislation for implementing a risk management system as well as a system for internal control/management has been:

- Order of the Ministry of Public Finance no. 946/2005 regarding development of a internal control/management system with all subsequent ammendments;
- Government Order n. 119/1999 regarding internal control and preventive financial control with all subsequence ammendments.

In addition, the risk management together with the internal control and management system at Electrica SA level takes place in accordance with internal procedures agreed.

A major concern for the management is building awareness of employees regarding the importance of managing risk inside the organization and the necessity of direct involvement in unfolding the risk management process, as well as aligning best practices on national and international level by following legislation in place, standards and related norms.

Subsidiaries of Electrica Group have their own legal personality and have implemented at their level risk management and internal control/management systems, in accordance with legislative provisions as mentioned before.

In June last year Executive management of Electrica SA started with classifying the risks for the Company in

terms of probability of occurrence and impact on the Company. Five impact levels and five probability levels were identified, ranging from risks that are tolerable and risks that have zero tolerance and risks that have low probability and risks with high probability. One risk, which has to do with loss of intellectual capital, was quantified in the highest category, which means that urgent managerial control measures are needed. A further five risks were classified in the area of low tolerance, for which short term managerial control measures are required. Corrective actions have been taken for these six risk areas. During 2015 the risk management system will be further detailed, improved and discussed with the board.

Risks related to the activity and sector of Electrica in 2014 can be presented as follows:

- Group's supply segment may be exposed to increasing competition due to the market liberalization
- Group's financial performance may be negatively influenced by changing tariffs on the regulated market;
- Group's supply segment might lose its status of supplier of last resort;
- Group's financial performance may be negatively influenced by changing prices for energy;
- Romania's electricity demand is linked to various factors beyond control of the Group, such as economical, political and climate-changing instances;
- The Group has to comply with regulatory requirements and has to keep in place regulated approvals, being exposed to significant liabilities in case of non-compliance;
- Components of the Group's distribution network are subject to deterioration over time;
- The Group's assets and/or business could be damaged by natural and man-made acts or disasters;
- The Group's IT systems are outdated and are not integrated;
- The migration of the Group to a new integrated ERP system may encounter difficulties and delays;
- The Group may face risks associated with restitution claims with regard to certain real estate properties;

- Electrica Furnizare may be prohibited from suspending or interrupting the supply of electricity to certain of the Group's customers, even if such customers are in payment default;
- Failure to observe public procurement legislation by members of the Group may lead to fines and voided contracts;
- The Group's position in electricity distribution and supply markets may expose it to claims relating to abuse of dominant position;
- A strike or other labour disruption could adversely affect the Group's business;
- Failure to execute management's business strategy may lead to cost savings and revenue forecasts being lower than predicted for the Group;
- The Group's reputation, future prospects or results of operations may be materially adversely affected by claims or litigation.

#### *Risk exposure*

The Group has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk.

#### *(i) Credit risk*

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, cash and cash equivalents, bank deposits and treasury bills and government bonds.

Cash, bank deposits, treasury bills and government bonds are placed in financial institutions, which are considered to have minimal risk of default.

The carrying amount of financial assets represents the maximum credit exposure.

#### **Trade receivables**

The Group's credit risk in respect of receivables is concentrated around state-controlled companies. The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables.





### Impairment

The ageing of trade receivables was as follows:

RON thousand	31 December 2014		31 December 2013	
	Gross value	Bad debt allowance	Gross value	Bad debt allowance
Neither past due nor impaired	501,052	-	686,315	-
Past due 1-90 days	240,421	-	201,939	-
Past due 90-180 days	23,542	-	64,846	(1,947)
Past due 180-360 days	29,463	(13,657)	121,536	(33,543)
Past due 1-2 years	52,801	(52,801)	180,802	(132,403)
Past due 2-3 years	105,710	(105,710)	244,905	(244,905)
Past due more than 3 years	975,487	(975,487)	752,726	(752,726)
<b>Total</b>	<b>1,928,476</b>	<b>(1,147,655)</b>	<b>2,253,069</b>	<b>(1,165,524)</b>

Source: Electrica S.A.

RON thousand	Net trade receivables	
	31 December 2014	31 December 2013
Neither past due nor impaired	501,052	686,315
Past due 1-90 days	240,421	201,939
Past due 90-180 days	23,542	62,899
Past due 180-360 days	15,806	87,993
Past due 1-2 years	-	48,399
<b>Total</b>	<b>780,821</b>	<b>1,087,545</b>

Source: Electrica S.A.

### (ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses. The Group aims to

maintain the level of its cash and cash equivalents at an amount in excess of expected cash outflows on financial liabilities. The Group also monitors the level of expected cash inflows on trade receivables together with expected cash outflows on trade and other payables. In addition, the Group maintains overdrafts (refer to Note 21 of the Consolidated Financial Statements).

### Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments.

RON thousand	Contractual cash flows					
	Carrying amount	Total	less than 1 year	1-2 years	2-5 years	More than 5 years
<b>Financial liabilities 31 December 2014</b>						
Bank overdrafts	48,132	48,132	48,132	-	-	-
Financing for network construction related to concession agreements	250,550	262,332	101,633	87,114	73,484	101
Finance lease	294	294	294	-	-	-
Trade payables	555,256	555,256	555,256	-	-	-
<b>Total</b>	<b>854,232</b>	<b>866,014</b>	<b>705,315</b>	<b>87,114</b>	<b>73,484</b>	<b>101</b>

Source: Electrica S.A.

RON thousand Financial liabilities 31 December 2013	Contractual cash flows					
	Carrying amount	Total	less than 1 year	1-2 years	2-5 years	More than 5 years
Bank overdraft	79,684	79,684	79,684	-	-	-
Financing for network construction related to concession agreements	272,411	288,693	144,623	93,755	50,315	-
Finance lease	788	788	498	290	-	-
Trade payables	581,522	581,522	581,522	-	-	-
<b>Total</b>	<b>934,405</b>	<b>950,687</b>	<b>806,327</b>	<b>94,045</b>	<b>50,315</b>	<b>-</b>

Source: Electrica S.A.

#### (iii) Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates – will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

#### Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between the currencies

in which sales, purchases and borrowings are denominated and the functional currency of the Group. The functional currency of the Group is the Romanian Leu (RON).

The currencies in which these transactions are primarily denominated are RON and EUR. Certain liabilities are denominated in foreign currency (EUR). The Group also has bank accounts denominated in foreign currency (EUR). The Group's policy is to use the local currency in its transactions as much as possible. The Group does not use derivative or hedging instruments.

#### Exposure to currency risk

The summary quantitative data about the Group's exposure to currency risk is as follows:

in thousands of RON	31 December 2014	31 December 2013
	EUR	EUR
Cash and cash equivalents	10,138	136,173
Deposits (deposits, treasury bills and government bonds)	136,704	-
Financing for network construction related to concession agreements	(250,550)	(272,411)
Finance lease	(294)	(788)
<b>Net statement of financial position exposure</b>	<b>(104,002)</b>	<b>(137,026)</b>

Source: Electrica S.A.

The following significant exchange rates have been applied during the year:

	Average rate		Year-end spot rate	
	2014	2013	2014	2013
RON/EUR 1	4.4446	4.4190	4.4821	4.4847

#### Sensitivity analysis

A reasonably possible strengthening (weakening) of the EUR against RON at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and profit before

tax. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

RON thousand Effect	Profit before tax	
	Strengthening	Weakening
<b>31 December 2014</b>		
EUR (5% movement)	(5,200)	5,200
<b>31 December 2013</b>		
EUR (5% movement)	(6,851)	6,851

Source: Electrica S.A.

#### Interest rate risk

The Group's policy is to use mainly supplier credit for financing its investments. The Group does not have significant long-term bank loans.

#### Exposure to interest rate risk

The interest rate profile of the Group's interest-bearing financial instruments is as follows:

RON thousand	31 December 2014	31 December 2013
<b>Fixed-rate instruments</b>		
<i>Financial assets</i>		
Bank deposits (cash and cash equivalent)	1,352,487	541,891
Deposits, treasury bills and government bond (cash and cash equivalent)	199,500	-
Deposits, treasury bills and government bond	1,220,521	-
<i>Financial liabilities</i>		
Financing for network construction related to concession agreements	(250,550)	(272,411)
Finance lease	(294)	(788)
	<b>2,521,664</b>	<b>268,692</b>
<b>Variable-rate instruments</b>		
<i>Financial liabilities</i>		
Overdrafts	(48,132)	(79,684)
	<b>(48,132)</b>	<b>(79,684)</b>

Source: Electrica S.A.

#### Fair value sensitivity analysis for fixed-rate instruments

The Group does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

#### Cash flow sensitivity analysis for variable-rate instruments

A reasonably possible change of 50 basis points in interest rates at the reporting date would have increased (decreased) profit before tax and equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

RON thousand	Profit before tax	
	50bp increase	50bp decrease
31 December 2014		
Variable-rate instruments	(240)	240
31 December 2013		
Variable-rate instruments	(399)	399

Source: Electrica S.A.

## 4 Fixed assets

The following table presents the number of customers and the volume of equipment of Electrica Group distribution companies (FDEE Electrica Distributie Transilvania Nord – TN, FDEE Electrica Distributie Transilvania Sud – TS and FDEE Electrica Distributie Muntenia Nord – MN) as at 31 December 2014:

**TABLE 3: ELECTRICA GROUP DISTRIBUTION SECTOR EQUIPMENT OVERVIEW:**

	UM	TN	TS	MN	Total
<b>Geographical coverage</b>	<b>Km2</b>	<b>34,162</b>	<b>34,072</b>	<b>28,962</b>	<b>97,196</b>
<b>No. of customers, of which</b>	<b>#</b>	<b>1,218,831</b>	<b>1,102,885</b>	<b>1,302,330</b>	<b>3,624,046</b>
110 kV	#	30	62	34	126
medium voltage (MV)	#	3,637	2,745	3,448	9,830
low voltage (LV)	#	1,215,164	1,100,078	1,298,848	3,614,090
<b>Overhead power lines length, of which</b>	<b>km</b>	<b>52,045</b>	<b>43,576</b>	<b>62,439</b>	<b>158,060</b>
110 kV	km	2,180	2,257	2,148	6,585
medium voltage (MV)	km	11,684	10,217	12,587	34,488
low voltage (LV)	km	38,181	31,102	47,704	116,987
whereof connections	km	17,885	16,460	23,720	58,065
<b>Underground power lines length, of which</b>	<b>km</b>	<b>15,100</b>	<b>10,719</b>	<b>12,005</b>	<b>37,824</b>
110 kV	km	26	28	15	69
medium voltage (MV)	km	3,432	3,274	3,622	10,328
low voltage (LV)	km	11,642	7,417	8,368	27,427
whereof connections	km	6,635	1,765	2,112	10,512
<b>Cumulative transformers' power:</b>	<b>MVA</b>	<b>6,081</b>	<b>6,543</b>	<b>8,527</b>	<b>21,151</b>
Electricity stations (110 kV/MV + MV/MV)	MVA	3,774	4,018	5,429	13,221
Electricity stations 110 kV/MV	MVA	3,668	3,854	5,074	12,596
Electricity stations 110 MV/MV	MVA	106	164	355	625
Switching stations/Transformer stations	#	2,307	2,525	3,098	7,930
<b>No. of substations, of which:</b>	<b>#</b>	<b>119</b>	<b>103</b>	<b>216</b>	<b>438</b>
100 kV/MT substations	#	90	98	124	312
100 MT/MT substations	#	29	5	92	126
<b>Number of switching stations and transformer stations</b>	<b>#</b>	<b>8,438</b>	<b>8,556</b>	<b>10,035</b>	<b>27,029</b>

Source: Electrica S.A.

The vast majority of distribution companies' equipment were constructed in the last 60 years, following the successive development phases of the National Electricity System. A relatively low proportion of western standards

equipment (approximately 20%) was constructed after 1990. On the other hand, the vast majority of equipment were put into function between 1960 –1990. Hence, most of it presents a relatively high wear rate.

The following table presents the structure of equipment wear rates divided by voltage level:

**TABLE 4: WEAR RATES**

Wear rates (%)		EDMN	EDTN	EDTS
High voltage power lines (110 kV)	Underground	40%	25%	50%
	Overhead	75%	75%	75%
Medium voltage power lines	Underground	75%	70%	65%
	Overhead	70%	75%	60%
Low voltage power lines	Underground	70%	70%	75%
	Overhead	70%	70%	70%
Substations		70%	75%	60%
Transformers	Pole- Amount	65%	70%	65%
	Concrete enclosure	70%	75%	75%
	Pad-Mount	80%	85%	15%
	Underground	90%	90%	85%

Source: Electrica S.A.

### INVESTMENT PROGRAM

Electrica intends to modernise and develop the distribution network based on the smart grid concept through installation of smart meters and infrastructure development for system such as SCADA, SAD etc. The main objectives of Electrica investment program is to increase the operating efficiency, to reduce network losses, to raise network flexibility, to increase the quality, stability and safeness of the grid. The investment program was developed taking into account te wear rate of the equipments.

### CRITERIA FOR IMPLEMENTING THE INVESTMENT PROGRAM:

Through the implementation process of the investment program, Electrica follows a set of rules mainly consisting of the following:

- aligning to Group's strategy;
- inclusion in RAB of regulated investments;
- non-regulated investments should provide an IRR higher than Group's WACC;
- investment program will follow the Group financial strategy to maintain a solidcapital structure.

Based on above criteria and in the context of Electrica Group's engagement stated in the Prospectus, the IPO proceeds will be used to improve the existing grid

infrastructure, to develop new ones for connecting new customers and for investments in smart grid and smart metering.

According to the Electrica's strategy, the main objective of the investment programme is to increase Group profitability as well as to raise the accessibility of customers and electricity producers to the grid.

The main cathegories of investments are:

- grid automatisaion through SCADA, SAD integration;
- extension of the modern smart metering equipment,
- modernization of the transformer station and of the medium voltage network;
- introduction of equipment with low network losses, higher efficiency rate and which comply with environmental requirements;
- modernization of the connections.

At the same time, the Group takes into consideration important investments related to development and upgrade of IT infrastructure, as well as investments related to cyber security and business continuity. All these investments are based on the findings of the IT audit and have the aim to improve the data privacy and implicitly the quality of services provided.

The following table presents the volume of investments approved by ANRE, as follows:

**TABLE 5: INVESTMENT PROGRAMS APPROVED BY ANRE FOR DISTRIBUTION OPERATORS OF THE GROUP FOR THE PERIOD 2014 - 2018**

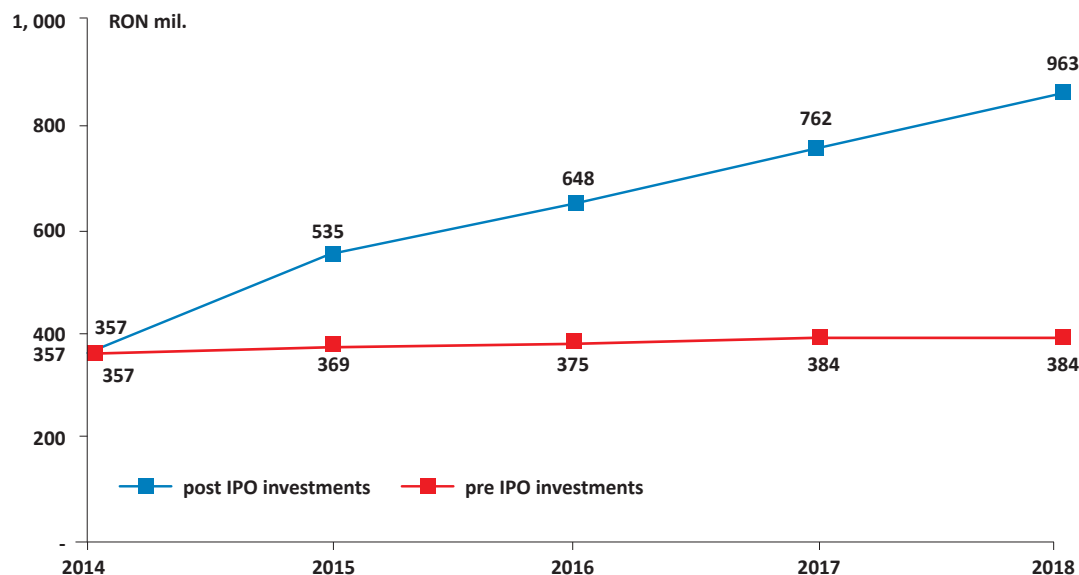
Investment programs approved by ANRE for distribution operators of the Group for the period 2014-2018 (RON mil)						
	2014	2015	2016	2017	2018	Total
EDTS	117.00	180.00	219.60	250.00	287.50	<b>1,054.10</b>
EDTN	126.00	184.00	223.20	259.20	288.00	<b>1,080.40</b>
EDMN	113.81	171.33	205.04	252.41	287.09	<b>1,029.68</b>

Source: ANRE

Based on the IPO proceeds, Electrica decided to increase the investment program for the third regulatory period as compared with the initial level approved by ANRE in December 2013. Based on the

following graph, Electrica's IPO positively influenced the level of investment programs, which will positively impact the quality of the electricity distribution process.

**FIGURE 26: INVESTMENT PROGRAM PRE AND POST IPO**



Source: Electrica S.A.

The investment programs approved for the third regulatory period (2014 – 2018) may be supplemented with investments, which even if not remunerated through RAB, provide efficiency and cost reduction,

the benefit being at the level or superior to the RRR. In 2014, the companies of Electrica Group realised the following investments as compared to the ones budgeted at the beginning of the year:

Electrica SA subsidiary (RON mil)	Budgeted	Realised
SC Transilvania Nord SA	140	140
SC Transilvania Sud SA	127	132
SC Muntenia Nord SA	122	139
Electrica Furnizare	16	15
FISE	4	3
Electrica SA	47	35,7
<b>TOTAL</b>	<b>457</b>	<b>465</b>

Source: Electrica S.A.

In 2014, the Group investment program was accomplished in a proportion of 102%. For the distribution segment an increase from RON 389

million budgeted at the beginning of the year to RON 411 million actually realized, representing a 6% overrun.

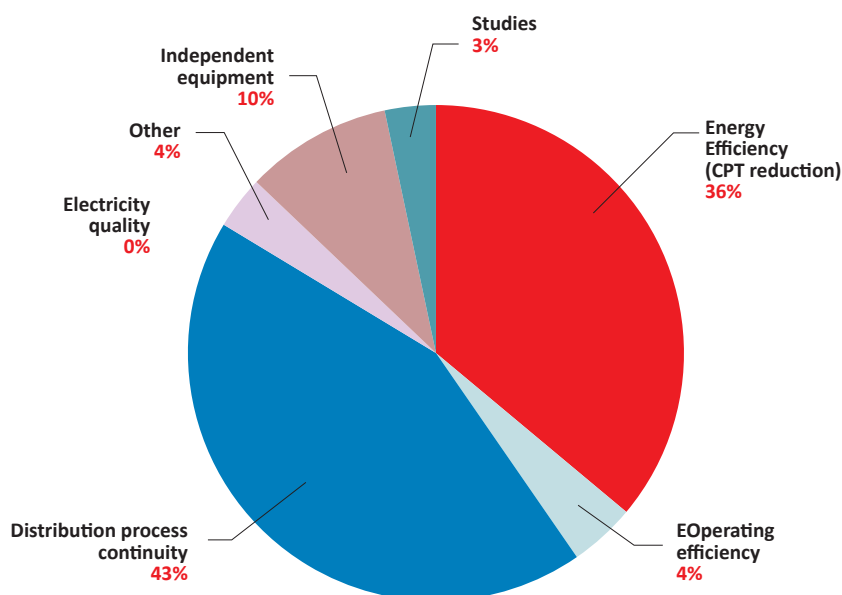
The synthetic structure of the investments realized in 2014, is presented in the following table (for a more detailed presentation please see Annex 2):

Investment category (RON mil)	TOTAL
Efficiency	164
CPT reduction	147
Operating efficiency	18
Quality improvement	181
Distribution process continuity process	181
Electricity quality improvement	-
Other	14
Independent equipment	39
Studies	14
<b>TOTAL</b>	<b>411</b>

Source: Electrica S.A.

The main investments in 2014 focused predominantly on the improvement quality and efficacy of the distribution service.

**FIGURE 27: ELECTRICA INVESTMENT STRUCTURE IN 2014**



Source: Electrica S.A.

Based on the implementation of the 2011 – 2014 investment programme, Electrica's distribution companies RAB is presented in the following table:

**TABLE 6: 2011 – 2014 RAB EVOLUTION**

RAB (RON mil)	2011	2012	2013	2014
EDTS	1,213	1,321	1,332	1,343
EDTN	1,166	1,261	1,292	1,335
EDMN	1,312	1,408	1,434	1,490

Source: Electrica S.A.

During 2011 – 2014, RAB had an upward trend for all the Group distribution companies, being directly reflected in a Group profitability increase.

## 5 Securities market

### INITIAL PUBLIC OFFERING

The Government Decision no. 85/2013, amended and completed by Government Decision no. 477/2014 approved the privatization strategy of Electrica SA by initial public offer ("IPO"). The privatization strategy included the offer for sale of a 51% stake by issuance of new shares representing 105% of the existing share capital as at the date of the IPO. The shares were offered to both individual and institutional investors on the Romanian market, as well as to qualified institutional investors on the US market and outside USA, and Global Depository Receipts ("GDRs") on the UK market.

The IPO was organised in June 2014 and referred to

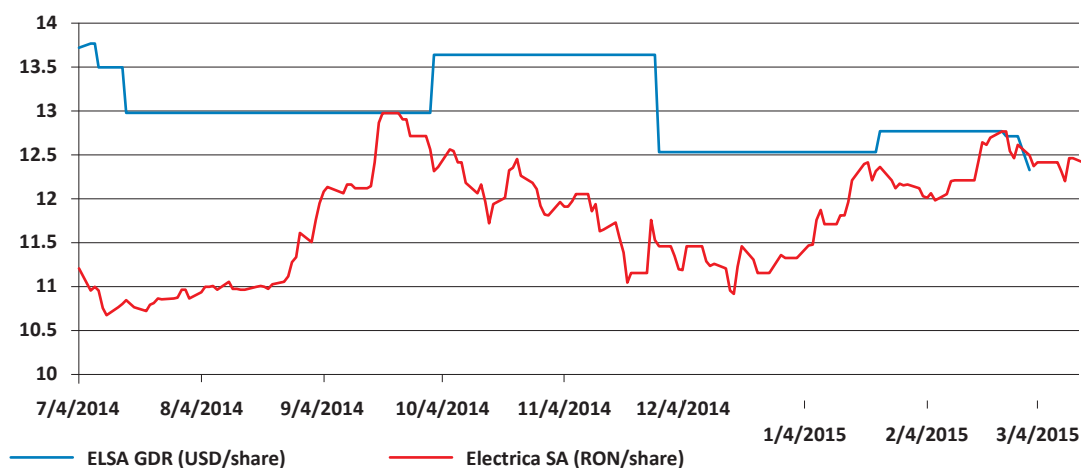
an offering by the Company of 177,188,744 ordinary shares in the form of shares and in the form of GDRs, each GDR representing four shares. Following the IPO, the Company sold 142,007,744 shares and 8,795,250 GDRs, at the offer prices of RON 11 per share and 13.66 USD per GDR. The allocation of shares and GDRs and the offering prices were concluded on 27 June 2014.

The transfer of ownership rights on new shares and the collection of cash by the Company took place on 2 July 2014. At the same date the increase in share capital was recorded in the Trade Register.

Starting 4 July 2014 the Company's shares are listed on Bucharest Stock Exchange, and the GDRs are listed on London Stock Exchange.

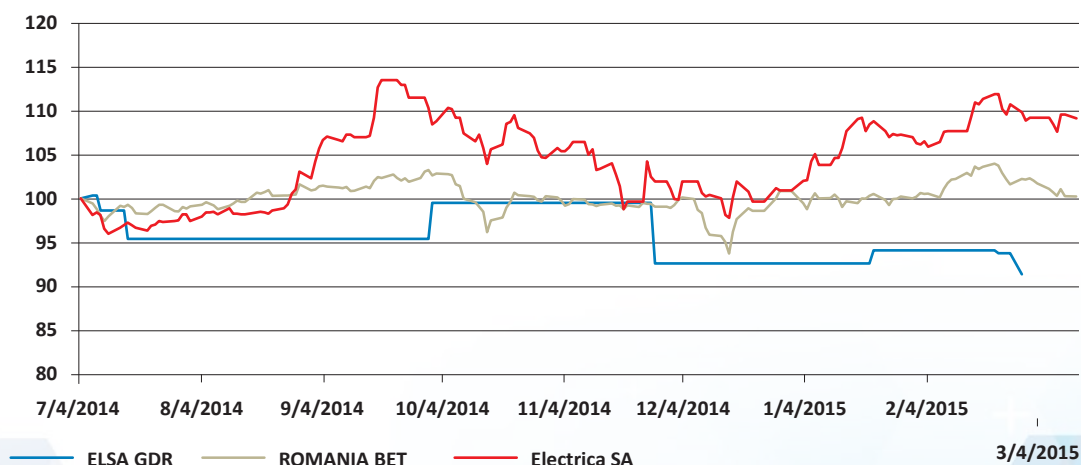
### SHARE PRICE EVOLUTION SINCE IPO

FIGURE 28: SHARE PRICE ON BVB AND LSE



Source: BVB, LSE

FIGURE 29: PERFORMANCE OF ELECTRICA IN COMPARISON TO BET INDEX (%)



Source: Electrica S.A.



### DIVIDEND DISTRIBUTION

Romanian companies may distribute dividends from statutory earnings only, as per separate financial statements prepared in accordance with Romanian

accounting regulations.

The dividends distributed by the Company in 2014, 2013 and 2012 (from the statutory profits of preceding years) were as follows:

(RON mil)	2012	2013	2014
Dividends distributed	6.0	13.2	22.5
Dividends/share (RON)	0.029	0.064	0.108

The dividends per share paid to the owners of the Company were: 2014: RON 0.108, 2013: RON 0.064 and 2012: RON 0.029 per share.

### DIVIDEND POLICY

Dividends, if and when declared, are distributed to shareholders on a pro-rata basis proportionately to their participation in the paid-up share capital of the Company. Each fully paid Share gives its owner the right to receive dividends. The Company will pay any dividends in RON. Prior to the Offering, the Company was subject to Government Ordinance no. 64/2001 on distribution of profits of national companies and State owned companies (the "Dividend Ordinance").

Management will distribute dividends on the basis of the Company's annual financial statements which starting with 2014 will be prepared in accordance with IFRS-EU. Management's intention is to distribute dividends, based on a guidance of approximately 85% of consolidated profit attributable to shareholders of Electrica SA.

For the financial years ending 31 December 2011 and 2012, State-owned companies were obliged to distribute 85% share of their distributable profit as dividends.

According to the Companies Law, in case of assignment of shares, the assignee shall be entitled to the right to dividends due for the period after the assignment is complete. Thus, the investors shall be entitled to dividends according to this rule.

### REPURCHASE OF TREASURY SHARES

In July 2014 the Company purchased for price stabilization purposes, 5,206,593 ordinary shares and 421,000 Global Depositary Receipts, equivalent of 1,684,000 shares. The total amount paid for acquiring the shares and Global Depositary Receipts was RON 75,372 thousand.



# 6 Management of the Group

## 6.1 BOARD OF DIRECTORS OF ELECTRICA S.A.

The board of directors consists of five non-executive directors appointed by the general meeting of shareholders. One of the Directors was appointed on the proposal of the Romanian state, represented by the Ministry of Energy, Small and Medium Enterprises and Business Environment, three were appointed on the proposal of the private shareholders and one was named both on the proposal of the Romanian state and private shareholders. Four of the five directors meet the criteria for independence provided by the Article of Association of Electrica.

The Board is entrusted with fulfilling all the necessary and useful acts for performing the Company's business object and for supervising the management's activity, save for the ones assigned to the General Meeting of Shareholders. The composition, organisation, duties and responsibilities of the Board of Directors are set out in the Articles of Association and in the Charter of the Board of Directors. The current members of the Board of Directors were elected for four years, through the cumulative voting method, by the General Meeting of Shareholders, during the first meeting after the IPO, on 22 September 2014.

The composition of the Board of Directors is the following:

- Mr. Victor Cionga – non-executive administrator, elected as Chairman of the Board of Directors until January 2016
- Ms. Arielle Malard de Rothschild – non-executive administrator
- Mr. Michael Boersma – non-executive administrator
- Mr. Cristian Busu – non-executive administrator
- Mr. Victor Vlad Grigorescu – non-executive administrator

During the first Board of Directors meeting on 14 October 2014, the Board has established three consultative committees, with the following composition:

### a) The Nomination and Remuneration Committee

- Ms. Arielle Malard de Rothschild – Chair of the committee
- Mr. Michael Boersma
- Mr. Cristian Busu

### b) The Audit Committee

- Mr. Cristian Busu – Chair of the committee
- Mr. Victor Vlad Grigorescu
- Ms. Arielle Malard de Rothschild

### c) The Strategy, Restructuring and Corporate Governance Committee

- Mr. Michael Boersma – Chair of the committee
- Mr. Victor Vlad Grigorescu
- Mr. Victor Cionga

The members of the committees are elected for a one-year term. The organisation, duties and responsibilities of each committee are laid down in Electrica's Articles of Association, respectively in the charters of each committee.

The Board of Directors delegates Electrica's management to one or more managers, appointing one of them as general manager. The duties and

responsibilities of the general manager are set out in Electrica's Articles of Association.

According to our information, there is no agreement, understanding or family relationship between the Company's directors and another person that contributed to their appointment as managers.

Details regarding the bios of the members of the Board of Directors can be accessed on the company's website.

The table below comprises the number of Electrica S.A. shares held by the Company's directors as of March 2015:

No.	Name	Number of shares	Stake held (as % of the share capital)
1.	Mr. Victor Cionga	5.000	0.00144534%
2.	Ms. Arielle Malard de Rothschild	-	-
3.	Mr. Cristian Busu	-	-
4.	Mr. Michael Boersma	-	-
5.	Mr. Victor Vlad Grigorescu	-	- +

According to our information, the persons mentioned in section 6.1., have not been involved in litigations or administrative proceedings related to their activity in the Company in the last 5 years, nor in proceedings

related to their capacity of fulfilling the duties in the Company.

Until September 22, 2014 the Board of Directors members were:

- Mr. Marius Eugen Untescu – non-executive director, president of the board of directors
- Mr. Nicolae Plesa – non-executive director
- Mr. Constantin Dinescu – non-executive director
- Mr. Rares Ion Popescu – non-executive director
- Mr. Ioan Rosca – executive director, general manager

## 6.2 ACTIVITY OF THE BOARD OF DIRECTORS OF ELECTRICA S.A. AND OF ITS CONSULTATIVE COMMITTEES

During 2014, the Board of Directors nominated on September 22nd 2014 met 6 times. Out of the 6 meetings, one was an electronic board meeting, convened in accordance with art. 17 (22) in the Articles of Incorporation.

The main decisions of the Board of Directors during the 6 meetings refer to:

- Establishing three consultative committees;
- Drafting the charter of the board and of the consultative committees;
- Proposals regarding the organizational structure and redefining the internal processes, which will reflect the current context of the Company. Competencies evaluation for the key personnel in the Company and proposals for a remuneration system for the members of the Board, director, managers and key personnel;
- Negotiations with the Unions on the CLA
- Changes to the organizational chart – creation

During 2015, until March 26th 2015, the Board of Directors met 9 times. Out of the 9 meetings, 6 were electronic board meetings, convened in accordance with art. 17 (22) in the Articles of Incorporation.

The main decisions of the Board of Directors during the 9 meetings refer to:

- Approval of the charters of the board and of its consultative committees;
- Approval of the Code of Ethics and Professional Conduct;
- Approval of the Corporate Governance Code;
- Approval of the whistleblower policy;
- Approval of the Chart of internal auditor;
- Approval of the Code of Ethics for the internal auditor;
- Approval of the audit plan for 2015;
- Approval of the internal audit operational procedure;
- Applying in the subsidiaries the same corporate governance model as in Electrica SA, namely replacing the executive directors with non-executive ones;

of a treasury department and a major projects department

- Endorsement of the 2014 income and expenses budgets for Electrica SA- standalone and consolidated;
- Endorsement of the 2014 income and expenses budgets for Electrica's subsidiaries;
- Endorsement of the 2014 consolidated investment plan;
- Discussion of acquisition opportunities for Electrica SA;
- Discussion of the investment opportunities, respectively the strategy of implementing smart-metering in the Group, dispatch centralization, GIS etc.;
- Endorsement of the external auditor for Electrica SA and subsidiaries and approval of the external auditor for the subsidiaries.

- Endorsement of the 2014 financial statements Electrica SA – standalone and consolidated;
- Endorsement of the 2014 statutory financial statements for Electrica's subsidiaries;
- Endorsement of the 2015 income and expenses budgets for Electrica SA- standalone and consolidated;
- Endorsement of the 2015 income and expenses budgets for for Electrica's subsidiaries;
- Endorsement of the draft management agreement of the Board members, taking into account EBRD's request to modify the management agreement, approved by the GMS on September 22nd 2014, and present to the GMS a new proposal drafted by a reputable legal consultant, in accordance with best practices and standards.
- Approval of the change in accounting policies (application of IFRIC 12);
- Discussions about ITC security at group level
- Discussion of Electrica's strategy

### NOMINATION AND REMUNERATIONS COMMITTEE

During the period September 22nd, 2014- March 26th, 2015 this committee has met 5 times. During these meetings the following subjects were discussed and submitted to the Board for discussions and, when the case, for the approval of the Board:

- Recommendations regarding the Company's remuneration and compensation policies;
- Endorsement of the charter of the committee;
- The organizational structure of the Company, updated to reflect the current status of the Company;

- Evaluation of the competencies of key personnel in the company and proposal for a remuneration and compensation system for the board, managers and key personnel;
- Applying in the subsidiaries the same corporate governance model as in Electrica SA, namely replacing the executive directors with non-executive ones;
- Interviewing the candidates proposed to be nominated in the board of Directors of the subsidiaries.

### AUDIT COMMITTEE

During the period September 22nd, 2014- March 26th, 2015 this committee has met 3 times. During these meetings the following subjects were discussed and submitted to the Board for discussions and, when the case, for the approval of the Board:

- Endorsement of the charter of the committee;
- Endorsement of the Code of ethics and professional conduct;
- Endorsement of the whistleblower policy;
- Endorsement of the internal auditor's charter;
- Endorsement of the Code of ethics for the internal auditor;
- Endorsement of the audit plan for 2015;
- Endorsement of the internal audit operational procedure;

- Endorsement of the 2014 financial statements Electrica SA – standalone and consolidated;
- Endorsement of the 2014 statutory financial statements for Electrica's subsidiaries;
- Endorsement of the 2015 income and expenses budgets for Electrica SA- standalone and consolidated;
- Endorsement of the 2015 income and expenses budgets for for Electrica's subsidiaries;
- Endorsement of the change in accounting policies (application of IFRIC 12);
- Endorsement of the manual of accounting policies
- Ordering two spotcheck audit missions.

### STRATEGY, RESTRUCTURING AND CORPORATE GOVERNANCE COMMITTEE

During the period September 22nd, 2014- March 26th, 2015 this committee has met 6 times. During these meetings the following subjects were discussed and submitted to the Board for discussions and, when the case, for the approval of the Board:

- Endorsement of the charter of the board;
- Endorsement of the charter of the committee;
- Endorsement of the Code of ethics and professional conduct;
- The potential acquisition of Enel shareholdings in Romania;
- Discussions regarding the potential acquisition of the shareholdings of Fondul Proprietatea in Electrica's subsidiaries;
- Redefinition of the processes, to reflect the current status of the Company;
- Analysis of acquisition opportunities for Electrica SA;
- Analysis of the investment opportunities, respectively the strategy of implementing smart-metering in the Group, dispatch centralization, GIS etc.;

- Endorsement of the Corporate Governance Code;
- Endorsement of the 2014 and 2015 consolidated investment plan;
- Endorsement of the draft management agreement of the Board members, taking into account EBRD's request to modify the management agreement, approved by the GMS on September 22nd 2014, and present to the GMS a new proposal drafted by a reputable legal consultant, in accordance with best practices and standards.
- The Group's development strategy;
- Occupational safety and health at group level;
- The possibility of accessing European funds;
- Endorsement of the whistleblower policy;
- The organizational structure of the Company, updated to reflect the current status of the Company;
- Applying in the subsidiaries the same corporate governance model as in Electrica SA, namely replacing the executive directors with non-executive ones.

## 6.3 BOARD OF DIRECTORS OF ELECTRICA S.A. SUBSIDIARIES

Structure of the Board of Directors in Electrica's Subsidiaries	
EDTS	Geanta Marian- non-executive director, chairman of the board
	Coman Claudiu- non-executive director
	Carmen Mihaela Pirnea- non-executive director
	Simona Fatu- non-executive director
	Ion Dobre- executive director (general manager) (general manager)
EDTN	Dumbrava Ioan- non-executive director, chairman of the board
	Ciprian Gheorghe Diaconu- non-executive director
	Vlad Costica- non-executive director
	Oana Valentina Truta- non-executive director
	Merdan Emil- executive director (general manager)
EDMN	Rosca Ioan- non-executive director, chairman of the board
	Oana Valentina Truta- non-executive director
	Paun Costin- Mihai- non-executive director
	Gubandru Aurel- non-executive director
	Mesca Darius Dumitru- executive director (general manager)
EF	Rosca Ioan- non-executive director, chairman of the board
	Oana Valentina Truta- non-executive director
	Ionescu Valentin- non-executive director
	Lupu Victoria- non-executive director
	Patrascoiu Mircea- executive director (general manager)
ES	Marin Adrian Gheorghe- non-executive director, chairman of the board
	Badan Gabriel Razvan- non-executive director
	Leonte Catalin- non-executive director
	Sandu Gabriela- non-executive director
	Davidoiu Eugen- executive director (general manager)

## 6.4 EXECUTIVE MANAGEMENT

**Ioan ROSCA** – General Manager (CEO)

Pursuant to the decision of the Board of Directors no. 24 dated 5th July 2013, the Board of Directors has appointed Mr. Ioan Rosca to the position of general manager of the Company and delegated

him responsibilities and duties related to internal management and representation. His mandate is until July 8th, 2017.

The table below shows the company's managers who have delegated powers from the Board of Directors:

Name	Position	Subsidiary
Mesca Darius Dumitru	General Manager	EDMN
Dobre Ion	General Manager	EDTS
Merdan Emil	General Manager	EDTN
Patrascoiu Mircea	General Manager	Electrica Furnizare
Davidoiu Eugen	General Manager	Electrica Serv

The table below shows the company's managers who do not have delegated powers from the Board of Directors:

Name	Position	Department
<b>Electrica Headquarters</b>		
Angelescu Ramiro Robert Eduard	Deputy General Manager	
Dumbrava Ioan	Manager	Operations
Petre Marin	Deputy Manager	Operations
Geanta Marian	Deputy Manager	Operations
Marin Emilia- Elena	Manager	Economic
Popescu Borisilavski Alexandra Romana Augusta	Manager	Corporate Finance and Governance
Stan Corneliu	Deputy Manager	Corporate Finance and Governance
Crisan Mariana	Manager	Human Resources, Control and Communication
Pindichi Valentin Cosmin	Deputy Manager	Human Resources, Control and Communication
<b>EDMN</b>		
Blagoi Gabriela	Manager	Economic
Coman Constantin	Manager	Distribution
Branescu Valentin	Manager	110 kV
Gheorghe Gabriel	Manager	Development
Preda Ion	Manager	Control, Regulation and Communication
<b>EDTS Subsidiary</b>		
Radulescu Monica	Manager	Economic
Radu Holom	Manager	Distribution
Constandache Nicu	Manager	110 kV
Grama Catalin	Manager	Development
<b>EDTN Subsidiary</b>		
Fataceanu Dora	Manager	Economic
Filip Vasile	Manager	Distribution
Buda Constantin	Manager	110 kV
Ladislau Reider	Manager	Development
Muresan Cristian Marius	Deputy Manager	Development
<b>Electrica Furnizare Subsidiary</b>		
Pana Cristina	Manager	Economic
Beu Mihai	Manager	Commercial
Pirvulete Oana	Manager	Legal
Gheorghe Roxana	Manager	Commercial Operations
<b>Electrica Serv Subsidiary</b>		
Hateganu Constantin Nicolae	Manager	Economic
Andruhovici Cristian	Manager	Human Resources
Ivan Alexandru	Manager	Procurement and International Relations
Vasiu Viorel	Manager	Production
Beleuzu Viorel	Manager	Legal and Assets

According to the Articles of Incorporation, the Board of Directors appoints and revokes the General Manager and the other managers with mandate agreements –art.18, letter A, paragraph (f) and (k).The General Manager performs his activity according to the provisions of the mandate agreement concluded with the Company.

The Managers with managing functions are employees

of the company, having an individual labor agreement and they are appointed and revoked by the General Manager.

According to our information, there is no agreement, understanding or family relationship between the Company's managers and another person that contributed to their appointment as managers.

The table below shows the number of shares held by the Company's managers as of March, 2015:

No.	Name	Number of shares	Share in the share capital (%)
1.	Ioan Rosca	25,000	0.00722669%
2.	Angelescu Ramiro Robert Eduard	1,000	0.00028907%
3.	Geanta Marian	1,000	0.00028907%
4.	Dobre Ion	1,800	0.00052032%
5.	Merdan Emil	7,277	0.00210354%
6.	Patrascoiu Mircea	1,000	0.00028907%
7.	Davidoiu Eugen	2,478	0.00071631%
8.	Radulescu Monica	1,800	0.00052032%
9.	Radu Holom	1,000	0.00028907%
10.	Fataceanu Dora	1,000	0.00028907%
11.	Filip Vasile	8,745	0.00252790%
12.	Beu Mihai	1,000	0.00028907%
13.	Pirvulete Oana	6,836	0.00197607%
14.	Beleuzu Viorel	1,000	0.00028907%

According to information at hand the persons mentioned in section 6.3 have not been involved in any litigations or administrative proceedings related

to their activity within the Company in the last 5 years and their capacity to fulfil their work-related attributes.



# 7 Corporate Governance

## 7.1 GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders (GMS) is the main corporate governance body of Electrica, deciding on the items as outlined in the Articles of Association. The convening, functioning, voting as well as other provisions regarding the GMS are detailed in Electrica's Articles of Association

Until July 2014, the Romanian State, acting through the Ministry of Energy, Small and Medium Enterprises and Business Environment, was the sole shareholder of Electrica. Starting 4 July 2014 the Company's shares are listed on Bucharest Stock Exchange, and the GDRs are listed on London Stock Exchange.

The latest available information regarding the shareholder structure has been provided by Depozitarul Central on 21 November 2014 and is presented in the table below:

Shareholder	Shares	Percent of share capital
Ministry of Energy, Small and Medium Enterprises and Business Environment, Bucharest, Romania	168,751,185	48.7805 %
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT, LONDON, UK	29,944,090	8.6559 %
BNY MELLON DRS, NEW YORK, USA	27,442,180	7.9326 %
Legal persons	100,506,060	29.0530 %
Individual persons	19,296,414	5.5780 %
<b>TOTAL</b> Central Depository, Electrica S.A.	<b>345,939,929</b>	<b>100 %</b>

Following the stabilization process after the IPO, Electrica SA owns 6,890,593 of its own shares, representing

1.9918% of the total share capital. These shares do not entitle Electrica to voting rights, nor dividends.

## 7.2 CORPORATE GOVERNANCE CODE

The Board of Directors of Electrica S.A. has approved on 2 February 2015 the Corporate Governance Code (CGC), which can be accessed on the company's website.

Starting with 4 July 2014, the shares issued by Electrica are traded on the Bucharest Stock Exchange (the BSE) and the global depository receipts (GDRs) issued by The Bank of New York Mellon (BNYM) having Electrica's shares as underlying security, are traded on the London Stock Exchange (the LSE).

Electrica adheres to and applies wilfully the provisions of the Corporate Governance Code issued by the BSE as may be amended or replaced from time to time. This CGC embeds Electrica's general principles and conduct rules which set forth and regulate the corporate values, the responsibilities, obligations and business conduct of the company.

The CGC is also a guide for the management and the employees of Electrica and other stakeholders on the business conduct and governance matters and provides information about aspects of the Company's principles and policies. It also incorporates the Code of Ethics and Professional Conduct (Schedule 7 of the CGC).

In compliance with Company's policies and with the Code of Ethics and professional conduct, the Audit Committee ensures that the Company's activity is developed with honesty and integrity, including the approval of the integrity warning procedure. The scope of integrity warning procedure is to protect the Company from ethical deviations, frauds and any other aspects of non-compliance that would harm the image, prestige and profitability of the Company. This procedure can be accessed on Electrica SA website.



## 7.3 IMPLEMENTING ACTION PLANS UNDERTOOK BY SIGNING THE FRAMEWORK AGREEMENT WITH EBRD

As a result of EBRD and SDFEE Electrica S.A. signing the Framework Agreement, the Company undertook to implement the “EBRD Anti – Corruption Guidelines”, the “Corporate Governance Action Plan” and the “Environmental and Social Action Plan” and to report on their implementation progress.

The first step was to adhere to “EBRD Anti – Corruption Guidelines” and to integrate those guidelines into the Company’s Code of Ethics in force. Electrica initiated the “Socrates” project for elaborating and disseminating the new code of conduct and best practices for preventing fraud and corruption, with the support of Transparency International Romania (a prestigious international NGO with expertise in integrity/ethics best practice contracted for support).

The Code of Ethics and Professional Conduct was finalized in December 2014 and submitted to the Board of Directors, following the completion of Socrates Project phases mentioned below:

### STAGE I

**Action:** analyzing the organization’s socioeconomic environment and also the relevant legislation, regulations and governance principles.

**Result:** defining the regulatory framework, the standards and best practices and also the values and principles.

**Deliverables:** analysis report of the external environment from an ethical and integrity standards perspective.

### STAGE II

**Action:** analyzing the processes, the internal and external interactions and diagnosing the corporate culture.

**Result:** identifying risks and sensitive areas or activities, related to both the intragroup and external interactions from moral/ethical/deontological standpoint; identifying shared values inside the group, describing practices specific to Electrica corporate culture; identifying the values that need and may be adopted by the Company.

**Deliverables:** analysis report on Company’s processes from an ethical perspective and corporate culture diagnose.

### STAGE III

**Action:** developing an integrated code of ethics applicable by the Company.

**Result:** setting the values and principles that need to be adopted and respected by the Company.

**Deliverables:** Electrica’s Code of Ethics and Professional Conduct.

The next step consisted of the reconciliation of the Code of Ethics and Professional Conduct with the Corporate Governance Code (documents drafted in parallel) and the final form of the Code of Ethics and Professional Conduct has been approved by the Board of Directors on 02.02.2015 through HCA 3/02.02.2015. Pursuant to its approval, the Company has drafted the project for the second phase of Project Socrate, which consists of a 12 months implementation process aimed at changing the organizational culture.

## 7.4 THE CORPORATE GOVERNANCE ACTION PLAN

### 1. INDEPENDENT DIRECTORS’ SELECTION

After its IPO and being listed on the stock exchange, Electrica’s convened its General Shareholders Meeting on 22.09.2014 for the appointment of its new Board of Directors.

For selecting the candidates for independent non-executive director positions Electrica contracted an international reputable executive search agency in August 2014. The international reputable executive search agency delivered a long list of 10 potential independent non-executive directors

and a short list of 4 potential independent non-executive directors that was made public.

On 22.09.2014 the General Shareholder Meeting nominated the 5 new directors of the company, in compliance with the independence principle for 3 of the directors. Electrica’s Board of Directors designated members are: Arielle Malard de Rothschild, Victor Cionga, Michael Adriaan Maria Boersma, Victor Vlad Grigorescu and Cristian Busu.

### 2. NOMINATION AND REMUNERATION POLICIES

In order to assist the Company in preparing its Nomination and Remuneration Policies, an international specialized consultant was contracted to assist. In December 2014 a Nomination and Remuneration Policy Proposal was submitted to the Board of Directors by the

Nomination and Remuneration Committee. The policy was endorsed by the Board of Directors and was included for approval on the agenda of the first GSM in 2015 (programed for 27-28 of April 2015).

### 3. BOARD COMMITTEES

Three consultation committees were set during the first Board of Directors meeting: the Audit Committee, the Nomination and Remuneration Committee and the Strategy, Restructuring and Corporate Governance Committee, according to Board of Directors decision 44/14.10.2014. The committees' charts were prepared by the Company's legal consultant and submitted to the

Board of Directors committees for endorsement and to Board of Directors for approval in November 2014 (for Nomination and Remuneration and Audit Committee) and in December 2014 (for Strategy, Restructuring and Corporate Governance Committee). Committees' charts were approved by Board of Directors Decision 03/02.02.2015.

### 4. INTERNAL CONTROL FRAMEWORK

Electrica's Internal Control Framework was defined in accordance with international best practice and International Standards for the Professional Practice of Internal Auditing, as requested. The Internal Audit Department in Electrica updated the Internal Auditing Procedure and the related documents in accordance with international best practices and standards, submitting them to the Audit Committee of the Board of Directors for endorsement in November 2014. The Internal Audit Charter, The Procedure and The Auditor Code of Conduct were developed according to the International Standards for the Professional Practice of Internal Auditing that were totally assimilated by The Romanian Financial

Auditors Chamber through Decision No.35/30.11.2004 and the reviewed Government Emergency Ordinance No. 75/1999 regarding financial audit. In June 2014, the Romanian Financial Auditors Chamber adopted the International Mandatory Regulation issued by Global Internal Auditors Institute through Decision No.48/26.06.2004. This international mandatory regulations were also used for amending Electrica's internal auditing documents which were endorsed by the Audit Committee of the Board of Directors on 23.12.2014 and approved by Board of Directors Decision 3/02.02.2015.

### 5. COMPANY'S ARTICLES OF INCORPORATION

Electrica reviewed and updated its Articles of Incorporation according to EBRD guidelines with respect to the laws in force, the new version of the Company's Articles of Incorporation being approved by the Extraordinary General Shareholders Meeting

Decision 9/10.06.2014. Through the General Meeting of Shareholders' Resolution on December 18th 2014, the Articles of Incorporation were updated (the term "comerciala" as removed from the name of the company).

### 6. CLEAR LINES OF RESPONSIBILITY AND ACCOUNTABILITY

At group level, Electrica prepared with its legal advisor a framework document on reporting and accountability corporate policy (the status quo and the options). Electrica's and its subsidiaries' lines of Responsibility and Accountability were defined until now by the Integrated Quality Environment Health and Safety Management Systems with respect to ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007, certified by an internationally accredited certification entity (SRAC CERT). Each subsidiary of Electrica group has its own SRAC certified Integrated Quality Environment Health and Safety Management

System. The implementation of the standards followed a consistent approach, based on a unique set of guidelines, but differences in management systems appeared in time as a result of core activity differences. At Company level, the consultant engaged elaborated a proposal regarding Electrica's new organizational chart and defined the key functions. The proposal was submitted to the Nomination and Remuneration Committee of the Board for study and endorsement and after, to the Board of Directors approval.

### 7. CODE OF CONDUCT

The code of conduct requirements are covered partly by the code of ethics developed as part of the "Socrates" Project and partially by Electrica's Governance Code. The Company and its external legal advisor elaborated Electrica's Corporate Governance Code and submitted it to the Strategy, Restructuring and Corporate Governance Committee on 17.12.2014. The reconciliation of the code

of ethics with the corporate governance code and with the policy regarding integrity was finalized on 27.01.2015 and the final form of the Corporate Governance Code was approved by the Board of Directors by decision 3/02.02.2015.

For details regarding the Code of Conduct visit <http://www.electrica.ro/cod-de-etica-si-conduita-profesionala/>

### 8. COMPLIANCE WITH THE BSE CORPORATE GOVERNANCE CODE

Regarding the compliance with the BSE Corporate Governance Code, Electrica included all its provisions in the Company's Corporate Governance Code elaborated with the help of its external legal advisor.

## 7.5 THE ENVIRONMENT AND SOCIAL ACTION PLAN

Some of the actions included have extended implementation deadlines (one to two years), but the measures with short deadlines were implemented by the end of 2014:

- Regarding **Environmental Health and Safety Management**, Electrica reviewed its procedure on investment projects endorsement in order to ensure publicity on the Company's web site and public consultation on investment project with significant environmental impact. The updated internal procedure was approved on 19.12.2014, getting into force on 20.12.2014 (the term according to EBRD being 31.12.2014).
- Regarding **Corporate Social Responsibility**, Electrica developed an organizational structure aimed at elaborating and managing the implementation of the Company's major projects/programs, one of these being on **Corporate Social Responsibility (CSR)**. The new organizational chart was approved by the Board of Directors on the 18.12.2014, thus meeting the 31.12.2014 deadline agreed with EBRD. The Project/Program Manager and its team should

develop the Corporate Responsibility Program including the Stakeholder Engagement Plan 2015 and submit them to the Board of Directors for approval in early 2015.

- Regarding the **restructuring policy**, Electrica requested the deadline to be rescheduled, considering that the new Collective Labor Contract signed with the trade unions requires the elaboration and negotiation of such a policy as part of the contract within 6 month from the contract signing (27.11.2014). Along with this policy, Electrica also needs to develop and implement a National Integrated Training Program aimed at using professional reconversion in order to avoid future staff reductions.

The framework procedure regarding restructuring related actions management at group level, including terms for reporting and informing stakeholders was elaborated and approved by the General Manager on 22.12.2014 and entered into force the following day, while the term agreed with EBRD was 31.12.2014.



## 8 Financial overview of the company

The consolidated financial statements have been prepared in accordance with International Reporting Standards ("IFRS") as endorsed by the European Union ("IFRS-EU").

These consolidated financial statements are presented in Lei (RON), which is the functional currency of all group companies.

### 8.1 CONSOLIDATED BALANCE SHEET

The table below presents a summary of the statement of individual financial position:

RON mil	December 31 <sup>st</sup>			Variation 2014/2013
	2014	2013 <sup>5</sup>	2012 <sup>5</sup>	
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets related to concession agreements	3,501	3,340	3,318	4.82%
Property, plant and equipment	805	876	848	(8.10%)
Other Intangible assets	9	5	8	79.40%
Equity-accounted investees	-	-	1,042	-
Other investments	-	-	1,138	-
Deferred tax assets	60	85	106	(30.15%)
Other non-current assets	8	1	6	612.88%
<b>Total non-current assets</b>	<b>4,382</b>	<b>4,307</b>	<b>6,467</b>	<b>1.75%</b>
<b>Current assets</b>				
Trade receivables	781	1,088	1,011	(28.20%)
Other receivables	25	57	95	(56.98%)
Green Certificates	54	-	-	-
Cash and cash equivalents	1,630	651	642	150.37%
Deposits, treasury bills and government bonds	1,221	-	-	-
Inventories	24	34	35	(28.11%)
Prepayments	9	6	40	35.53%
Income tax receivable	23	37	17	(36.63%)
Assets held for distribution	-	2,243	-	(100.00%)
<b>Total current assets</b>	<b>3,765</b>	<b>4,116</b>	<b>1,840</b>	<b>(8.52%)</b>
<b>Total assets</b>	<b>8,148</b>	<b>8,423</b>	<b>8,307</b>	<b>(3.27%)</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	3,814	2,509	2,493	52.00%
Share premium	103	-	-	-
Pre-paid capital contribution in kind from shareholders	3	48	55	(93.13%)
Revaluation reserves	156	573	589	(72.76%)
Treasury share reserve	(75)	-	-	-
Other reserves	237	615	602	(61.52%)
Retained earnings	1,269	1,937	1,700	(34.48%)
<b>Total equity attributable to the owners of the Company</b>	<b>5,507</b>	<b>5,681</b>	<b>5,439</b>	<b>(3.08%)</b>
Non-controlling interests	811	764	718	6.05%
<b>TOTAL EQUITY</b>	<b>6,317</b>	<b>6,446</b>	<b>6,157</b>	<b>(1.99%)</b>

<sup>5</sup> Restated as a result of application of IFRIC 12 and new standards with a date of initial application of 1 January 2014 under IFRS-EU

RON mil	December 31 <sup>st</sup>			Variation 2014/2013
	2014	2013 <sup>5</sup>	2012 <sup>5</sup>	
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Long-term bank liabilities	-	-	-	-
Finance lease	-	0	1	(100.00%)
Trade payables	-	-	-	-
Financing for network construction related to concession agreements	151	130	196	16.68%
Deferred revenue	-	-	1	-
Deferred tax liabilities	189	201	202	(5.98%)
<b>EMPLOYEE BENEFITS</b>	<b>220</b>	<b>213</b>	<b>217</b>	<b>3.37%</b>
Other payables	53	66	77	(19.88%)
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>614</b>	<b>611</b>	<b>693</b>	<b>0.54%</b>
<b>Current liabilities</b>				
Short term bank borrowings	-	-	9	-
Bank overdrafts	48	80	167	(39.60%)
Finance lease	0	0	27	(40.96%)
Financing for network construction related to concession agreements	99	143	114	(30.52%)
Trade payables	555	582	681	(4.52%)
Other payables	277	307	247	(9.93%)
Current income tax liability	14	15	11	(6.01%)
Deferred revenue	3	3	2	14.88%
Employee benefits	147	152	120	(3.60%)
Provisions	73	85	80	(14.28%)
<b>Total current liabilities</b>	<b>1,216</b>	<b>1,366</b>	<b>1,457</b>	<b>(10.99%)</b>
<b>Total liabilities</b>	<b>1,831</b>	<b>1,977</b>	<b>2,150</b>	<b>(7.43%)</b>
<b>Total equity and liabilities</b>	<b>8,148</b>	<b>8,423</b>	<b>8,307</b>	<b>(3.27%)</b>

Source: Electrica S.A.

### NON-CURRENT ASSETS

Until 2014, the Company considered the concession services agreements related to the distribution of electricity concluded by the Subsidiaries to be public-public, and thus considered that the model IAS 16 regarding accounting treatment of assets subject to concession agreements as more adequate, taking into account that the Company was State owned. Following the initial public offering, Electrica's management considers that it may not be concluded that the Romanian State holds the de facto control through its shareholding of 48.78% and reassessed the accounting treatment used for concession agreements and as a result adopted IFRIC 12 for concession services arrangements, applicable to public-private arrangements.

Applying IFRIC 12 has the following effects on the financial statements:

**a.** the assets of the distribution subsidiaries will no longer be classified as tangible fixed assets and will be classified as intangible fixed assets, representing the consideration to be received (the right to charge distribution tariffs based on the consumption

of electricity) by the concessionaire for the rendered service, consisting of the construction, modernisation, rehabilitation of electric networks;

- b.** the tangible fixed assets acquired from contributions paid by clients (the connection fee), as well as the tangible fixed assets funded from subventions or other subvention-like operations are derecognized, simultaneously with the related deferred revenues;
- c.** the reduction of debts related to the deferred tax as a result of reducing the IFRS accounting basis of the tangible and intangible fixed assets;
- d.** the concessionaires act as services supplier (it builds, modernizes and rehabilitates the distribution network) and will have to enter into the accounting records the revenues related to the construction or improvement of infrastructure as per IAS 11. This results in additional revenues and expenditures being recognized in the profit and loss account (related to the construction and modernization of infrastructure), as well as of a margin resulting from rendering the construction services (the used profit margin was estimated at 3%, relying on the experience of the subsidiary Electrica Serv for

- construction-installation services);
- e. the depreciation of the intangible fixed assets will be based on the BAR value recovery model;
  - f. the contributions paid by clients will no longer be recognized as revenues as per IFRIC 18 "Transfer of assets from customers";
  - g. the Company estimates that provisions are not required for the obligations related to maintenance or capital expenditures, since they are annually

created according to the repairs and investment plans.

The application of the interpretation that an amendment to the accounting policy entails restating the comparative numbers related to the financial positions as of 31 December 2013 and 31 December 2012, and the profit or loss and other elements of the global result and the cash flows for the year ended on 31 December 2013.

The summary of the estimated effects of applying the interpretation at the level of the consolidated financial statements is as follows:

**TABLE 7: IFRIC 12 IMPACT**

RON mil	2012	2013	2014
Gross profit increase		8	8
Operating revenues increase		222	360
Operating expenses increase		214	352
Net assets reduction as at 31 December	216	214	212

Source: Electrica S.A.

The application model of IFRIC 12, being to a large extent correlated to the recognition and depreciation of the asset components of BAR, reflects the principle of generating revenues.

At 31 December 2014 the Group performed the revaluation of land and buildings with a net effect of RON (42) million.

Non-current assets have increased by 1.75% in 2014 as compared to 2013, from RON 4,307 million to RON 4,382 million, mainly due to the increase in intangible assets related to concession agreements (investments made in the network). The increase in non-current assets is driven mainly by investments in the distribution network (see Annex 2).

#### CURRENT ASSETS

Current assets have decreased by 8.52% in 2014 as compared to 2013, from RON 4,116 million to RON 3,765 million, due to the decrease in assets held for distribution related to the transfer of the shares held by the Company in 10 entities (Enel Distributie Muntenia, Enel Energie Muntenia, Enel Distributie Banat, Enel Distributie Dobrogea, Enel Energie, E.On Moldova Distributie, E.On Energie, Electrica Soluziona, Hidro Tarnita and BRM), following the spin-off of the Company's shareholdings to a new company - „Societatea de Administrare a Participatiilor in Energie SA” - wholly owned by the Company's major shareholder and on other hand the increase in cash and cash equivalents following the capital increase through the IPO.

#### TRADE RECEIVABLES

Trade receivables decreased by RON 306.6 million, equivalent to 28%, to RON 781 million in 2014 from RON 1,088 million as of 31 December 2013. This decrease was mainly attributable to the collection by Electrica Furnizare SA subsidiary of the overdue receivables from the National Railway Company - Compania Nationala Caile Ferate Romane CFR SA ("CFR") (a state-owned company). On 13 May 2014 the Group collected the value of electricity invoiced as of 31 December 2013 of RON 221 million.

#### CASH AND CASH EQUIVALENTS

Cash and cash equivalents have increased by 150.37% in 2014 as compared to 2013, from RON 651 million to RON 1,630 million, as a result of the funds received from IPO.

#### DEPOSITS, TREASURY BILLS AND GOVERNMENT BONDS

Deposits, treasury bills and government bonds have increased with RON 1,221 million in 2014 as compared to 2013, as a consequence of the IPO process.

#### ASSETS HELD FOR DISTRIBUTION

Based on the Extraordinary General Shareholders decision dated 20 March 2014 and the resolution of the Bucharest Court dated 10 April 2014, the Group recognised the spin-off of the Company's shareholdings to a new company - „Societatea de Administrare a Participatiilor in Energie SA” - wholly owned by the Company's main shareholder (Ministry of Energy, Small and Medium Enterprises and Business Environment).

The investments included equity accounted investees and other investments and were classified as assets held for distribution as of 31 December 2013, as follows:

Assets held for distribution (RON mil)	Carrying amount at 31 December 2013	Percentage Ownership interest
Enel Distribuție Muntenia	823.18	23.57%
Enel Energie Muntenia	91.05	23.57%
Enel Distribuție Banat	552.15	24.87%
Enel Distribuție Dobrogea	394.30	24.90%
Enel Energie	158.67	36.99%
E.On Distribuție	213.00	27.00%
E.On Energie	11.00	3,78%
Electrica Soluziona	0.05	49.00%
Hidro Tarnita	0.06	50.00%
BRM	0.04	
<b>Total assets held for distribution</b>	<b>2,243</b>	

Source: Electrica S.A.

### SHARE CAPITAL AND SHARE PREMIUM

The issued share capital in nominal terms consists of 345,939,929 ordinary shares at 31 December 2014 (2013: 207,839,904) with a nominal value of RON 10 per share.

All shares rank equally with regard to the Company's residual assets. The holders of ordinary shares are entitled to receive dividends as declared, and are entitled to one vote per share at General Shareholders Meetings of the Company.

	Ordinary shares	
	2014	2013
Number of shares at 1 January	207,839,904	206,229,044
Shared issued during the year	181,223,805	1,610,860
Decrease of the number of shares by spin-off	(43,123,780)	-
<b>Number of shares at 31 December</b>	<b>345,939,929</b>	<b>207,839,904</b>

Source: Electrica S.A.

The Company recognizes the changes in share capital only after their approval in the General Shareholders Meeting and their registration by the Trade Register. The contributions made by the shareholder which are not yet registered with the Trade Register at year end are recognized as "pre-paid capital contributions in kind from shareholders".

On 25 February 2014 an increase of share capital of 188,264 ordinary shares was registered in the Trade Registry. The shares were issued in respect of land contributed by the shareholder in previous periods.

On 10 April 2014 Bucharest Court approved the spin-off by Electrica SA through transfer of part of its assets (investments held by Electrica SA in other entities – see Note 24 of the Consolidated Financial Statements) to a new company „Societatea de Administrare a Participatiilor in Energie SA”, owned by the Romanian State, represented by the Ministry of Energy, Small and Medium Enterprises and Business Environment. Following this transaction, the share capital decreased by 43,123,780 ordinary shares.

On 16 May 2014 an increase of share capital of 3,846,797 ordinary shares was registered in the Trade Registry. The shares were issued in respect of land contributed by the shareholder in previous periods for shares.

Between 11 and 27 June 2014 the Company organised an IPO, which referred to an offering of 142,007,744 shares and 8,795,250 GDRs, each GDR representing four shares (see Note 1 of the Consolidated Financial Statements). The underwritings amounted to RON 1,556,095 thousand and USD 120,143,115. On 2 July 2014 the increase of share capital by 177,188,744 ordinary shares was recorded in the Trade Register. Consequently, the Group recognised an increase of share capital of RON 1,771,887 thousand and a share premium of RON 171,128 thousand. The transaction costs of RON 68,079 thousand were deducted from the share premium.

Until 31 December 2003, the statutory share capital in nominal terms was restated according to IAS 29 "Financial Reporting in Hyperinflationary Economies" with a corresponding adjustment to retained earnings.

### TREASURY SHARES

In July 2014 the Company purchased for price stabilization purposes, 5,206,593 ordinary shares and 421,000 Global Depository Receipts, equivalent of 1,684,000 shares. The total amount paid for acquiring the shares and Global Depository Receipts was RON 75,372 thousand.

### DIVIDENDS

Dividends for the year ended 31 December 2013, in amount of RON 22.48million, were declared on the basis of individual annual statutory financial statements.

The dividends in respect of the year ended 31 December 2013 were approved by OGMS of the Company no. 29 on 28 May 2014 and were paid on 28 July 2014.

### REVALUATION RESERVES

The reconciliation between opening and closing revaluation reserve is as follows:

RON mil.	2014	2013 restated
<b>Balance at 1 January</b>	<b>573</b>	<b>589</b>
Revaluation of property, plant and equipment attributable to the owners of the company	(1)	-
Share of changes in revaluation reserve of equity accounted investees	-	(2)
Release of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment	(15)	(15)
Spin-off effect	(388)	-
Loss of control over subsidiaries	(13)	-
<b>Balance as at 31 December</b>	<b>156</b>	<b>573</b>

Source: Electrica S.A.

### OTHER RESERVES

Other reserves include:

- legal reserves – set up as 5% of the gross profit for the year in the statutory individual financial statements of the companies within the Group, until the total legal reserves reach 20% of the paid-up nominal share capital of each company, according to the legislation. These reserves are deductible for income tax purposes and are not distributable;
- other reserves set up in compliance with legislation in force.

RON mil	Legal reserves	Other reserves	Total other reserves
<b>Balance at 1 January 2013</b>	<b>233</b>	<b>369</b>	<b>602</b>
Set-up of legal reserves	13	-	13
<b>Balance at 31 December 2013</b>	<b>246</b>	<b>369</b>	<b>615</b>
Set-up of legal reserves	30	-	30
Spin-off effect	(39)	(369)	(408)
<b>Balance at 31 December 2014</b>	<b>237</b>	<b>-</b>	<b>237</b>

Source: Electrica S.A.



### NON-CONTROLLING INTERESTS

The following table summarises the information related to each of the Group's subsidiaries that has material NCI, before any intra-group elimination.

31 December 14 RON mil	EDMN	EDTN	EDTS	EF	Intra-group eliminations	Total
<b>NCI percentage</b>	<b>22.00%</b>	<b>22.00%</b>	<b>22.00%</b>	<b>22.00%</b>		
Non-current assets	1,232	1,110	1,160	130		
Current assets	449	156	178	1,065		
Non-current liabilities	(205)	(92)	(133)	(71)		
Current liabilities	(163)	(183)	(225)	(729)		
<b>Net assets</b>	<b>1,313</b>	<b>990</b>	<b>980</b>	<b>394</b>		
<b>Carrying amount of NCI</b>	<b>289</b>	<b>218</b>	<b>216</b>	<b>87</b>	<b>2</b>	<b>811</b>
Revenues	876	751	816	3,995		
Profit	133	128	74	181		
<b>Other comprehensive income</b>	<b>(2)</b>	<b>1</b>	<b>(2)</b>	<b>3</b>		
<b>Total comprehensive income</b>	<b>131</b>	<b>129</b>	<b>72</b>	<b>184</b>		
Profit allocated to NCI	29	28	16	40		114
Other comprehensive income allocated to NCI	(0)	0	(0)	1		(0)
Cash flows from operating activities	181	163	182	444		
Cash flows from investing activities	(276)	(134)	(80)	(1)		
Cash flows from financing activities**	(135)	(82)	(142)	(89)		
<b>Net increase in cash and cash equivalents*</b>	<b>(230)</b>	<b>(53)</b>	<b>(40)</b>	<b>354</b>		
Dividends paid to NCI during the year	23	12	13	20		67

Source: Electrica S.A.

\*Amounts presented represent cash flows of the subsidiaries

\*\*Cash flows from financing activities include dividends paid to subsidiaries

### NON-CURRENT LIABILITIES

Non-current liabilities have slightly increased by 0.54% in 2014 compared to 2013.

### CURRENT LIABILITIES

Current liabilities have decreased by 10.99% in 2014 compared to 2013, from RON 1,366 million to RON 1,216 million, as a result of the following categories (that represent 87% of total current liabilities):

### TRADE PAYABLES

Trade payables have decreased by 4.52% in 2014 compared to 2013. The main categories included in trade payables are: electricity suppliers (state-owned power generators and other participants on the electricity market), CAPEX suppliers and other suppliers (suppliers of services, materials, consumables, etc.).

### PROVISIONS

In 2013 several companies from the Group had control from the Court of Accounts that were concluded with several findings and recommendations, some of them with fiscal impact. The Group set-up provisions for the amount it estimated that will probably result in an outflow of economic resources in the future. The Group considered as contingent liabilities the possible amounts related to uncertain aspects.

As of 31 December 2014, provisions for litigation and other risks refer mainly to:

- RON 34.2 million representing potential fiscal obligations of the Group (including interest and penalties);
- RON 17.9 million representing claims of individuals in respect of land owned by the Group.

### EMPLOYEE BENEFITS

Employee benefits have decreased by 3.6% in 2014 compared to 2013.

RON mil.	31 Dec 14	31 Dec 13
Personnel payables	39	30
Current portion of defined benefit liability and other long-term employee benefits	13	11
Social security charges	64	80
Tax on salaries	16	15
Termination benefits	0	16
Other employee benefits	16	-
<b>Total</b>	<b>147</b>	<b>152</b>

Source: Electrica S.A.

In Romania, all employers and employees, as well as other persons, are contributors to the state social security system. The social security system covers pensions, allocations for children, temporary inability to work, risks of works and professional diseases and other social assistance services, unemployment benefits and incentives for employers creating new workplaces.

The Group has overdue social security and other salary taxes of RON 39,541 thousand at 31 December 2014 (2013: RON 58,476 thousand) which relate to the four subsidiaries with financial difficulties (SC Servicii Energetice Moldova SA, SC Servicii Energetice Dobrogea SA, SC Servicii Energetice Muntenia and SC Servicii Energetice Oltenia SA).

### OTHER CURRENT PAYABLES

Other payables have decreased by 9.93% in 2014 compared to 2013.

RON mil.	31 December 2014	31 December 2013
VAT payable	137	167
Late payment penalties to the State budget	71	69
Liabilities related to radio and TV tax	12	12
Liabilities related to Green Certificates	42	46
Other liabilities	15	13
<b>Total</b>	<b>277</b>	<b>307</b>

Source: Electrica S.A.

Part of the late payment penalties to the State are rescheduled for payment based on a plan issued by ANAF to Electrica Serv for a period of 48 months starting August 2012. In relation to this ANAF instituted a pledge on certain property, plant and equipment of Electrica Serv (see Note 35 c) of the Consolidated Financial Statements). The late payment penalties refer to services subsidiaries, including those in financial distress.

In accordance with Law no. 533/2003, which amended Law no. 41/1994 regarding the organization and

functioning of Romanian Radio Company and Romanian Television Company, radio and TV taxes are collected by Electrica Furnizare SA on behalf of these companies. The payable of the Group to the above mentioned institutions represents radio and TV tax collected and not paid by the year-end.

Other liabilities include mainly guarantees and sundry creditors.

Other non-current liabilities refer to guarantees from customers related to electricity supply.

## 8.2 PROFIT AND LOSS

In the following table is presented the Consolidated Income Statement of Electrica Group, for the period 2012 – 2014.

RON mil	2014	2013 <sup>6</sup>	2012 <sup>7</sup>	Variation 2014/2013
Revenues	5,044	5,383	5,253	(6.30%)
Other income	177	128	124	37.56%
Electricity purchased	(2,349)	(2,845)	(3,089)	(17.43%)
Green certificates	(272)	(414)	(302)	(34.21%)
Construction costs	(440)	(290)	-	51.63%
Employee benefits	(739)	(766)	(755)	(3.57%)
Repairs, maintenance and materials	(85)	(111)	(179)	(23.56%)
Depreciation and amortisation	(326)	(313)	(398)	3.98%
Impairment of property, plant and equipment, net	(33)	(12)	(4)	163.33%
Reversal of impairment / (impairment) of trade and other receivables, net	(5)	21	53	(122.30%)
Other operating expenses	(475)	(434)	(460)	9.32%
<b>Operating profit</b>	<b>497</b>	<b>345</b>	<b>243</b>	<b>43.85%</b>
Finance income	36	24	22	54.81%
Finance costs	(23)	(35)	(46)	(33.99%)
<b>Net finance (income) /cost</b>	<b>13</b>	<b>(12)</b>	<b>(24)</b>	<b>(214.73%)</b>
Share of profit or loss of equity-accounted investees, net of tax	-	63	247	(100.00%)
<b>Profit before tax</b>	<b>510</b>	<b>397</b>	<b>466</b>	<b>28.56%</b>
Income tax expense	(109)	(81)	(53)	33.96%
<b>Profit for the year</b>	<b>401</b>	<b>316</b>	<b>413</b>	<b>27.17%</b>

Source: Electrica S.A.

### 8.2.1 CONSOLIDATED FIGURES

Electrica's revenue in 2014 and 2013 amounted to RON 5,044 million and RON 5,383 million, respectively. The decrease of revenue by RON 339 million, or 6.3% in 2014 as compared to 2013 resulted mainly from the decrease in revenues from supply activity that were partially offset by the increase in distribution revenues.

#### ELECTRICITY PURCHASED

The expense for electricity purchased by the group decreased by RON 496 million, or 17%, to RON 2,349 million in 2014 from RON 2,845 million in 2013, this decrease being mainly attributable to the decrease in the average electricity acquisition price as well as to a decrease in quantities supplied.

<sup>6</sup> Restated as a result of application of IFRIC 12 and new standards with a date of initial application of 1 January 2014 under IFRS-EU

<sup>7</sup> No restatement has been performed for the year 2012, as a result of the application of IFRIC 12 starting with 1 January 2014

The table below presents the structure of the electricity purchased for the periods indicated.

RON mil	2014	2013
Electricity acquired to cover network losses	426	521
Transmission and system services	324	304
Electricity purchased for supply and trading	1,599	2,020
<b>Total electricity purchased</b>	<b>2,349</b>	<b>2,845</b>

Source: Electrica S.A.

As a percentage of revenue, the cost of electricity purchased was the main cost element of the Group, representing 46.6% in 2014 and 52.9% in 2013.

#### GREEN CERTIFICATES

Green Certificates are accrued in the profit and loss based on the quantitative quota determined by the regulator representing the amount of the Green Certificates that the Group has to purchase for the year and based on the price of Green Certificates on the centralised market.

The cost with the acquisition of Green Certificates is a pass through cost.

As a percentage of revenue, the cost with the acquisition of Green Certificates represented 5.4% in 2014 and 7.7% in 2013.

#### CONSTRUCTION COSTS

In 2014, the costs of construction contracts increased by RON 150 million, or 51.6%, to RON 440 million from RON 290 million in 2013. This increase is mainly due to the increase of RAB in 2014, resulting from investments undertaken in 2014.

#### EMPLOYEE BENEFITS

Expense for salaries and employee benefits decreased by RON 27.3 million, or 4%, to RON 739 million in 2014 from RON 766 million in 2013. This decrease was attributable to the decrease in employee benefits from both distribution and supply segments, which was partially offset by an increase related to dismissed employees that enforced their claims against the assets of SE Moldova, in voluntary liquidation.

As a percentage of revenue, the expense for salaries and employee benefits represented 15.6% in 2014 and 14.8% in 2013.

#### REPAIRS, MAINTENANCE AND MATERIALS

Repairs, maintenance and materials expenses decreased by RON 26.1 million, or 23.6%, to RON 85 million in 2014 from RON 111 million in 2013. This decrease was primarily attributable to a decrease of activity of the services companies of the Group performing external electricity network maintenance,

as well as to the decrease in expenses with network maintenance of the distribution companies. As a percentage of revenue, the expense for repairs, maintenance and materials represented 1.7% 2014 and 2.1% 2013.

#### OTHER OPERATING EXPENSES

Other operating expenses remained relatively constant in 2014 and in 2013, the increase by RON 40.5 million due to the special construction tax introduced in 2014 being partially offset by efficiency measures. As a percentage of revenues, other expenses represented 9.4% 2014 and 8.1% in 2013.

#### OPERATING PROFIT

As a result of the factors described above, the operating profit increased by RON 151 million, or 44% to RON 497 million in 2014 from RON 345 million in 2013, driven by an exceptional result in supply segment and by the improvement of the distribution segment rentability.

#### NET FINANCE INCOME/COST

The group's financial result turned positive in 2014 due to the interest received related to both IPO proceeds and the CFR receivables cash in.

#### PROFIT BEFORE TAX

The profit before tax increased by RON 113 million, or 28.6 % to RON 510 million in 2014 from RON 397 in 2013.

#### INCOME TAX

The income tax increased by RON 27.6 million, or 34%, to RON 109 million in 2014 from RON 81 million in 2013. This increase was primarily attributable to the tax paid in connection to the sale of shares held in in E.On Moldova Distributie and E.On Energie Romania.

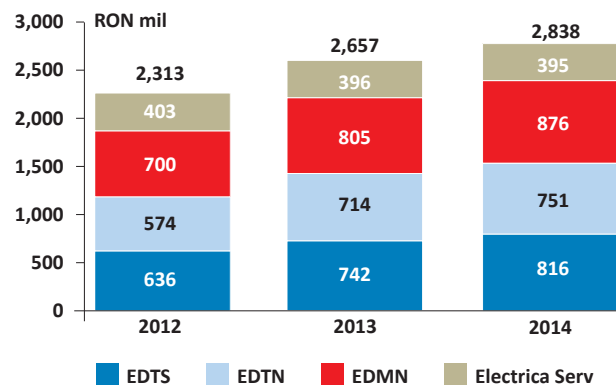
#### NET PROFIT FOR THE PERIOD

For the reasons discussed above, net profit for the year increased by RON 85.8 million, or 27.2%, to RON 401 million in 2014 from RON 316 million in 2013.

## 8.2.2 SEGMENT REPORTING - DISTRIBUTION

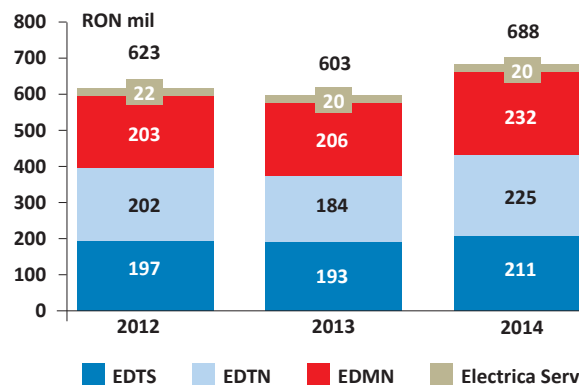
### KEY FACTS – DISTRIBUTION SEGMENT (RON mil)

#### DISTRIBUTION SEGMENT REVENUES



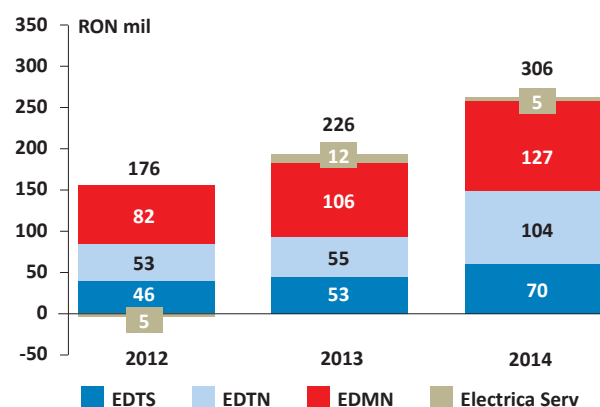
Source: Electrica S.A.

#### DISTRIBUTION SEGMENT EBITDA



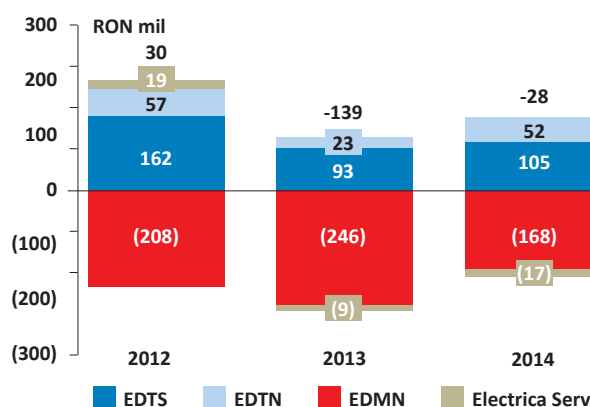
Source: Electrica S.A.

#### DISTRIBUTION SEGMENT NET INCOME



Source: Electrica S.A.

#### DISTRIBUTION SEGMENT NET DEBT/(NET CASH)



Source: Electrica S.A.

The following table presents the Segment reporting Income Statement of the Group's distribution segment, for the period 2013–2014.

RON mil	31 Dec 14	31 Dec 13
External revenues	955	712
Inter-segment revenue	1,519	1,570
<b>Segment revenue</b>	<b>2,475</b>	<b>2,282</b>
<b>Segment profit (loss) before tax</b>	<b>370</b>	<b>286</b>
Net finance (cost)/income	(7)	(15)
Depreciation, amortization and impairment, net	(311)	(302)
<b>EBITDA</b>	<b>688</b>	<b>603</b>
<b>Net profit / (loss)</b>	<b>306</b>	<b>226</b>

Source: Electrica S.A.

### REVENUES

Revenue from the distribution segment increased by RON 243.5 million, or 34.2%, to RON 955 million 2014 from RON 712 million in 2013.

This increase was mainly attributable the increase

of the average regulated distribution tariff. Electrica Serv slightly improved the external revenues (services rendered to companies outside the group) from RON 11 million in 2013 to RON 22 million in 2014.

### ELECTRICITY PURCHASED

The table below presents the structure of the electricity purchased for the periods indicated.

RON mil	2014	2013
Electricity acquired to cover network losses	426	521
Transmission and system services	324	304

The cost of electricity purchased to cover network losses decreased by RON 95 million, or 18.2%, to RON 426 million in 2014 from RON 521 million in 2013. The decrease was mainly attributable to the decrease in the electricity acquisition price.

### EMPLOYEE BENEFITS

Employee benefits decreased by RON 28.5 million, or 5%, to RON 545.2 million in 2014 from RON 573.7 million in 2013, driven mainly by efficiency measures.

### REPAIRS, MAINTENANCE AND MATERIALS

Repairs, maintenance and materials expenses decreased by RON 49.4 million, or 19%, to RON 209 million in 2014 from RON 259 million in 2013. This decrease was attributable to the decrease in expenses with network maintenance that were

capitalized starting 2014.

### EBITDA

The increase in revenues together with the decrease in network losses costs as well as the improvement in employee costs and other operational expenses led to a RON 85 million and 14% increase in the segment's EBITDA,

The EBITDA margin gained 160 bps in 2014, from 26.4% in 2013 up to 28% in 2014, mainly driven by the EDTN's performance (a 400 bps improvement y-o-y).

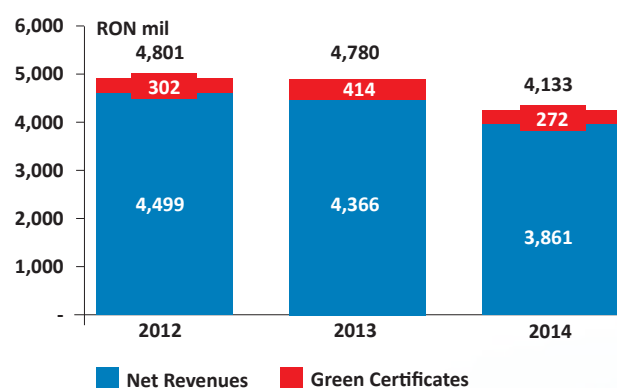
### SEGMENT NET PROFIT

The net profit followed the main trend as the EBITDA, sustained also by the reduction of the segments financial loss. The net profit margin improved from 9.9% in 2013 up to 12.4% in 2014.

## 8.2.3 SEGMENT REPORTING - SUPPLY

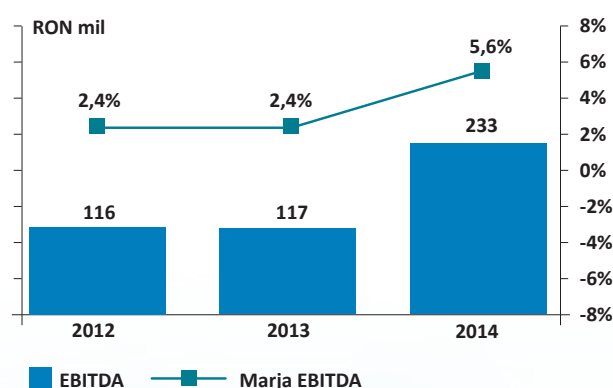
### KEY FACTS – SUPPLY SEGMENT

#### SUPPLY SEGMENT REVENUES

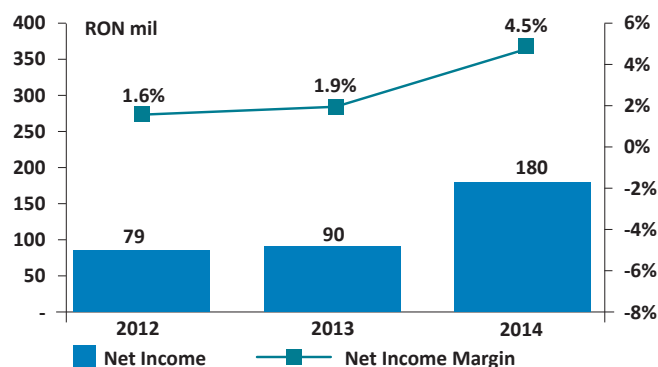


Source: Electrica S.A.

#### SUPPLY SEGMENT EBITDA

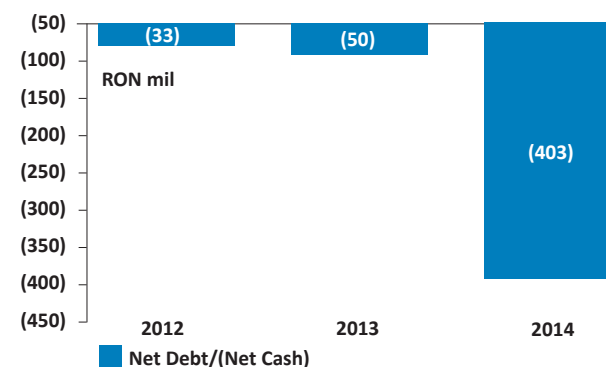


## SUPPLY SEGMENT NET INCOME



Source: Electrica S.A.

## SUPPLY SEGMENT NET DEBT/(NET CASH)



Source: Electrica S.A.

The following table is presented the Segment reporting Income Statement of the Group's distribution segment, for the period 2013–2014.

RON mil	31 Dec 14	31 Dec 13
External revenues	4,030	4,570
Inter-segment revenue	103	210
<b>Segment revenue</b>	<b>4,133</b>	<b>4,780</b>
<b>Segment profit (loss) before tax</b>	<b>230</b>	<b>110</b>
Net finance (cost)/income	4	(0)
Depreciation, amortization and impairment, net	(7)	(7)
<b>EBITDA</b>	<b>233</b>	<b>117</b>
<b>Net profit / (loss)</b>	<b>180</b>	<b>90</b>

Source: Electrica S.A.

## REVENUES

Net revenue (excluding revenues from green certificates) from the supply segment decreased by RON 505 million or 12%, to RON 3,861 million in 2014 from RON 4,366 million in 2013. This decrease was mainly attributable to the decrease in energy prices which offset an 8% increase in quantity supplied and a 5% decrease in the average supply tariff.

## ELECTRICITY PURCHASED

The expense for electricity purchased decreased by RON 320 million, or 22%, to RON 1,134 million in 2014 from RON 1,454 million in 2013. This decrease was primarily attributable to the decrease in the cost of electricity purchased for supply and trading by RON 297 million, or 25%, to RON 885 million in 2014 from RON 1,182 million in 2013. The decrease was mainly attributable to the decrease in the average electricity acquisition price.

## GREEN CERTIFICATES

The 34% decrease in the value of Green Certificates included in the invoice to the final consumer from 51.29 RON/MWh in 2013 to 32.84 RON/MWh in 2014, in accordance with ANRE regulations, generated a RON 142 million decrease in the revenues from green certificates, without an impact on the profitability as Green Certificates are reinvoiced to the customers at cost. The cost with the acquisition of the Green Certificates

decreased by RON 142 million, or 34%, to RON 272 million in 2014 from RON 414 million in 2013. This decrease was mainly attributable to the 39% reduction in the price of Green Certificates from RON 229 per Green Certificate in 2013 to RON 138.6 per Green Certificate in 2014.

In 2014, the regulatory Green Certificates quota imposed to the electricity suppliers by ANRE decreased from 0.224 Green Certificates per MWh supplied in 2013 to 0.218 Green Certificates per MWh supplied in 2014.

## SALARIES AND EMPLOYEE BENEFITS

Employee benefits decreased by RON 1.4 million, or 4%, to RON 83.1 million in 2014 from RON 84.5 million in 2013, driven mainly by efficiency measures.

## EBITDA

The above mentioned factors led to a 94%/RON 110 million increase in the supply segment EBITDA, that combined with the decrease in revenues led to a 330 bps improvement in EBITDA margin, from 2.4% in 2013 up to 5.7% in 2014.

## SEGMENT NET PROFIT

The net profit increased by RON 91 million/101.1%, driven also by the improvements of the financial profit, following the cash in of the CFR receivables.

## 8.3 CASH FLOW

RON mil	2014	2013	2012	Variation 2014/2013
<b>Cash flows from operating activities</b>				
<b>Profit</b>	<b>401</b>	<b>316</b>	<b>416</b>	<b>27.17%</b>
<b>Adjustments for:</b>				
Depreciation	33	31	381	9.07%
Amortisation	292	283	16	3.43%
Impairment of property, plant and equipment	33	12	4	163.33%
Loss on disposal of property, plant and equipment	5	4	6	26.27%
Impairment loss on trade and other receivables, net	5	(21)	(53)	(122.30%)
Write-down of inventories, net	10	(1)	18	(1080.81%)
Change in provisions	-	-	-	-
Release of deferred income	-	-	(68)	-
Net finance cost	(13)	12	24	(214.73%)
Share of profit or loss of equity-accounted investees, net of tax	-	(63)	(247)	(100.00%)
Gain on loss of control over subsidiaries	(32)	-	-	-
Income tax expense	109	81	53	33.96%
<b>Changes in :</b>				
Trade receivables	229	(118)	103	(293.99%)
Other receivables	27	21	7	25.49%
Green Certificates	(54)	-	-	-
Deposits, treasury bills and government bonds	(3)	-	-	-
Prepayments	(2)	34	(4)	(106.68%)
Inventories	(1)	2	(19)	(138.83%)
Trade payables	49	(74)	62	(166.22%)
Other payables	(40)	25	123	(260.00%)
Provisions and employee benefits	21	36	65	(43.08%)
Deferred revenue	0	-	181	-
<b>Cash generated from operating activities</b>	<b>1,068</b>	<b>579</b>	<b>1,070</b>	<b>70.19%</b>
Interest paid	(11)	(21)	(29)	(47.62%)
Income tax paid	(76)	(47)	(45)	61.70%
<b>Net cash from operating activities</b>	<b>981</b>	<b>511</b>	<b>996</b>	<b>91.98%</b>
<b>Cash flows from investing activities</b>				
Payments for network construction and rehabilitation	(318)	(178)	-	78.65%
Payments for purchases of property, plant and equipment**	(39)	(72)	(378)	(45.78%)
Payments for purchases of property, plant and equipment from customers contribution	-	-	(181)	-
Payments for purchases of other intangible assets	(8)	(2)	(15)	217.68%
Proceeds from sale of property, plant and equipment	0	1	1	(74.76%)
Proceeds from sale of investments	141	-	-	-
Payments for purchase of treasury bills and government bonds	(1,194)	-	-	-
Proceeds from maturity of treasury bills and government bonds	296	-	-	-
Payments in deposits with maturity of 3 months or longer	(319)	-	-	-
Interest received	36	21	23	70.36%
<b>Net cash used in investing activities</b>	<b>(1,406)</b>	<b>(231)</b>	<b>(549)</b>	<b>328.32%</b>



RON mil	2014	2013 <sup>8</sup>	2012 <sup>8</sup>	Variation 2014/2013
<b>Cash flows from financing activities</b>				
Proceeds from issue of shares, net of transaction cost	1,875	-	-	-
Repurchase of treasury shares	(75)	-	-	-
Repayment of financing for network construction related to concession agreements	(143)	(130)	(151)	9.41%
Repayment of bank borrowings	-	(10)	(30)	(100.00%)
Dividends paid	(90)	(39)	(8)	131.97%
Payment of finance lease liabilities	(2)	(6)	(6)	(66.26%)
Cash transferred at spin-off	(130)	-	-	-
<b>Net cash from financing activities</b>	<b>1,435</b>	<b>(185)</b>	<b>(194)</b>	<b>(876.08%)</b>
<b>Net increase in cash and cash equivalents</b>				
Cash and cash equivalents at 1 January	571	474	218	20.41%
Effect of loss of control over subsidiaries on cash	-	-	-	-
Effect of movements in exchange rates on cash held	-	2	4	(100.00%)
<b>Cash and cash equivalents at 31 December</b>	<b>1,581</b>	<b>571</b>	<b>474</b>	<b>176.88%</b>

Source: Electrica S.A.

### CASH FLOW

In 2014, net cash from operating activities amounted to RON 981 million. The profit before tax for the period was RON 510 million. The key adjustments were: (i) adding depreciation, amortisation of RON 325 million, a change in impairment and loss on disposal of PP&E in amount of RON 38 million, a net change in trade and other receivables of RON 4.6 million (mainly due to a decrease in the trade receivables collection period in 2014 compared to 2013), a change in trade and other payables of RON 149 million and a change in employee benefits and provisions of RON 21 million, a change in inventories of RON 10 million (ii) deducting a net finance cost of RON 13 million, a loss from control over subsidiaries of RON 32 million, a cost with green certificates of RON 54 million and other adjustments in effect of RON 5 million. Income tax and interest paid amounted to a total of RON 87 million.

In 2013, net cash from operating activities amounted

to RON 511 million. The profit before tax for the period was RON 397 million. The key adjustments were: (i) adding depreciation, amortisation of RON 313 million, a change in impairment and loss on PP&E in amount of RON 16 million, a change in trade and other payables of RON 81 million (mainly due to an increase in the VAT payable), a change in provisions and employee benefits of RON 36 million, a net finance gain of RON 12 million, prepayments of RON 34 million, a change in inventories of RON 1 million and (ii) deducting a net change in trade and other receivables of RON 118 million (mainly due to an increase in receivables from CFR), the share of profit of equity-accounted investees in amount of RON 63 million related to the minority stakes held by Electrica in the privatised electricity distribution and supply companies Enel Distributie Banat, Enel Distributie Dobrogea and Enel Energie). Income tax and interest paid amounted to a total of RON 68 million.

## ANNEX 1 LITIGATIONS

Electrica S.A. and its subsidiaries are part of a series of litigations, out of which we present additional details pertaining to the most material ones:

### 1. FISCAL LITIGATIONS

No.	Parties/ Case no.	Object	Court	Case status
1	Plaintiff: Electrica S.A. Defendant: ANAF No. <b>24402/302/2013</b>	Appeal against enforcement regarding the writ of execution no. 335/4.11.2013	Court of District 5, Bucharest	Electrica's appeal was accepted on 06/17/2014. The decision is not final, ANAF may lay an appeal. We mention that the term for lodging an appeal runs from the date of communication of the court decision, and the decision was communicated to Electrica SA on 03/20/2015.
2	Plaintiff: Electrica S.A. Defendant: ANAF No. <b>7614/2/2013</b>	Contestation of Decision no. 147/22.05.2013 For the value of 2,387,992 lei (action for annulment against Decision no. 147/22.05.2013, issued by ANAF within the procedure for solving administrative contestations formulated against the debentures which established ancillary payment obligations for the delayed payment of the current state budget payment obligations, by Decision no. 214/2012 for the amount of 2,387,992 lei).	Bucharest Court of Appeal	On 06.03.2015 the court admitted the contestation in part and partly cancelled the Decisions no. 147/22.05.2013 and no. 214/30.10.2012, issued by the defendant for the amount of 2,383,070 lei, which represent ancillary tax payment obligations. The court maintained the challenged administrative- fiscal deeds for the amount of 4,922 lei. The court summoned ANAF to pay to Electrica the amount of 30,961.35 lei as court fees. ANAF may lay an appeal. We mention that the term for the appeal runs from the date of communication of the court decision, and until the present, the decision was not communicated.
3	Plaintiff: Electrica S.A. Defendant: ANAF No. <b>55166/299/2010</b>	Appeal against enforcement and stay of execution regarding the writ of execution no. 3166/09.11.2010 - adjournment of the forced execution initiated in the fiscal case no. 13267221; - annulment of the writ of execution No. 3166/2010 for the amount of 31,250,651 lei tax on revenue; - annulment of the demand for payment no. 61/90/1/2010/13875 for the amount of 31,250,651 lei tax on revenue.	Tribunalul Bucuresti	Instanta de fond a admis contestatia la executare, astfel cum a fost precizata si a dispus anulara titlului executoriu nr. 3166/09.11.2010 emis de ANAF pentru suma de 31.250.651 RON, reprezentând impozit pe profit; a anulat somatia nr. 61/90/2010/13875 din data de 09.11.2010 emisa de ANAF in dosarul de executare nr. 13267221 pentru suma de 31.250.651 RON si a tuturor actelor de executare subsecvente emise in dosarul de executare nr. 13267221. A dispus intoarcerea executarii silite si a obligat ANAF sa achite Electrica suma de 31.250.651 RON. ANAF a atacat hotararea cu recurs, dosarul avand termen de judecata la 30.03.2015.
4	Appellant- Challenger: Electrica S.A. Respondent: ANAF No. <b>4841/299/2013</b>	Contestation of the writ of execution no. 61/08.01.2013 for the amount of 2,391,528.00 lei	Court of District 5, Bucharest	Electrica's appeal was accepted on 06/17/2014. The decision is not final, ANAF may lay an appeal. We mention that the term for lodging an appeal runs from the date of communication of the court decision, and the decision was communicated to Electrica SA on 03/20/2015.
5	Appellant- Challenger: ELECTRICA S.A. Respondent: ANAF No. <b>39910/299/2012</b>	Contestation for annulment of the writ of execution no. 983/2012 issued by ANAF, demand for payment no. 61/09.08.2012 for the amount of 13,592,890.00 lei (this amount represents current obligations for the tax on revenue, paid in due time by our company).	Bucharest Court of Justice	The court irrevocably dismissed the contestation formulated by Electrica.

## 2. LITIGATIONS AGAINST THE COURT OF ACCOUNTS

No.	Parties/ Case no.	Object	Court	Case status
1	Appellant- Plaintiff: Electrica S.A. – exonerated, Societatea de Administrare a Participatiilor in Energie brought in the proceedings- defendant No. <b>5699/2/2013</b>	Arrest of measures Annulment of administrative deed and adjournment. S Electrica SA requested the partial adjournment of the measures ordered by C.C. through decision no. X/40147/2013 and annulment of the final statement no. 25/2013.	Bucharest Court of Appeal	Societatea de Administrare a Participatiilor in Energie, established by the division of Electrica S.A., was brought in the proceedings to replace Electrica SA.
2	Appellant- Plaintiff: Electrica S.A. – exonerated, Societatea de Administrare a Participatiilor in Energie brought in the proceedings Romanian Court of Accounts – Respondent- Defendant No. <b>8335/2/2012</b>	Adjournment and annulment of administrative and fiscal deed. Litigations with the Court of Accounts Law no. 94/1992.	THE HIGH COURT OF CASSATION AND JUSTICE	Societatea de Administrare a Participatiilor in Energie, established by the division of Electrica S.A., was brought in the proceedings to replace Electrica SA.
3	Plaintiff- Electrica Serv; Defendant- The Romanian Court of Accounts. No. <b>368/2/2014</b>	Litigations with the Court of Accounts Law no. 94/1992.	THE HIGH COURT OF CASSATION AND JUSTICE	Appeal. The case undergoes the screening procedure. The first judgment term is to be established by the court at a later date.
4	Plaintiff- Electrica Furnizare; Defendant- The Romanian Court of Accounts. No. <b>5755/2/2013</b>	Litigations with the Court of Accounts (Law no. 94/1992) final statement no. 82/01.08.2013	THE HIGH COURT OF CASSATION AND JUSTICE	The court of first instance admitted the action in part. The court cancelled in part the Final Statement no. 82/2013 and Decision no. 20/2013, regarding measure no. II 6 of the Decision. The Court dismissed the remainder of the action as unfounded. Electrica Furnizare brought an appeal.
5	Plaintiff- Electrica Transilvania Nord Defendant- The Romanian Court of Accounts No. <b>1499/117/2014</b>	Adjournment of administrative deed	Cluj Court of Appeal	The court admitted the plea of lack of object and dismissed the action for being left without object.
6	Plaintiff- Electrica Transilvania Sud Defendant- The Romanian Court of Accounts No. <b>2251/62/2014</b>	Adjournment of administrative deed	Brasov Court of Appeal	The court dismissed the contestation formulated by the plaintiff S.C FILIALA DE DISTRIBUȚIE A ENERGIEI ELECTRICE „ELECTRICA DISTRIBUȚIE TRANSILVANIA SUD” S.A as opposed to the defendants CURTEA DE CONTURI A ROMÂNIEI (Romanian Court of Accounts) and CAMERA DE CONTURI A JUDEȚULUI BRAȘOV (the Chamber of Accounts of Brasov County) against the Final Statement no. 30/28.03.2014, the Decision no. 75/23.12.2013 and the Control Report no. 700/23618/04.12.2013. It dismissed the plaintiff's request to suspend the execution of Decision no. 75/23.12.2013 until the final settlement of the case. The solution is irrevocable.

### 3. OTHER SIGNIFICANT LITIGATIONS

No.	Parties/ Case no.	Object	Court	Case status
1	SC Termoelectrica SA –Appellant- Plaintiff Electrica SA – Respondent- Defendant No. <b>5651/2/2014 (in the first instance the case had no. 15350/3/2010)</b>	Claims: the amount of 25,047,353.32 lei which represents penalties of delay for electricity bills between 1.04.2007-31.03.2008.	Bucharest Court of Appeal	The court of first instance dismissed the action as it was specified as unfounded.
2	Plaintiff– Terradox Solutions Defendant – Electrica S.A. No. <b>4875/2/2014</b>	Nullity of legal deed	Bucharest Court of Justice	The court admitted the plea of the lack of capacity to sue and dismissed the action as being brought by a person who lacked capacity. The solution is irrevocable.
3	Plaintiff: .S.C.Orange Media SRL; S.C.Electrica S.A. No. <b>47304/3/2012*</b>	Declaratory action and action for claims for the amount of 17,008,850.15 lei (the amount consists of: -971,042.22 lei registered expenses; -16,037,807.93 lei stands for loss of profit as a consequence of the termination of the subsequent Service Contract no. 138/2011 and the framework agreement for services no. 132/2011).	Bucharest Court of Appeal	The court of first instance dismissed the request formulated by Orange Media SRL as unfounded. SC Orange Media SRL brought an appeal.
4	Plaintiff: Toma Sevasta et. al.; Defendant: Electrica Muntenia Nord S.A. et. al. No. <b>31617/281/2011*</b>	Real estate claim	Ploiesti Court of Appeal	The court of first instance dismissed the the action as unfounded. Toma Sevasta and the other plaintiffs appealed the court's decision.

### 4. LITIGATIONS WITH “FONDUL PROPRIETATEA”

No.	Parties/ Case no.	Object	Court	Case status
1	Plaintiff: Fondul Proprietatea Defendant: ELECTRICA DISTRIBUTIE MUNTENIA NORD No. <b>3537/105/2014</b>	Annulment of GAM Decision approving the corporate governance strategy	Prahova Court	The court admitted the request formulated by Fondul Proprietatea. The decision may be challenged by an appeal. We mentionthat the termfor lodging an appealruns from thedate of communication of the court decision, anduntilthe present, the decision was not communicated.
2	Plaintiff: Fondul Proprietatea Defendant: Electrica Distributie Transilvania Sud No. <b>2362/62/2014</b>	Annulment of AGM Decision approving the corporate governance strategy	Brasov Court of Appeal	In the first instance the court admitted the request formulated by Fondul Proprietatea. The decision was challenged by appeal by both parties in litigation. The first judgment term in appeal is to be established by the court at a later date.
3	Plaintiff: Fondul Proprietatea Defendant: Electrica Distributie Transilvania Nord No. <b>532/1285/2014</b>	Annulment of AGM Decision approving the corporate governance strategy	Cluj Commercial Court	The court admitted the request formulated by Fondul Proprietatea. The decision was challenged by appeal by Electrica Distributie Transilvania Nord. The first judgment term in appeal is to be established by the court at a later date.
4	Plaintiff: Fondul Proprietatea Defendant: Electrica Furnizare No. <b>14173/3/2014</b>	Annulment of AGM Decision approving the corporate governance strategy	Bucharest Court of Justice	The court dismissed the request formulated by Fondul Proprietatea. The decision may be challenged by an appeal. We mentionthat the termfor lodging an appealruns from thedate of communication of the court decision, anduntilthe present, the decision was not communicated.

## 5. LITIGATIONS WITH ANRE

No.	Parties/ Case no.	Object	Court	Case status
1	Plaintiff: Electrica S.A. Defendant: ANRE No. <b>192/2/2015</b>	Annulment of the Order of the President of ANRE (the National Regulatory Authority for Energy) no. 146/2014	Bucharest Court of Appeal	The first hearing was set on 04/27/2015
2	Plaintiff: Filiala de Distribuție a Energiei Electrice Electrica Distribuție Muntenia Nord (EDMN Electricity Distribution Subsidiary) Defendant: ANRE No. <b>184/2/2015</b>	Annulment of the Order of the President of ANRE (the National Regulatory Authority for Energy) no. 146/2014	Bucharest Court of Appeal	The first hearing was set on 04/23/2015
3	Plaintiff: Filiala de Distribuție a Energiei Electrice Electrica Distribuție Transilvania Nord (EDTN) Defendant: ANRE No. <b>213/2/2015</b>	Annulment of the Order of the President of ANRE (the National Regulatory Authority for Energy) no. 146/2014	Bucharest Court of Appeal	The first hearing was set on 05/13/2015
4	Plaintiff: Filiala de Distribuție a Energiei Electrice Electrica Distribuție Transilvania Sud (EDTS Electricity Distribution Subsidiary) Defendant: ANRE No. <b>208/2/2015</b>	Annulment of the Order of the President of ANRE (the National Regulatory Authority for Energy) no. 146/2014	Bucharest Court of Appeal	The first judgment term in appeal is to be established by the court at a later date.
5	Plaintiff: Electrica S.A. Defendant: ANRE No. <b>317/2/2015</b>	Annulment of the Order of ANRE President no. 154/2014	Bucharest Court of Appeal	The first judgment term in appeal is to be established by the court at a later date.
6	Plaintiff: Filiala de Distribuție a Energiei Electrice Electrica Distribuție Muntenia Nord (EDMN) Defendant: ANRE No. <b>318/2/2015</b>	Annulment of the Order of ANRE President no. 154/2014	Bucharest Court of Appeal	The first hearing was set on 05/12/2015
7	Plaintiff: Electrica S.A. Defendant: ANRE No. <b>361/2/2015</b>	Annulment of the Order of ANRE President no. 155/2014	Bucharest Court of Appeal	The first hearing was set on 04/17/2015
8	Plaintiff: Filiala de Distribuție a Energiei Electrice Electrica Distribuție Transilvania Nord (EDTN) Defendant: ANRE No. <b>353/2/2015</b>	Annulment of the Order of ANRE President no. 155/2014	Bucharest Court of Appeal	The first hearing was set on 04/06/2015
9	Plaintiff: Electrica S.A. Defendant: ANRE No. <b>361/2/2015</b>	Annulment of the Order of ANRE President no. 156/2014	Bucharest Court of Appeal	The first judgment term in appeal is to be established by the court at a later date.
10	Plaintiff: Filiala de Distribuție a Energiei Electrice Electrica Distribuție Transilvania Sud (EDTS) Defendant: ANRE No. <b>371/2/2015</b>	Annulment of the Order of ANRE President no. 156/2014	Bucharest Court of Appeal	The first hearing was set on 05/15/2015

## ANNEX 2 DETAILS OF REALIZED INVESTMENTS IN 2014 BY ELECTRICA GROUP

Description	Value (RON mil)
Implementation of the SAD-R rural system throughout the branches of the Muntenia Nord distribution subsidiary, Step IV vol. 1	34.0
Capitalization of repair works according to OMF 1898/2013	20.5
Implementation of the SAD-R rural system throughout the branches of the Muntenia Nord distribution subsidiary, Step IV vol. 2	16.7
Equipments	13.2
Electricity meters	10.3
Modernisations and integration of existing network into SCADA ST110/20KV Liesti, Galati county	6.9
Expenses for development of pre-feasibility studies, feasibility studies and other studies related to the investment objectives	6.0
Systematisation of the Sinaia MV grid	3.4
Improvement of the technical conditions for the distribution of electricity for consumers (ICTAEE) in Insuratei, Braila county	1.8
Modernisation of the connections and expansion of the tele-management blocks (FDCP), Targoviste, Micro VI	1.6
Upgrading and expansion of the AMR tele-management system in Sfantu Gheorghe, Covasna county	16.2
Integration of existing network into SCADA DMS	12.2
LEA 110 kV Ghimbav- Cristian and Bartolomeu, Brasov county	4.0
Substation 110/20 kV 2x25 MVA Sanpaul, Mures county	2.6
Modernisations through repairs – electricity meters replacement	1.7
INT areas PTA1, PTA2, Ghidfalau, Covasna county	1.5
Modernisation of the 35/20 kV substation in Feldioara, Brasov county	1.0
Modernisation of the 110 kV Beius substation	5.2
Smart-metering pilot project SDEE Zalau	4.5
Smart-metering SDEE Oradea	2.9
Modernisation of the 110/20/6 kV Carei 1 substation	2.2
Modernisation of the Baia Mare 5 substation	2.0
Smart-metering pilot project SDEE Cluj	2.0
Construction of 20kV Baia Mare 2 bar	1.7
Rehabilitation of the Uzina Veche Baia Mare building (former thermal plant)	1.6
Distribution automation system SAD 2014-2015 Satu Mare	1.5
Increasing security for the supply of electricity for consumers in Turt, Vama, Binesti	1.2
Modernisation of the 110 kV switchgears from transformation stations- Step 2	1.2
Modernisation of the substation 110/20kV Aghires – secondary wiring	1.1
Distribution automation system SAD 2014- 2015 Bistrita	1.1
Distribution automation system SAD 2014- 2015 Baia Mare	1.0
<b>Total</b>	<b>183</b>

During 2014, the main categories of the transferred tangible assets in progress to tangible assets, are the following:

Description	Value (RON mil)
Implementation of the SAD-R rural system	44.3
Equipments	23.9
Capitalization of repair works according to OMF 1898/2013	19.7
Electricity meters replacement	19.4
Solutions on increasing efficiency by reducing losses in the network	18.6
Modernisation through repairs DD	18.0
Modernisation of the measurement groups at the distribution subsidiaries	17.0
Modernisation of the 110/20/6 kV Blaj substation, Alba county	10.1
110/20KV Biharia substation	9.9
Upgrading and expansion of the Avrig tele-management system, Sibiu county	9.1
Smart-metering pilot project at SD	6.6
Modernisation of the 110 kV switchgears from transformation stations – step II	5.9
Modernisation of the metering system in Iernut city, Mures county	4.5
20 kV Distributor between Hipodrom substation and Port substation, Braila municipality	4.3
Improvement of the substation 110/20 kV Prejmer, Brasov county	4.2
Upgrading and expansion of the AMR tele-management system in Sfantu Gheorghe, Covasna county	4.1
16 MVA, 110/20kV and 25 MVA, 110/20kV transformers	3.8
Increasing security for the supply of electricity for consumers in Salonta- Tinca	3.6
Systematisation of the Sinaia MV grid	3.6
Modernisation of the substation 110/20kV Valea Calugaresca	3.3
Migration of the MV grid to 20 kV in Satu Mare municipality, Step 1- old town area	3.2
Modernisation of the 110/20kV Valeni substation	3.2
Modernisation of the trafo 25 MVA, 110/6kV si 110/22kV	3.1
Modernisation of the low voltage lines – Cluj Napoca – step 1 – modernisation of the electrical network, Calea Turzii street	2.7
Modernisation of the low voltage in Stejeris, Modernisation of the connections in Copaceni, modernisation of LEA 0,4kV Lujerdiu, modernisation LEA 0,4kV Aghires PTZ Moara	2.6
Modernisation of the distribution network through assembly of measurement and protection blocks for public lighting (BMPIP)	2.6
Increasing the security and continuity in supply for consumers from the municipality Marghita	2.4
Switching to 20kV Stei	2.4
Improvement of the technical conditions for the supply of electricity for consumers in Insuratei, Braila county	2.4
Modernisation of the LEA 04 kV in Huta (Principala street), Remetea (PT 4203 area), Stana, Lelei, Scarisoara	2.2
Ferneziu substation- modernisation of the 20Kv bar for increasing the distribution capacity to 20kV	2.0
Automatic tele-measurement of electric energy for consumers at LEA 20kV Scurtesti – step 1	1.9
Optimisation and integration of existing network into SCADA	1.9
Modernisation of the connections and expansion of the telemanagement blocks Targoviste, Micro VI	1.7

Description	Value (RON mil)
Improvement of voltage levels in Barsana (Stramtura), Chechis, Ungureni (and modernization of LEA 0,4kV PTA 1 and PTA 2 zones), Mara (and modernization LEA 0,4 kV Mara (Baia Sprie)), Desesti, Maramures county	1.6
RED expansion in Plaiul Foi, Zarnesti, Brasov county areas	1.6
Switching to 20kV Velenta Oradea Step 1	1.5
Improvement of the technical conditions for the supply of electricity for consumers in central area of the municipality Braila, Braila county	1.4
Modernisation of the Lukoil distributor in Nufarul substation	1.3
Portable terminal for manual readings (PDA) with car charger	1.3
Modernisations and integration of existing network into SCADA ST110/20KV Liesti, Galati county	1.3
Modernisation of the low voltage L.E.A. in: Rodna zona PT Graniceri, Calea Moldovei area, Ilva Mica PT2 zone, Sângeorz Băi, Persa and Stejarului streets	1.3
Increasing security for the supply of electricity for consumers in Rodna and Valea Ilvelor areas	1.2
Increasing security for the supply of electricity for consumers in Tusa rural area	1.1
Switching to 20kV of PA 5 Baia Mare- step 2	1.1
Increasing security for the supply of electricity for consumers in Ulmeni	1.1
INT LEA j.t. Lisnau, areas PTA1,PTA2, comm. Ozun, Covasna county	1.1
Module for SAP-ISU for interface + modernisation of the manual reading equipment	1.0
Fueling of the LEA 20 kV Budesti rezerve from Cavnic substation	1.0
Improvement of voltage levels and modernization of LEA 0.4 kV zona PTa1 Sacele, Brasov county	1.0
<b>Total</b>	<b>288</b>



## ANNEX 3 INTERNAL AUDIT REPORT

### REPORT

#### REGARDING THE INTERNAL AUDIT ACTIVITY OF ELECTRICA S.A. DURING THE YEAR 2014

During 2014, internal audit activity at Company level has been conducted on the basis of the annual internal audit plan, registered with no. 9900/27250/26.11.2013, signed-off by the General Manager of Electrica S.A. and approved by the Board of Directors.

Within the company there were six audit engagements planned for the year 2014. The six internal audit engagements took place in the distribution and supply subsidiaries, followed by an ad-hoc audit solicited by the Board of Directors for Electrica S.A. The engagements were carried out by teams of two internal auditors.

All seven engagements were carried out and completed within the defined schedule. The audit reports written as a result were acknowledged by the management of the subsidiaries, signed-off by the General Manager of the Company and the implementation of recommendations has been consistently monitored through follow-up registers.

As a result of closing the audit engagements and acceptance of proposed recommendations, the audited entities are defining their own action plan in order to align and fulfil the recommendations.

The internal audit engagements have confirmed the positive impact of an internal audit on the activities carried out within the Company and its subsidiaries.

Since the initial public offering on BVB (Bucharest Stock Exchange) and LSE (London Stock Exchange) and year end, an update has been performed for the Operational Procedure of Internal Audit, Handbook of Internal Audit and Code of Ethics of the internal auditor, taking into account the national legislation and international standards for professional practice of an internal auditor. All of these procedures have been signed-off by the Audit Comitee and approved by the Board of Directors.





# CONSOLIDATED FINANCIAL STATEMENTS

For the year ended  
31 December 2014



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	Note	31 December 2014	31 December 2013 restated*	1 January 2013 restated*
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets related to concession arrangements	23	3,501,184	3,340,103	3,318,332
Other intangible assets	23	8,812	4,912	7,781
Property, plant and equipment	22	804,823	875,715	848,440
Equity-accounted investees	24	-	-	1,042,153
Other investments	24	-	-	1,138,326
Deferred tax assets	17	59,625	85,361	106,105
Other non-current assets		7,970	1,118	5,804
<b>Total non-current assets</b>		<b>4,382,414</b>	<b>4,307,209</b>	<b>6,466,941</b>
<b>Current assets</b>				
Trade receivables	18	780,821	1,087,545	1,010,909
Other receivables	20	24,611	57,210	94,824
Cash and cash equivalents	21	1,629,508	650,835	641,811
Deposits, treasury bills and government bonds	19	1,220,521	-	-
Inventories		24,305	33,809	34,999
Prepayments		8,644	6,378	40,306
Green certificates		53,708	-	-
Income tax receivable		23,135	36,510	17,420
Assets held for distribution	24	-	2,243,494	-
<b>Total current assets</b>		<b>3,765,253</b>	<b>4,115,781</b>	<b>1,840,269</b>
<b>Total assets</b>		<b>8,147,667</b>	<b>8,422,990</b>	<b>8,307,210</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	25	3,814,242	2,509,413	2,493,305
Share premium	25	103,049	-	-
Treasury shares reserve	25	(75,372)	-	-
Pre-paid capital contributions in kind from shareholders		3,273	47,657	54,645
Revaluation reserve	25	156,018	572,825	588,951
Other reserves	25	236,597	614,906	601,642
Retained earnings		1,268,811	1,936,547	1,700,277
<b>Total equity attributable to the owners of the Company</b>		<b>5,506,618</b>	<b>5,681,348</b>	<b>5,438,820</b>
Non-controlling interests	26	810,520	764,270	717,941
<b>Total equity</b>		<b>6,317,138</b>	<b>6,445,618</b>	<b>6,156,761</b>

*(continued on page 78)*

*\*See Note 7*

	Note	31 December 2014	31 December 2013 restated*	1 January 2013 restated*
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Finance lease		-	290	788
Financing for network construction related to concession agreements	27	151,486	129,827	195,508
Deferred tax liabilities	17	189,168	201,208	201,963
Employee benefits	15	220,382	213,187	217,147
Other payables	29	53,181	66,376	77,112
<b>Total non-current liabilities</b>		<b>614,217</b>	<b>610,888</b>	<b>692,518</b>
<b>Current liabilities</b>				
Short term bank borrowings		-	-	9,292
Bank overdrafts	21	48,132	79,684	167,467
Finance lease		294	498	26,677
Financing for network construction related to concession agreements	27	99,064	142,584	113,700
Trade payables	28	555,256	581,522	681,069
Other payables	29	276,961	307,487	247,131
Current income tax liability		14,270	15,183	10,628
Deferred revenue		2,987	2,600	2,362
Employee benefits	14,15	146,714	152,191	119,654
Provisions	30	72,634	84,735	79,951
<b>Total current liabilities</b>		<b>1,216,312</b>	<b>1,366,484</b>	<b>1,457,931</b>
<b>Total liabilities</b>		<b>1,830,529</b>	<b>1,977,372</b>	<b>2,150,449</b>
<b>Total equity and liabilities</b>		<b>8,147,667</b>	<b>8,422,990</b>	<b>8,307,210</b>

The accompanying notes are an integral part of these consolidated financial statements.

\*See Note 7

**General Director**

Ioan Rosca

**Economic Director**

Emilia Elena Marin

	Note	2014	2013 restated*
Revenues	10	5,043,728	5,382,818
Other income	11	176,509	128,317
Electricity purchased	11	(2,349,200)	(2,845,179)
Green certificates		(272,265)	(413,847)
Construction costs	23	(440,337)	(290,405)
Employee benefits	16	(738,606)	(765,932)
Repairs, maintenance and materials	11	(84,866)	(111,029)
Depreciation and amortization	22,23	(325,698)	(313,227)
Impairment of property, plant and equipment, net	22,23	(32,814)	(12,461)
Reversal of impairment/ (Impairment) of trade and other receivables, net	18,20	(4,632)	20,770
Other operating expenses	11	(474,878)	(434,375)
<b>Operating profit</b>		<b>496,941</b>	<b>345,450</b>
Finance income	12	36,404	23,515
Finance costs	12	(23,149)	(35,068)
<b>Net finance income/(cost)</b>		<b>13,255</b>	<b>(11,553)</b>
Share of profit or loss of equity-accounted investees, net of tax	24	-	62,959
<b>Profit before tax</b>		<b>510,196</b>	<b>396,856</b>
Income tax expense	17	(108,791)	(81,209)
<b>Profit for the year</b>		<b>401,405</b>	<b>315,647</b>
<b>Profit for the year attributable to:</b>			
- owners of the Company		287,837	244,412
- non-controlling interests	26	113,568	71,235
<b>Profit for the year</b>		<b>401,405</b>	<b>315,647</b>
<b>Earnings per share</b>			
Basic and diluted earnings per share (RON)	13	<b>1.03</b>	<b>1.18</b>

The accompanying notes are an integral part of these consolidated financial statements.  
 \*See Note 7

**General Director**

Ioan Rosca

**Economic Director**

Emilia Elena Marin

	Nota	2014	2013 retratat*
<b>Profit for the year</b>		<b>401,405</b>	<b>315,647</b>
<b>Other comprehensive income</b>			
<i>Items that will never be reclassified to profit or loss</i>			
Remeasurements of the defined benefit liability	15	(3,922)	3,297
Tax related to remeasurements of the defined benefit liability	17	628	(528)
Revaluation of property, plant and equipment	22	59	-
<b>Other comprehensive income, net of tax</b>		<b>(3,235)</b>	<b>2,769</b>
<b>Total comprehensive income</b>		<b>398,170</b>	<b>318,416</b>
<b>Total comprehensive income attributable to:</b>			
- owners of the Company		284,670	246,619
- non-controlling interests		113,500	71,797
<b>Total comprehensive income</b>		<b>398,170</b>	<b>318,416</b>

The accompanying notes are an integral part of these consolidated financial statements.

\*See Note 7

**General Director**

Ioan Rosca

**Director Economic**

Emilia Elena Marin



Note	Attributable to the owners of the Company									
	Share capital	Share premium	Treasury shares	Pre-paid capital contributions in kind from shareholders	Revaluation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
<b>Balance at 31 December 2013 (restated)</b>	<b>2,509,413</b>	-	-	<b>47,657</b>	<b>572,825</b>	<b>614,906</b>	<b>1,936,547</b>	<b>5,681,348</b>	<b>764,270</b>	<b>6,445,618</b>
<b>Comprehensive income</b>										
Profit	-	-	-	-	-	-	287,837	287,837	113,568	401,405
Other comprehensive income	-	-	-	-	(835)	-	(2,332)	(3,167)	(68)	(3,235)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(835)</b>	<b>-</b>	<b>285,505</b>	<b>284,670</b>	<b>113,500</b>	<b>398,170</b>
<b>Transactions with owners of the Company</b>										
<b>Contributions and distributions</b>										
Underwritings from the IPO, net	25	1,771,887	103,049	-	-	-	-	1,874,936	-	1,874,936
Treasury shares acquired	25	-	-	(75,372)	-	-	-	(75,372)	-	(75,372)
Issue of ordinary shares in respect of land contributed by the shareholders	25	40,371	-	-	(44,384)	-	-	(4,013)	-	(4,013)
Dividends	25	-	-	-	-	-	(22,475)	(22,475)	-	(22,475)
Spin-off effect	24	(507,429)	-	-	-	(388,018)	(408,195)	(928,834)	-	(2,232,476)
<b>Total transactions with owners of the Company</b>		<b>1,304,829</b>	<b>103,049</b>	<b>(75,372)</b>	<b>(44,384)</b>	<b>(388,018)</b>	<b>(408,195)</b>	<b>(951,309)</b>	<b>(459,400)</b>	<b>(459,400)</b>
<b>Other changes in equity</b>										
Dividends to non-controlling interests	25	-	-	-	-	-	-	-	(67,250)	(67,250)
Set up of legal reserves		-	-	-	-	-	29,886	(29,886)	-	-
Release of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment		-	-	-	-	(15,202)	-	15,202	-	-
Loss of control over subsidiaries in financial distress	33	-	-	-	-	(12,752)	-	12,752	-	-
<b>Balance at 31 December 2014</b>		<b>3,814,242</b>	<b>103,049</b>	<b>(75,372)</b>	<b>3,273</b>	<b>156,018</b>	<b>236,597</b>	<b>1,268,811</b>	<b>810,520</b>	<b>6,317,138</b>

(continued on page 82)

	Note	Attributable to the owners of the Company									Total equity
		Share capital	Share premium	Treasury shares	Pre-paid capital contributions in kind from shareholders	Revaluation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	
Balance at 1 January 2013, as previously reported	7	2,493,305	-	-	54,645	1,132,815	599,226	1,326,572	5,606,563	765,253	6,371,816
Impact of change in accounting policy	7	-	-	-	-	(543,864)	2,416	373,705	(167,743)	(47,312)	(215,055)
<b>Balance at 1 January 2013 (restated)</b>		<b>2,493,305</b>	-	-	<b>54,645</b>	<b>588,951</b>	<b>601,642</b>	<b>1,700,277</b>	<b>5,438,820</b>	<b>717,941</b>	<b>6,156,761</b>
<b>Comprehensive income</b>											
Profit		-	-	-	-	-	-	244,412	244,412	71,235	315,647
Other comprehensive income		-	-	-	-	(1,558)	-	3,765	2,207	562	2,769
<b>Total comprehensive income (restated)</b>		-	-	-	-	<b>(1,558)</b>	-	<b>248,177</b>	<b>246,619</b>	<b>71,797</b>	<b>318,416</b>
<b>Transactions with owners of the Company</b>											
<b>Contributions and distributions</b>											
Issue of ordinary shares in respect of land contributed by the shareholders	25	16,108	-	-	(16,108)	-	-	-	-	-	-
Land for which ownership rights were obtained	25	-	-	-	9,120	-	-	-	9,120	-	9,120
Dividends	25	-	-	-	-	-	-	(13,211)	(13,211)	-	(13,211)
<b>Total transactions with owners of the Company</b>		<b>16,108</b>	-	-	<b>(6,988)</b>	-	-	<b>(13,211)</b>	<b>(4,091)</b>	-	<b>(4,091)</b>
<b>Other changes in equity</b>											
Dividends to non-controlling interests	25	-	-	-	-	-	-	-	-	(25,468)	(25,468)
Set up of legal reserves		-	-	-	-	-	13,264	(13,264)	-	-	-
Release of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment		-	-	-	-	(14,568)	-	14,568	-	-	-
<b>Balance at 31 December 2013 (restated)</b>		<b>2,509,413</b>	-	-	<b>47,657</b>	<b>572,825</b>	<b>614,906</b>	<b>1,936,547</b>	<b>5,681,348</b>	<b>764,270</b>	<b>6,445,618</b>

The accompanying notes are an integral part of these consolidated financial statements.

	Note	2014	2013 restated*
<b>Cash flows from operating activities</b>			
Profit for the year		401,405	315,647
<b>Adjustments for:</b>			
Depreciation	22	33,284	30,516
Amortisation	23	292,414	282,711
Impairment loss on property, plant and equipment	22	32,814	12,461
Loss on disposal of property, plant and equipment		4,542	3,597
Impairment loss on trade and other receivables, net	18,20	4,632	(20,770)
Write-down of inventories, net		10,377	(1,058)
Net finance cost/(income)	12	(13,255)	11,553
Share of profit or loss of equity-accounted investees, net of tax	24	-	(62,959)
Gain on loss of control over subsidiaries	11	(32,349)	-
Income tax expense	17	108,791	81,209
		<b>842,655</b>	<b>652,907</b>
<b>Changes in:</b>			
Trade receivables		228,893	(117,991)
Other receivables		26,592	21,191
Deposits, treasury bills and government bonds		(2,764)	-
Prepayments		(2,266)	33,928
Green certificates		(53,708)	-
Inventories		(873)	2,248
Trade payables		49,095	(74,401)
Other payables		(39,871)	25,390
Employee benefits and provisions		20,567	36,131
<b>Cash generated from operating activities</b>		<b>1,068,320</b>	<b>579,403</b>
Interest paid		(11,290)	(20,932)
Income tax paid		(75,721)	(47,213)
<b>Net cash from operating activities</b>		<b>981,309</b>	<b>511,258</b>
<b>Cash flows from investing activities</b>			
Payments for purchases of property, plant and equipment		(39,152)	(72,206)
Payments for network construction related to concession agreements		(318,237)	(178,362)
Payments for purchase of other intangible assets		(7,653)	(2,409)
Proceeds from sale of property, plant and equipment		237	939
Proceeds from sale of other investments	24	140,920	-
Payments for purchase of treasury bills and government bonds	19	(1,194,251)	-
Proceeds from maturity of treasury bills and government bonds	19	295,598	-
Payments in deposits with maturity of 3 months or longer		(319,104)	-
Interest received		35,502	20,839
<b>Net cash used in investing activities</b>		<b>(1,406,140)</b>	<b>(231,199)</b>

(Continued on page 84)

\*See Note 7

	Note	2014	2013 restated*
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares, net of transaction costs	25	1,874,936	-
Re-purchase of treasury shares	25	(75,372)	-
Repayment of financing for network construction related to concession agreements	27	(142,680)	(130,404)
Repayment of bank borrowings		-	(10,271)
Dividends paid	25	(89,725)	(38,679)
Payment of finance lease liabilities		(1,889)	(5,598)
Cash transferred at spin off	24	(129,902)	-
<b>Net cash from /(used in) financing activities</b>		<b>1,435,368</b>	<b>(184,952)</b>
<b>Net increase in cash and cash equivalents</b>			
		<b>1,010,537</b>	<b>95,107</b>
Cash and cash equivalents at 1 January	21	571,151	474,344
Effect of loss of control over subsidiaries on cash		(312)	-
Effect of movements in exchange rates on cash held		-	1,700
<b>Cash and cash equivalents at 31 December</b>	21	<b>1,581,376</b>	<b>571,151</b>

The accompanying notes are an integral part of these consolidated financial statements.

\*See Note 7

**General Director**

Ioan Rosca

**Economic Director**

Emilia Elena Marin



## 1 REPORTING ENTITY AND GENERAL INFORMATION

### (A) GENERAL INFORMATION ABOUT THE GROUP

These financial statements are the consolidated financial statements of Societatea de Distributie si Furnizarea Energiei Electrice Electrica S.A. ("the Company" or "Electrica SA") and its subsidiaries (together "the Group").

The registered office of the Company is 9 Grigore Alexandrescu Street, Sector 1, Bucharest, Romania. The Company has unique registration number

13267221 and Trade Register registration number J40/7425/2000.

As at 31 December 2014 the major shareholder of Electrica SA is the Romanian State, represented by the Ministry of Energy, Small and Medium-sized Enterprises and Business Environment (48.78%), after the ownership dilution following an initial public offer. The second shareholder based on the share of ownership is EBRD with 8.66%.

The Company's subsidiaries are the following:

Subsidiary	Activity	Tax code	Head Office	% shareholding as at 31 Dec 2014	% shareholding as at 31 Dec 2013
Electrica Distributie Muntenia Nord SA	Electricity distribution in geographical area of Muntenia Nord	14506181	Ploiesti	78.0000021%	78.0000021%
Electrica Distributie Transilvania Nord SA	Electricity distribution in geographical area of Transilvania Nord	14476722	Cluj-Napoca	77.99999%	77.99999%
Electrica Distributie Transilvania Sud SA	Electricity distribution in geographical area of TransilvaniaSud	14493260	Brasov	78.0000019%	78.0000019%
Electrica Furnizare SA	Electricity supply	28909028	Bucuresti	77.99997%	77.99997%
ElectricaServ SA	Services in the energy sector (maintenance, repairs, construction)	17329505	Bucuresti	100%	100%
Servicii Energetice Muntenia SA	Services in the energy sector (maintenance, repairs, construction)	29384120	Bucuresti	100%	100%
Servicii Energetice Moldova SA	Services in the energy sector (maintenance, repairs, construction)	29386768	Bacau	100%	100%
Servicii Energetice Banat SA*	Services in the energy sector (maintenance, repairs, construction)	29388211	Timisoara	100%	100%
Servicii Energetice Dobrogea SA	Services in the energy sector (maintenance, repairs, construction)	29388378	Constanta	100%	100%
Servicii Energetice Oltenia SA	Services in the energy sector (maintenance, repairs, construction)	29389861	Craiova	100%	100%

\* Electrica SA lost the control of Servicii Energetice Banat starting with November 2014 (see Note 33).

### Group's main activities

The main activities of the Group include operation and construction of electricity distribution networks and activities related to electricity supply to final consumers. The Group is the electricity distribution operator and the main electricity supplier in Muntenia Nord area (Prahova, Buzau, Dambovita, Braila, Galati and Vrancea counties), Transilvania Nord area (Cluj, Maramures, Satu Mare, Salaj, Bihor and Bistrita-Nasaud counties) and Transilvania Sud area (Brasov, Alba, Sibiu, Mures, Harghita and Covasna counties), operating with transformation stations and 0.4 kV and

110 kV power lines.

The Company's distribution subsidiaries (Electrica Distributie Muntenia Nord, Electrica Distributie Transilvania Nord and Electrica Distributie TransilvaniaSud) invoice the electricity distribution service to electricity suppliers (mainly to Electrica Furnizare SA subsidiary, the main electricity supplier in Muntenia Nord, Transilvania Nord and Transilvania Sud areas), which further invoice the electricity consumption to final consumers.

Electrica Furnizare SA is the supplier of last resort

(defined as supplier designated by the regulatory authority to deliver the universal service of electricity supply under specific regulated conditions) in Muntenia Nord, Transilvania Nord and Transilvania Sud areas. According to the regulations issued by the National Authority for Energy Regulation ("ANRE"), the suppliers of last resort have the obligation to ensure electricity supply to final customers which have not exercised their eligibility right – this is the right to choose their electricity supplier (hereinafter named captive consumers).

The electricity supply to captive consumers is made based on regulated contracts, with prices that are regulated by ANRE.

In 2013 the Company approved the liquidation of 3 subsidiaries: Servicii Energetice Banat, Servicii Energetice Dobrogea and Servicii Energetice Moldova. In January 2014 the Board of Directors of Servicii Energetice Oltenia and in October 2014 the Board of Directors of Servicii Energetice Muntenia decided the commencement of the insolvency process with a view to reorganization. For further information on the financial position of these subsidiaries refer to Note 33.

#### Initial public offering

The Government Decision no. 85/2013, amended and completed by Government Decision no. 477/2014 approved the privatization strategy of Electrica SA by initial public offer ("IPO"). The privatization strategy included the offer for sale of a 51% stake by issuance of new shares representing 105% of the existing share capital as at the date of the IPO. The shares were offered to both individual and institutional investors on the Romanian market, as well as to qualified

investors on the US market and outside USA, and Global Depository Receipts ("GDRs") on the UK market.

The IPO was organised between 11 and 27 June 2014 and entailed to an offering by the Company of 177,188,744 ordinary shares in the form of shares and in the form of GDRs, each GDR representing four shares. Following the IPO, the Company sold 142,007,744 shares and 8,795,250 GDRs, at the offer prices of RON 11 per share and 13.66 USD per GDR. The allocation of shares and GDRs and the offering prices were concluded on 27 June 2014. The transfer of ownership rights to new shares and the collection of cash by the Company took place on 2 July 2014. At the same date the increase in share capital was recorded in the Trade Register.

Starting 4 July 2014 the Company's shares are listed on the Bucharest Stock Exchange, and the GDRs are listed on the London Stock Exchange.

## (B) REGLEMENTARI IN SECTORUL ENERGETIC

#### Regulatory environment

The activity in the energy sector is regulated by National Authority for Energy Regulation ("ANRE"). Some of the main responsibilities of ANRE are to approve prices and tariffs and to prepare computation methodologies used to establish regulated prices and tariffs.

#### Electricity distribution

Electricity distribution is a monopoly activity. Distribution tariffs are established by a „tariff basket-price cap” mechanism. The tariff setting methodology is approved by ANRE Orders no. 39/2007 and no. 72/2013.

The specific distribution tariffs applicable for the years 2014 and 2013 for the three voltage levels (high, medium and low) by regions were approved by ANRE orders as follows (RON/MWh, presented cumulatively for medium and low voltage):

	Order 104, 105, 98/18.12.2013 1 January-31 December 2014			Order 51/19.12.2012 1 January-31 December 2013		
	High voltage	Medium voltage	Low voltage	High voltage	Medium voltage	Low voltage
Transilvania Nord	20.65	67.28	178.75	22.07	66.21	172.80
Transilvania Sud	23.46	70.45	194.74	22.07	66.19	195.75
Muntenia Nord	18.90	63.13	206.05	18.92	63.06	209.15

The following items are considered by ANRE when setting the target revenue for one year of one regulatory period: controllable and non-controllable operating and maintenance costs; costs of electricity purchased for own technological consumption (distribution network losses); regulated depreciation charge; the return on the regulated assets base ("RAB"); and working capital requirements.

The controllable operating and maintenance costs include, without limitation, the following: raw materials and consumables; utilities; maintenance and repairs; rental; insurance; studies and research; other services; employee benefits (salaries, per diem, bonuses); damages paid by the main distribution operator to third parties for maintenance works agreed between parties.

The uncontrollable operating and maintenance costs include: costs resulting from payment of taxes, royalties, duties and similar payments; regulated costs related to special expenditure; contributions to the health fund, special funds and other similar funds related to the salary fund; regulated distribution costs generated by the use of distribution networks of other operators; extraordinary costs produced by force majeure; termination benefits; costs generated by the impossibility of shutting down the electricity supply for certain consumers, according to the legislation; loss on receivables from electricity distribution; damages paid by the main distribution operator to third parties for maintenance works established in court.

The regulated rate of return on the RAB is 8.52% for the years 2013 and 2014. Starting with 2015, the regulated rate of return on the RAB decreased to 7.7%, in accordance with the ANRE Order no. 51/2014.

#### **Regulatory asset base (RAB)**

In accordance with the ANRE Orders no. 31/2004, 39/2007, and 72/2013, the determination of the distribution tariffs is based on, inter alia, the regulated asset base ("RAB"). The RAB calculation is based on statutory amounts of capital expenditure.

The regulatory asset base at the beginning of the first regulatory period (1 January 2005) (initial RAB) includes the net book value of the property, plant and equipment and intangible assets as approved by ANRE and used only for regulated electricity distribution. The RAB subsequently calculated includes the net value of the initial RAB and the net value of property, plant and equipment and intangible assets subsequently acquired through

investments approved by ANRE. RAB does not include the property, plant and equipment financed through donations, or other irredeemable funds, including the connection fee from the new users of the electricity distribution network (property and equipment obtained through contributions of cash by customers to establish a connection to the network).

According to the tariff setting legislation, the distribution operator may request the regulator to recognise in the tariff the revaluation of property, plant and equipment commissioned after 1 January 2005, based on the revaluations performed according to the legislation in force. However, the maximum amount of the revaluation that would be accepted by the regulator may not exceed the cumulative inflation applied to the value of the assets commissioned after 1 January 2005.

#### **Tariff adjustments**

Annually, ANRE makes revenue adjustments due to: change in the quantities of electricity distributed compared to the forecast; change in quantities and acquisition price for the regulated own technological consumption (electricity network losses) compared to the forecast; annual change in uncontrollable operating and maintenance costs compared to the forecast; under-/overruns of the approved investments programme; and revenues generated from other operations made by the distribution operator.

The differences in revenue arising in relation to the above mentioned stipulations are used to modify the regulated tariffs for the subsequent years.

The annual corrections are adjusted by the interest rate on one year treasury bills, in real terms. The annual regulated revenue in nominal terms is obtained by applying the adjusted inflation rate for the year of revenue adjustments.

In regulated activities, the regulator establishes through the tariff adjustment mechanism (as presented above), the criteria to recognise over or under recoveries of one period in future periods. The Group does not recognise regulatory assets and liabilities in respect of these under or over recoveries, as these differences are recovered or returned through the tariffs charged in subsequent periods. As at 31 December 2014 the Group is in an over-recovery position of approximately RON 164 million (2013: RON 142 million), which will be deducted from the tariffs for the next regulatory period (2015 – 2018).

### **Tariffs increase limitations**

During the third regulatory period (2014-2018) the distribution tariffs shall not increase year on year by more than 7% in real terms for the weighted average tariff and 10% for each specific distribution tariff. Where the increase in tariffs is limited and does not allow distribution operators to obtain the approved regulated revenues in full, the difference shall be recovered in the following year(s) limited to the cap set for tariff increases. Such difference is adjusted with the interest rate on one year treasury bills, in nominal terms.

### **Electricity supply**

According to Electricity Law and the European Directive 54/2003 the electricity market is fully open starting from 1 July 2007 and all consumers were declared eligible. The eligible consumers are free to choose their electricity supplier from which they purchase electricity at negotiated prices. For the other consumers (including those that did not use their eligibility right), the tariffs are regulated by ANRE orders.

Starting from 1 September 2012, the methodology for setting tariffs to consumers that do not use the eligibility right is established by ANRE Order no. 30/2012 that includes a proposed timetable for gradual elimination of the regulated tariffs between 2012 and 2017 ("the timetable") that sets the share of electricity purchased on the competitive market, in three-month period stages, for sale to consumers that do not use the eligibility right (household and non-household consumers).

The categories of justified costs of the last resort supplier, recognized by ANRE in the tariffs applied to the consumers that did not use the eligibility right, according to the methodology, are: electricity acquisition costs, transmission and system services costs, services provided by the centralized electricity market operator to the participants in the centralized electricity markets, electricity distribution cost, electricity supply costs related to consumers that did not use the eligibility right (including cost for concluding contracts, invoicing, call-centre, mass-media, salaries and other personnel related costs, rental, taxes, borrowing costs, interest, loss on receivables, debt recovery, financing of cash flow deficits and investments, legal expenses, costs related to the implementation of legislative changes).

Starting from 1 September 2012, in correlation with the proposed timetable for eliminating the regulated

tariffs, the last resort suppliers apply a new electricity tariff called "the competitive market component" ("CPC") in the invoice to customers that did not use the eligibility right. The CPC is based on costs for the electricity acquisition on the competitive market estimated by the last resort suppliers, plus costs for transmission and system services, services rendered by the centralized market operator, distribution and supply costs, profit margin, and adjustments for the difference between estimated and actual costs for the previous stage of the timetable. The last resort suppliers submit the CPC pricing proposals to ANRE for approval and the related calculations for the 3 distinct voltage levels.

ANRE's previous methodology provided a maximum profit of 2.5% applied to the cost of electricity purchased for supply to households until 1 December 2013. The new methodology (ANRE Order no. 82/2013) provides a maximum profit per unit of electricity sold to consumers tariff setting and CPC tariffs of 4 RON/MWh and operating cost supply of 4.5 RON/client/month, following that, until the application of competitive criteria for selecting suppliers of last resort, the value of profit per unit of electricity sold to consumers to be established by ANRE. Furthermore, Electrica records supply costs including closing costs of contracts, billing, bill collection, database management and costs of IT and telecommunications infrastructure.

The tariffs for electricity supplied under regulated regime in 2014 and 2013 are those established by ANRE Orders no. 57/2014 and no. 40/2013. The acquisition prices paid to producers for electricity purchased based on regulated contracts for delivery under the regulated regime to captive consumers / consumers that did not use the eligibility right are established by ANRE.

### **Green certificates**

Electricity suppliers have a legal obligation to purchase green certificates from producers of electricity from renewable sources, based on annual targets or quotas set by law, which are applied to the quantity of electricity purchased and supplied to end consumers.

Cost of green certificates is billed to end consumers separately from the tariffs for electricity. Starting March 2014 the electricity suppliers have the obligation to purchase green certificates before they bill the related costs to end consumers.



## 2 BASIS OF ACCOUNTING

These consolidated financial statements have been prepared in accordance with International Reporting Standards (“IFRS”) as endorsed by the European Union (“IFRS-EU”). They were authorized for issue by the Board of Directors on 26 March 2015. The financial statements will be submitted for shareholders’ approval in the meeting scheduled on 27 April 2015.

The Company also issues an original version of

consolidated financial statements prepared in accordance with IFRS-EU in Romanian language that will be used for filing with Romanian authorities. Details of the Group’s accounting policies are included in Note 6. The Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements, except for the changes described in Note 7.

## 3 FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements are presented in Lei (RON), which is the functional currency of all group companies. All amounts have

been rounded to the nearest thousand, unless otherwise indicated.

## 4 USE OF JUDGEMENTS AND ESTIMATES

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

### (A) JUDGEMENTS

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included below.

#### Service Concession Arrangements

IFRIC 12 deals with public-to-private service concession arrangements. Until 4 July 2014, the Group was controlled by the Romanian State, therefore the concession arrangements (see Note 23) were considered a form of public-to-public service arrangements and therefore not directly within the scope of IFRIC 12. The management determined that IAS 16 model of accounting for the assets that are subject to the service concessions was more appropriate in those circumstances.

Following the IPO (see Note 1), the act of incorporation of Electrica changed. Significant decisions in the General Shareholders Meeting are taken with a super majority of 55% of the total voting rights as a protective right of the minority shareholders. The Board of Directors has 3 out of 5 members who are independent and non-executive, appointed by private shareholders. The Board of Directors also has increased powers.

Given these major changes in the circumstances, the

management reassessed the applicability of IFRIC 12. Since de facto control by the State, with its 48.78% shareholding, cannot be proved and given that it is expected that the Group will be operated as a “private” entity, the Group changed its accounting policy with respect to the accounting for the service concession arrangements (see Note 7).

#### Commissions

Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements except for collection of radio and TV taxes. If the Group acts in the capacity of an agent rather than as the principal in a transaction, then the income recognised is the net amount of commission earned by the Group.

### (B) ASSUMPTIONS AND ESTIMATION UNCERTAINTIES

Information about assumptions and estimation uncertainties that may result in a material adjustment in the subsequent twelve month period is included in the following notes:

- Note 6 k), l) – assumptions regarding the useful life of the intangible assets related to concession arrangements and other intangible assets;
- Notes 18 and 31 – assumptions and estimates about the recoverability of trade receivables;
- Note 6 j) – estimates regarding the useful lives of property, plant and equipment;
- Note 22 – assumptions regarding the revalued amount of property, plant and equipment;
- Note 33 – assumptions and estimates regarding the measurement of assets of the subsidiaries under financial distress;

- Note 17 – recognition of deferred tax assets: availability of future taxable profit against which tax loss carried forward can be used;
- Notes 30 and 34 – recognition and measurement of provisions and contingencies;
- Note 15 – measurement of defined benefit obligations and other long-term employee benefits: key actuarial assumptions.

#### Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included

in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 31 – financial instruments;
- Note 22 – property, plant and equipment.

## 5 BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on the historical cost basis except for the land and buildings which are measured based on revaluation model. The assets and liabilities of the

subsidiaries in financial distress are not recognised on a going concern basis but on an alternate basis, as disclosed in Note 33.

## 6 SIGNIFICANT ACCOUNTING POLICIES

Except as disclosed in Note 7, the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

### (A) BASIS OF CONSOLIDATION

#### (i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date on which control ceases.

#### (ii) Loss of control

On the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair

value at the date that control is lost. Subsequently that retained interest is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

#### (iii) Non-controlling interests

The Group measures any non-controlling interests in the subsidiary at their proportionate share of the subsidiary's identifiable net assets.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

#### (iv) Investments in equity-accounted investees

Equity-accounted investees (or associates) are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 percent and 50 percent of the voting power of another entity. Investments in associates are accounted for under the equity method and are recognized initially at

cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, from the date that significant influence commences until the date that significant influence ceases.

#### (v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

#### (B) REVENUE

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group, and the amount of the revenue can be measured reliably. Revenue is recognized at the fair value of the services rendered or goods delivered, net of VAT, excises or other taxes related to the sale.

#### Supply and distribution of electricity

The revenue from supply and distribution of electricity to consumers is recognized when electricity is delivered to consumers, based on meter readings and based on estimates for electricity delivered and for which no reading was performed yet. The invoicing of electricity sales is performed on a monthly basis. Monthly electricity invoices are based on meter readings or on estimated consumptions based on the historical data of each consumer. Electricity supplied to consumers which is not yet billed as at the reporting date is accrued on the basis of recent average consumption or based on subsequent meter readings. Differences between estimated and actual amounts are recorded in subsequent periods.

The revenues from supply and distribution of electricity also includes the cost of green certificates recharged by the Group to final consumers (see paragraph (h)).

#### Rendering of services

Revenues related to services rendered are recognised in the period in which the services were rendered based on statements of work performed, regardless

of when paid or received, in accordance with the accrual basis.

#### Sales of goods

Revenue from sale of goods is recognized when the goods are delivered and significant risks and rewards of ownership of the goods have passed to the buyer.

#### Service concession arrangement

Revenue related to construction or upgrade services under service concession arrangement is recognised based on the stage of completion of the work performed, consistent with the accounting policy on recognising revenue on construction contracts, as follows:

Contract revenue includes the initial amount agreed plus any variation in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably.

If the outcome of a construction contract can be estimated reliably, then contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. The stage of completion is assessed with reference to surveys of work performed. Otherwise, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable.

Contract expenses are recognized as incurred unless they create an asset related to future contract activity. An expected loss on a contract is recognised immediately in profit or loss.

#### (C) COMMISSIONS

Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements except for collection of radio and TV taxes. If the Group acts in the capacity of an agent rather than as the principal in a transaction, then the income recognised is the net amount of commission earned by the Group.

#### (D) FINANCE INCOME AND FINANCE COSTS

The Group's finance income and finance costs include:

- interest income;
- interest expense;
- the foreign currency gain or loss on financial assets and financial liabilities;
- impairment losses recognised on financial assets (other than trade receivables).

Interest income or expense is recognised using the effective interest method.

### (E) FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated to the functional currency at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date, as communicated by the National Bank of Romania. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

### (F) EMPLOYEE BENEFITS

#### (i) Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### (ii) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

#### (iii) Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses

related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

#### (iv) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

#### (v) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

### (G) INCOME TAX

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or in other comprehensive income.

#### (i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

#### (ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary

differences and it is probable that they will not reverse in the foreseeable future; and

- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that the future taxable profits will be available against which they can be used.

#### **(H) GREEN CERTIFICATES**

The cost of green certificates is accrued in the profit or loss based on the quantitative quota determined by the regulator representing the amount of the green certificates that the Group has to purchase for the year and based on the price of green certificates acquired on the centralized market. Starting 2014, the Group implemented a procedure in order to allocate the green certificates acquired either for future recharges to customers (see note 1 for the changes in the regulations regarding green certificates) or to cover the annual green certificates acquisition obligation. The green certificates acquired for future recharges to customers are recognised in the statement of financial position until the moment their cost is recharged to final consumer. The obligation for covering the annual acquisition quota is accrued in profit or loss and other non-financial liabilities.

#### **(I) INVENTORIES**

Inventories consist mainly of consumables, goods for resale and other inventories.

Inventories are measured at the lower of cost and net realizable value.

The cost of inventories is based on the weighted average cost method. The cost of inventories includes all the acquisition costs and other

expenses related to bringing the inventories to their current place and condition.

Consumables used for the repairs and maintenance of the electricity network are included in profit and loss when consumed and presented in "Repairs, maintenance and materials".

#### **(J) PROPERTY, PLANT AND EQUIPMENT**

##### **(i) Recognition and measurement**

Property, plant and equipment are stated initially at cost, which includes purchase price and other costs directly attributable to acquisition and bringing the asset to the location and condition necessary for their intended use.

After initial recognition, land and buildings are measured at revalued amounts less any accumulated depreciation and any accumulated impairment losses since the most recent valuation. The other items of property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Until 31 December 2003 the Group has restated the cost of property, plant and equipment according to IAS 29 "Financial Reporting in Hyperinflationary Economies", with its effect being recognized in retained earnings.

Revaluations of land and buildings are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.

When a building is revalued, the accumulated depreciation is eliminated against the gross carrying amount of that item, and the net amount is restated to the revalued amount of the asset.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment. Spare parts, stand-by and servicing equipment are classified as property, plant and equipment if they are expected to be used during more than one period or can be used only in connection with an item of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

##### **(ii) Subsequent expenditure**

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

##### **(iii) Depreciation**

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line

method over their estimated useful lives, and is recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that

the Group will obtain ownership by the end of the lease term. Land and construction in progress are not depreciated.

The estimated useful lives of property, plant and equipment are as follows:

Category	Useful lives
Buildings	60-70 (average 67 years)
Equipment	4-12 (average 7 years)
Motor vehicles	4-10 (average 7 years)
Office equipment	5-10 (average 7 years)

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

#### **(K) INTANGIBLE ASSET IN A SERVICE CONCESSION ARRANGEMENT**

##### **(i) Recognition and measurement**

The Group recognises an intangible asset arising from a service concession arrangement when it has a right to charge for use of the concession infrastructure. An intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value on initial recognition with reference to the fair value of the services provided. Subsequent to initial recognition, the intangible asset is measured at cost, less accumulated amortisation and accumulated impairment losses.

##### **(ii) Amortisation**

The amortization method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset, and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits. The Group determined that the amortisation method that reflects appropriately the expected pattern of consumption of the expected future economic benefits is correlated with the amortisation of the regulated asset base "RAB" (refer to Note 1). The remaining useful life of the intangible assets related to the concession arrangements is 12 years at 31 December 2014 (useful life 25 years).

#### **(L) OTHER INTANGIBLE ASSETS**

##### **(i) Recognition and measurement**

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

##### **(ii) Subsequent expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

##### **(iii) Amortisation**

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

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

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

#### **(M) ASSETS HELD FOR DISTRIBUTION**

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-distribution if it is highly probable that they will be recovered primarily through distribution rather than through continuing use.

Such assets, or disposal groups, are measured at the lower of their carrying amount and fair value less costs of distribution. Impairment losses on initial classification as held-for-distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held-for-distribution, equity-accounted investee is no longer equity accounted.

#### **(N) FINANCIAL INSTRUMENTS**

The Group classifies non-derivative financial assets into the following categories: loans and receivables and held to maturity investments.

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

**(i) Non-derivative financial assets and financial liabilities – recognition and derecognition**

The Group initially recognises loans and receivables on the date when they are originated. Financial liabilities are initially recognised on the trade date, which is the date the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

**(ii) Non-derivative financial assets – measurement  
Loans and receivables**

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

Loans and receivables comprise trade receivables, cash and cash equivalents and deposits, treasury bills and government bond.

**Trade receivables**

Trade receivables include mainly unsettled invoices issued until reporting date for supply and distribution of electricity and services, late payment penalties and accrued revenue for electricity delivered and services rendered until the end of the year, but invoiced after the end of the year.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits and deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

**Held-to-maturity investments**

Held-to-maturity financial assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

**(iii) Non-derivative financial liabilities – measurement**

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

Other financial liabilities include bank borrowings, bank overdrafts, Financing for network construction related to concession agreements and trade payables.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents in the statement of cash flows.

**(iv) Share capital**

**Ordinary shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity.

**Repurchase and reissue of ordinary shares  
(treasury shares)**

When shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury share reserve. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is presented within share premium.

**(O) IMPAIRMENT**

**(i) Non-derivative financial assets**

Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;

- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

#### Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and are reflected in an allowance account. For household customers the receivables are written off when the Group considers that there are no realistic prospects of recovery of the asset. For customers other than households, the amounts are written off after the legal proceedings regarding the bankruptcy or liquidation of the customer are completed. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

#### Equity-accounted investees

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

#### (ii) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units ("CGUs").

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss, except for the property, plant and equipment measured at the revalued amount, in which case the impairment loss is recognised in other comprehensive income and decreases the revaluation reserve within equity to the extent that it reverses a previous revaluation surplus related to the same asset.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

A reversal of an impairment loss other than on revalued assets is recognised in profit or loss. A reversal of an impairment loss on a revalued asset is recognised in profit or loss to the extent that it reverses an impairment loss on the same asset that was previously recognised as an expense in profit or loss. Any additional increase in the carrying amount of the asset is treated as a revaluation increase.

#### (P) REVALUATION RESERVE

The difference between the revalued amount and the net carrying amount of property, plant and equipment is recognised as revaluation reserve included in equity.

If an asset's carrying amount is increased as a result of a revaluation, the increase is recognised and accumulated in equity under the heading of revaluation reserve. However, the increase is recognised in profit and loss to the extent that it reverses a revaluation decrease of the same amount of the asset previously recognised in profit and loss. If an asset's carrying amount is decreased as a



result of a revaluation, the decrease is recognised in profit or loss. However, the decrease is recognized in equity in revaluation reserves if there is any credit balance existing in the revaluation reserve in respect of that asset.

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

#### **(Q) DIVIDENDS**

Dividends are recognized as a deduction from equity in the period in which their distribution is approved and recognized as a liability to the extent it is unpaid at the reporting date. Dividends are disclosed in the notes to financial statements when their distribution is proposed after the reporting date and before the date of the issuance of the financial statements.

#### **(R) PRE-PAID CAPITAL CONTRIBUTIONS IN KIND FROM SHAREHOLDERS**

These contributions from a shareholder (the Romanian State) represent pre-paid contributions of land for which the Company obtained title deeds in respect of future issuance of shares. The amounts recorded are based on the fair value of the land.

#### **(S) PROVISIONS**

A provision is recognised if, as a result of a past 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 discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

#### **(T) LEASES**

##### **(i) Determining whether an arrangement contains a lease**

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes that, for a

finance lease, it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

##### **(ii) Leased assets**

Assets held by the Group under leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets and finance lease liability are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's consolidated statement of financial position.

##### **(iii) Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

##### **(iv) Rental income**

Rental income from property other than investment property is recognised as other income. Rental income is recognised on a straight-line basis over the term of the lease.

#### **(U) SEGMENT REPORTING**

Segment results that are reported to the Company's Board of Directors (the chief operating decision maker) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly deferred taxes.

#### **(V) SUBSEQUENT EVENTS**

Events occurring after the reporting date 31 December 2014, which provide additional information about conditions prevailing at those reporting dates (adjusting events) are reflected

in the consolidated financial statements. Events occurring after the reporting date that provide information on events that occurred after the reporting dates (non-adjusting events), when material, are disclosed in the notes to the

consolidated financial statements. When the going concern assumption is no longer appropriate at or after the reporting period, the financial statements are not prepared on a going concern basis.

## 7 CHANGES IN ACCOUNTING POLICIES AND CHANGES IN CLASSIFICATION AND PRESENTATION

Except for the change below, the Group has consistently applied the accounting policies set out in Note 6 to all periods presented in these consolidated financial statements:

- A. Application of IFRIC 12 as a result of changes in circumstances (see Note 4)
- B. New standards with a date of initial application of 1 January 2014 under IFRS-EU
- C. Changes in classification and presentation.

### A. APPLICATION OF IFRIC 12 "SERVICE CONCESSION ARRANGEMENTS"

Due to the initial public offering, the management reassessed the accounting treatment used for concession agreements and as a result adopted IFRIC 12 (see Note 4). Consequently, the Group ceased the application of IFRIC 18 "Transfers of assets from customers". The Group has applied the change in accounting policy retrospectively and restated the comparative periods.

The following tables summarise the impact on the Group's consolidated financial statements.

#### Consolidated statement of financial position

1 January 2013	Impact of changes in accounting policies		
	As previously reported	Adjustment	As restated
Property, plant and equipment	5,717,592	(4,869,152)	848,440
Intangible assets related to concession arrangements	-	3,318,332	3,318,332
Other intangible assets	42,143	(34,362)	7,781
Others	4,132,657	-	4,132,657
<b>Total assets</b>	<b>9,892,392</b>	<b>(1,585,182)</b>	<b>8,307,210</b>
Deferred revenue	(1,311,698)	1,309,336	(2,362)
Deferred tax liabilities	(262,754)	60,791	(201,963)
Others	(1,946,124)	-	(1,946,124)
<b>Total liabilities</b>	<b>(3,520,576)</b>	<b>1,370,127</b>	<b>(2,150,449)</b>
Retained earnings	(1,326,572)	(373,705)	(1,700,277)
Revaluation reserve	(1,132,815)	543,864	(588,951)
Non-controlling interests	(765,253)	47,312	(717,941)
Others	(3,147,176)	(2,416)	(3,149,592)
<b>Total equity</b>	<b>(6,371,816)</b>	<b>215,055</b>	<b>(6,156,761)</b>

31 December 2013	Impact of changes in accounting policies		
	As previously reported	Adjustment	As restated
Property, plant and equipment	5,932,771	(5,057,056)	875,715
Intangible asset related to concession arrangements	-	3,340,103	3,340,103
Other intangible assets	58,913	(54,001)	4,912
Others	4,208,037	(5,777)	4,202,260
<b>Total assets</b>	<b>10,199,721</b>	<b>(1,776,731)</b>	<b>8,422,990</b>
Deferred revenue	(1,510,819)	1,508,219	(2,600)
Deferred tax liabilities	(255,968)	54,760	(201,208)
Others	(1,773,564)	-	(1,773,564)
<b>Total liabilities</b>	<b>(3,540,351)</b>	<b>1,562,979</b>	<b>(1,977,372)</b>
Retained earnings	(1,597,810)	(338,737)	(1,936,547)
Revaluation reserve	(1,080,704)	507,879	(572,825)
Non-controlling interests	(811,296)	47,026	(764,270)
Others	(3,169,560)	(2,416)	(3,171,976)
<b>Total equity</b>	<b>(6,659,370)</b>	<b>213,752</b>	<b>(6,445,618)</b>

#### Consolidated statement of profit and loss and other comprehensive income

For the year ended 31 December 2013	Impact of changes in accounting policies		
	As previously reported	Adjustment	As restated
Revenues	5,156,633	226,185	5,382,818
Other income	132,929	(4,612)	128,317
Depreciation and amortization	(397,540)	84,313	(313,227)
Impairment of property, plant and equipment, net	(13,222)	761	(12,461)
Repairs, maintenance and materials	(102,121)	(8,908)	(111,029)
Construction costs	-	(290,405)	(290,405)
Income tax expense	(75,178)	(6,031)	(81,209)
Others	(4,387,157)	-	(4,387,157)
<b>Profit</b>	<b>314,344</b>	<b>1,303</b>	<b>315,647</b>
<b>Total comprehensive income</b>	<b>317,113</b>	<b>1,303</b>	<b>318,416</b>

There is no material impact on the Group's basic or diluted earnings per share for the year ended 31 December 2013.

consequential amendments to other standards, with a date of initial application of 1 January 2014 under IFRS-EU:

#### **B. NEW STANDARDS WITH A DATE OF INITIAL APPLICATION OF 1 JANUARY 2014 UNDER IFRS-EU**

The Group has adopted the following new standards and amendments to standards, including any

#### **IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities (2011)**

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates

its investees. IFRS 10 (2011) introduces a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, IFRS 10 (2011) requires the Group to consolidate investees that it controls on the basis of de facto circumstances. The Group reassessed the control conclusion for its investees at 1 January 2014. The Group has not changed its control conclusion in respect of any of its investments in subsidiaries.

IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures were added, but there was no impact on the Group's financial position or performance.

#### **Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32**

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Group for 2014 and 2013.

#### **Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36**

These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require

disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognized or reversed during the period.

### **C. CHANGES IN CLASSIFICATION AND PRESENTATION**

#### **(i) Change in classification**

The Group's liabilities in respect of the obligations related to acquisition of green certificates were recorded in prior years as trade payables in the consolidated statement of financial position. Starting with 2014, the Group changed the classification of these liabilities to other payables in the consolidated statement of financial position. Management believes that the classification of these liabilities as other payables reflects better the non-financial nature of these liabilities.

For the purpose of comparability, RON 46,097 thousands as at 31 December 2013 and RON 64,869 thousands as at 31 December 2012 previously classified as trade payables have been reclassified to other payables with no impact on total current liabilities. This reclassification had no impact on the Group financial position as at 31 December 2013 and 31 December 2012, respectively.

#### **(ii) Change in presentation**

In 2014 the Group changed the disclosure of management compensation and included compensation granted to the general directors of the Group companies. In prior period management compensation included the compensation also directors of departments. The management of the Company considers that the new presentation reflects more accurately the persons having authority and responsibility for planning, directing and controlling the activities of the entity.

## **8 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

#### **IFRIC 21 Levies (effective for annual periods beginning on or after 17 June 2014 under IFRS-EU)**

IFRIC 21 was endorsed by EFRAG on 13 June 2014 and published in the Official Journal in 14 June 2014. Regulations legally come into force 3 days after publication in the Official Journal. Each company shall therefore apply IFRIC 21, at the latest, as from the commencement date of its first financial year starting on or after 17 June 2014. Therefore the Group must apply IFRIC 21 from 1 January 2015. The Group has

decided not to early adopt this standard.

IFRIC 21 is applied retrospectively. It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 Income Taxes) and fines or other penalties for breaches of legislation.

The interpretation clarifies that an entity recognizes a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognized before the specified minimum threshold is reached. The interpretation requires the same principles to be applied in interim

financial statements. The Group estimates that IFRIC 21 will have an impact in respect with the timing of recognition of taxes on special constructions. IFRIC 21 should be applied retrospectively from the year ended 31 December 2013.

The following new or amended standards are not

expected to have a significant impact of the Group's consolidated financial statements:

- Annual improvements to IFRSs 2011 – 2013 Cycle;
- Annual improvements to IFRSs 2010 – 2012 Cycle;
- Amendments to IAS 19 (Defined Benefit Plans, Employee Contributions).

## 9 OPERATING SEGMENTS

### (A) BASIS FOR SEGMENTATION

The following summary describes the operations of each reportable segment.

Reportable segments	Operations
Electricity supply	Buying and supplying electricity to final consumers (includes Electrica Furnizare SA and the supply activity of Electrica SA)
Electricity distribution	Electricity distribution service (includes Electrica Distributie Muntenia Nord SA, Electrica Distributie Transilvania Nord SA, Electrica Distributie Transilvania Sud SA, Electrica Serv SA and the investments in distribution activity done by Electrica SA)
External electricity network maintenance	Repairs, maintenance and other services for electricity networks owned by other distributors (includes Servicii Energetice Banat SA, Servicii Energetice Dobrogea SA, Servicii Energetice Moldova SA, Servicii Energetice Oltenia SA and Servicii Energetice Muntenia SA)
Headquarter	Includes corporate services at parent level

The Board of Directors of the Company reviews management reports of each segment. Segment earnings before interest, tax, depreciation and amortisation

(EBITDA) is used to measure performance because management believes that such information is the most relevant in evaluating the results of the segments.



**(B) INFORMATION ABOUT REPORTABLE SEGMENTS**

Year ended 31 December 2014	Electricity supply	Electricity distribution	External electricity network maintenance	Headquarter	Total for reportable segments	Consolidation eliminations and adjustments	Consolidated total
External revenues	4,029,654	955,470	58,604	-	<b>5,043,728</b>	-	<b>5,043,728</b>
Inter-segment revenue	103,438	1,519,452	-	-	<b>1,622,890</b>	(1,622,890)	-
<b>Segment revenue</b>	<b>4,133,092</b>	<b>2,474,922</b>	<b>58,604</b>	-	<b>6,666,618</b>	<b>(1,622,890)</b>	<b>5,043,728</b>
<b>Segment profit (loss) before tax</b>	<b>229,531</b>	<b>369,738</b>	<b>(101,836)</b>	<b>251,195</b>	<b>748,628</b>	<b>(238,432)</b>	<b>510,196</b>
Net finance (cost)/income	3,553	(7,001)	39	255,096	<b>251,687</b>	(238,432)	<b>13,255</b>
Depreciation, amortization and impairment, net	(6,706)	(311,401)	(36,113)	(4,292)	<b>(358,512)</b>	-	<b>(358,512)</b>
<b>EBITDA**</b>	<b>232,684</b>	<b>688,140</b>	<b>(65,762)</b>	<b>391</b>	<b>855,453</b>	-	<b>855,453</b>
Segment net profit (loss)	179,782	305,722	(96,862)	251,195	<b>639,837</b>	(238,432)	<b>401,405</b>
Employee benefits	(83,183)	(545,172)	(92,472)	(17,779)	<b>(738,606)</b>	-	<b>(738,606)</b>
<b>Segment assets</b>	<b>1,286,522</b>	<b>4,980,388</b>	<b>222,100</b>	<b>2,202,593</b>	<b>8,691,603</b>	<b>(543,936)</b>	<b>8,147,667</b>
Trade and other receivables	724,938	661,105	23,841	-	<b>1,409,884</b>	(604,452)	<b>805,432</b>
Cash and cash equivalents	403,486	144,481	6,220	1,075,321	<b>1,629,508</b>	-	<b>1,629,508</b>
Deposits, treasury bills and government bonds	-	182,100	-	1,038,421	<b>1,220,521</b>	-	<b>1,220,521</b>
Trade and other payables, and short term employee benefits	826,140	371,151	309,771	7,274	<b>1,514,336</b>	(495,014)	<b>1,019,322</b>
Bank overdrafts	-	48,132	-	-	<b>48,132</b>	-	<b>48,132</b>
Financing for network construction related to concession agreements and finance lease	-	250,844	-	-	<b>250,844</b>	-	<b>250,844</b>
Capital expenditure	15,073	508,821	-	-	<b>523,894</b>	(4,013)	<b>519,881</b>

The breakdown of the Electricity distribution reportable segment is as follows:

Year ended 31 December 2014	Distribution Muntenia Nord	Distribution Transilvania Nord	Distribution Transilvania Sud	Electricity network maintenance	Eliminations	Total Electricity distribution
External revenues	327,560	281,189	324,733	21,988	-	955,470
Inter-segment revenue	548,922	469,480	491,090	372,929	(362,969)	1,519,452
<b>Segment revenue</b>	<b>876,482</b>	<b>750,669</b>	<b>815,823</b>	<b>394,917</b>	<b>(362,969)</b>	<b>2,474,922</b>
<b>Segment profit /(loss) before tax</b>	<b>152,280</b>	<b>121,441</b>	<b>91,830</b>	<b>4,187</b>	-	<b>369,738</b>
Net finance (cost)/income	4,970	(4,010)	(5,899)	(2,062)	-	(7,001)
Depreciation, amortization and impairment, net	(85,001)	(99,319)	(113,433)	(13,648)	-	(311,401)
<b>EBITDA**</b>	<b>232,311</b>	<b>224,770</b>	<b>211,162</b>	<b>19,897</b>	-	<b>688,140</b>
Net profit	127,337	103,943	69,883	4,559	-	305,722
Employee benefits	(133,790)	(120,984)	(116,511)	(173,887)	-	(545,172)
<b>Segment assets</b>	<b>1,739,503</b>	<b>1,326,879</b>	<b>1,422,739</b>	<b>583,871</b>	<b>(92,604)</b>	<b>4,980,388</b>
Trade and other receivables	171,169	137,526	159,785	285,229	(92,604)	661,105
Cash and cash equivalents	94,539	17,370	15,744	16,828	-	144,481
Deposits, treasury bills and government bonds	182,100	-	-	-	-	182,100
Trade and other payables, and short term employee benefits	109,695	119,911	120,044	114,235	(92,734)	371,151
Bank overdrafts	-	38,948	9,184	-	-	48,132
Financing for network construction related to concession agreements and finance lease	108,291	30,538	111,721	294	-	250,844
Capital expenditure	165,469	158,869	161,561	22,922	-	508,821

Year ended 31 December 2013 (restated*)	Electricity supply	Electricity distribution	External electricity network maintenance	Headquarter	Total for reportable segments	Consolidation eliminations and adjustments	Consolidated total
External revenues	4,570,091	711,999	100,728	-	<b>5,382,818</b>	-	<b>5,382,818</b>
Inter-segment revenue	209,936	1,570,404	-	-	<b>1,780,340</b>	(1,780,340)	-
<b>Segment revenue</b>	<b>4,780,027</b>	<b>2,282,403</b>	<b>100,728</b>	-	<b>7,163,158</b>	<b>(1,780,340)</b>	<b>5,382,818</b>
<b>Segment profit /(loss) before tax</b>	<b>109,742</b>	<b>285,900</b>	<b>(45,102)</b>	<b>73,648</b>	<b>424,188</b>	<b>(27,332)</b>	<b>396,856</b>
Net finance (cost)/income	(176)	(15,448)	327	94,035	<b>78,738</b>	(90,291)	<b>(11,553)</b>
Depreciation, amortization and impairment, net	(7,183)	(301,629)	(3,382)	(13,494)	<b>(325,688)</b>	-	<b>(325,688)</b>
<b>EBITDA**</b>	<b>117,101</b>	<b>602,977</b>	<b>(42,047)</b>	<b>(6,893)</b>	<b>671,138</b>	-	<b>671,138</b>
Segment net profit (loss)	89,676	226,283	(46,628)	73,648	<b>342,979</b>	(27,332)	<b>315,647</b>
Employee benefits	(84,570)	(573,735)	(84,922)	(22,705)	<b>(765,932)</b>	-	<b>(765,932)</b>
Share of profit (loss) of equity accounted investees	-	-	-	62,959	62,959	-	62,959
<b>Segment assets</b>	<b>1,409,768</b>	<b>4,868,773</b>	<b>372,062</b>	<b>214,854</b>	<b>6,865,457</b>	<b>1,557,533</b>	<b>8,422,990</b>
Trade and other receivables	1,213,788	644,150	44,004	-	<b>1,901,942</b>	(757,187)	<b>1,144,755</b>
Cash and cash equivalents	92,146	412,580	1,983	144,126	<b>650,835</b>	-	<b>650,835</b>
Assets held for distribution	-	-	-	2,243,494	<b>2,243,494</b>	-	<b>2,243,494</b>
Trade and other payables, and short term employee benefits	880,349	417,795	382,700	3,307	<b>1,684,151</b>	(588,007)	<b>1,096,144</b>
Bank overdrafts	42,218	467	-	36,999	<b>79,684</b>	-	<b>79,684</b>
Financing for network construction related to concession agreements and finance lease	-	273,199	-	-	<b>273,199</b>	-	<b>273,199</b>
Capital expenditure	4,986	361,706	683	-	<b>367,375</b>	9,120	<b>376,495</b>

\*See Note 7



The breakdown of the Electricity distribution reportable segment is as follows:

Year ended 31 December 2013 (restated*)	Distribution Muntenia Nord	Distribution Transilvania Nord	Distribution Transilvania Sud	Electricity network maintenance	Eliminations	Total Electricity distribution
External revenues	225,020	245,258	230,783	10,938	-	711,999
Inter-segment revenue	579,871	468,568	511,430	385,119	(374,584)	1,570,404
<b>Segment revenue</b>	<b>804,891</b>	<b>713,826</b>	<b>742,213</b>	<b>396,057</b>	<b>(374,584)</b>	<b>2,282,403</b>
<b>Segment profit (loss) before tax</b>	<b>133,905</b>	<b>80,167</b>	<b>70,507</b>	<b>1,321</b>	-	<b>285,900</b>
Net finance (cost)/income	6,546	(7,104)	(12,395)	(2,495)	-	(15,448)
Depreciation, amortization and impairment, net	(79,037)	(96,661)	(110,180)	(15,751)	-	(301,629)
<b>EBITDA**</b>	<b>206,396</b>	<b>183,932</b>	<b>193,082</b>	<b>19,567</b>	-	<b>602,977</b>
Net profit	106,431	55,242	52,735	11,875	-	226,283
Employee benefits	(145,203)	(131,675)	(121,692)	(175,165)	-	(573,735)
<b>Segment assets</b>	<b>1,706,178</b>	<b>1,283,917</b>	<b>1,405,514</b>	<b>600,505</b>	<b>(127,341)</b>	<b>4,868,773</b>
Trade and other receivables	158,157	134,001	156,058	323,275	(127,341)	644,150
Cash and cash equivalents	324,565	31,621	47,062	9,332	-	412,580
Trade and other payables, and short term employee benefits	133,435	138,852	134,802	138,047	(127,341)	417,795
Bank overdrafts	-	467	-	-	-	467
Financing for network construction related to concession agreements and finance lease	78,722	53,891	139,798	788	-	273,199
Capital expenditure	100,594	146,446	112,596	2,070	-	361,706

\*See Note 7

\*\* EBITDA (Earnings before interest, tax, depreciation and amortisation) for operating segments is defined and calculated as segment profit (loss) before tax of a given operating segment adjusted for i) depreciation, amortization and impairment/ reversal of impairment of property, plant and equipment and intangible assets in the operating segment, ii) net finance (cost)/income in the operating segment, iii) share of profit (loss) of equity-accounted investees in the operating segment (as disclosed in the income statements). EBITDA is not an IFRS measure and should not be treated as an alternative to IFRS measures. Moreover, EBITDA is not uniformly defined. The method used to calculate EBITDA by other companies may differ significantly from that used by the Group. As a consequence, the EBITDA presented in this note cannot, as such, be relied upon for the purpose of comparison to EBITDA of other companies.

**(C) RECONCILIATION OF INFORMATION ON REPORTABLE SEGMENTS TO IFRS MEASURES**

	2014	2013 restated*
<b>Revenues</b>		
Total revenue for reportable segments	6,666,618	7,163,158
Elimination of inter-segment revenue	(1,622,890)	(1,780,340)
<b>Consolidated revenue</b>	<b>5,043,728</b>	<b>5,382,818</b>
<b>Profit before tax</b>		
Total profit before tax for reportable segments	748,628	424,188
Elimination of inter-segment profit/(loss) before tax	(238,432)	(90,291)
Share of profit of equity accounting investees	-	62,959
<b>Consolidated profit before tax</b>	<b>510,196</b>	<b>396,856</b>
<b>Net finance (cost)/income</b>		
Total net finance (cost)/income	251,687	78,738
Elimination of inter-segment net finance (cost)/income	(238,432)	(90,291)
<b>Consolidated total net finance (cost)/income</b>	<b>13,255</b>	<b>(11,553)</b>
<b>Net profit</b>		
Total net profit for reportable segments	639,837	342,979
Elimination of inter-segment net profit/(loss)	(238,432)	(90,291)
Share of profit of equity accounting investees	-	62,959
<b>Consolidated net profit</b>	<b>401,405</b>	<b>315,647</b>
<b>Total assets</b>		
Total assets for reportable segments	8,691,603	6,865,457
Elimination of inter-segment assets	(601,805)	(768,396)
Assets held for distribution	-	2,243,494
Unallocated amounts	57,869	82,435
<b>Consolidated total assets</b>	<b>8,147,667</b>	<b>8,422,990</b>
<b>Trade and other receivables</b>		
Trade and other receivables for reportable segments	1,409,884	1,901,942
Elimination of inter-segment trade and other receivables	(602,696)	(754,261)
Unallocated amounts	(1,756)	(2,926)
<b>Consolidated trade and other receivables</b>	<b>805,432</b>	<b>1,144,755</b>
<b>Trade and other payables and short term employee benefits</b>		
Trade and other payables and short term employee benefits for reportable segments	1,514,336	1,684,151
Elimination of inter-segment trade and other payables and short term employee benefits	(493,258)	(585,081)
Unallocated amounts	(1,756)	(2,926)
<b>Consolidated trade and other payables and short term employee benefits</b>	<b>1,019,322</b>	<b>1,096,144</b>

\*See Note 7

## 10 REVENUE

	2014	2013 restated*
Supply and distribution of electricity	4,492,096	4,939,831
Construction revenue related to concession agreements (Note 23)	449,742	298,496
Repairs and maintenance and other services rendered	68,138	121,056
Re-connection fees	8,961	12,608
Sales of merchandise	24,791	10,827
<b>Total</b>	<b>5,043,728</b>	<b>5,382,818</b>

\*See Note 7

## 11 INCOME AND EXPENSES

### (A) OTHER INCOME

	2014	2013 restated*
Rent income	77,802	73,504
Late payment penalties from customers	38,681	26,556
Commissions for the collection of radio and TV taxes (Note 29)	13,889	13,486
Gain on loss of control over subsidiaries (Note 33)	32,349	-
Other	13,788	14,771
<b>Total</b>	<b>176,509</b>	<b>128,317</b>

\*See Note 7

### (B) ELECTRICITY PURCHASED

Electricity purchased include the cost of electricity purchased for the purpose of supply to final consumers or to other electricity suppliers, the cost of transmission and system services (2014: RON 323,929 thousand; 2013: RON 303,632 thousand), and the electricity acquired to cover the network losses (2014: RON 425,814 thousand; 2013: RON 521,374 thousand).The Group purchases the

electricity and transmission and system services mainly from state controlled companies – refer to Note 32.

### (C) REPAIRS, MAINTENANCE AND MATERIALS

Repairs, maintenance and materials include materials used for works performed by the service subsidiaries of the Group for third party electricity distribution infrastructure in amount of RON 18,478 thousand in 2014 (2013: RON 19,439 thousand).

**(D) OTHER OPERATING EXPENSES**

	2014	2013
Rent	59,429	48,593
Meter readings	38,123	37,724
Printing and distribution of invoices	32,777	34,712
Cash collection services	24,282	25,584
IT services	49,988	38,441
Postage and telecommunication	27,527	27,526
Utilities	29,242	29,141
Security	7,613	6,637
Call centre	7,405	6,564
Penalties to the State for late payment of taxes	8,162	12,967
Contractual penalties	368	23,703
Other taxes and duties	89,333	45,794
Movement in provisions, net (Note 30)	(413)	4,784
Legal and consultancy fees	5,161	10,329
Cost of merchandise sold	23,980	9,687
Bank commissions	9,979	10,218
Other	61,922	61,971
<b>Total</b>	<b>474,878</b>	<b>434,375</b>

With effect from 1 January 2014, a tax on special construction payable to the State Budget was introduced, computed as 1.5% of the gross book value of qualifying constructions as at 31 December of the previous year. The expense recorded in 2014 in

respect of this tax was RON 47,535 thousand, recorded in "Other taxes and duties" in the table above.

Contractual penalties refer to penalties paid mainly to electricity producers for advance termination of electricity acquisition contracts.

**12 NET FINANCE COST**

	2014	2013
Interest income	32,806	23,140
Other finance income	3,598	375
<b>Total finance income</b>	<b>36,404</b>	<b>23,515</b>
Interest expense	(11,250)	(20,168)
Interest cost for employee benefits (Note 15)	(9,576)	(11,916)
Foreign exchange losses	(1,797)	(2,061)
Other finance costs	(526)	(923)
<b>Total finance costs</b>	<b>(23,149)</b>	<b>(35,068)</b>
<b>Net finance income / (cost)</b>	<b>13,255</b>	<b>(11,553)</b>

## 13 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding:

*Profit attributable to ordinary shareholders*

	2014	2013 restated*
Profit for the year attributable to the owners of the Company	287,837	244,412
<b>Profit attributable to ordinary shareholders</b>	<b>287,837</b>	<b>244,412</b>

\*See Note 7

*Weighted-average number of ordinary shares (in number of shares)*

	2014	2013
<b>Issued ordinary shares at 1 January (Note 25)</b>	<b>207,839,904</b>	<b>206,229,044</b>
Effect of shares issued in February	172,575	142,963
Effect of spin-off in April	(32,342,835)	-
Effect of shares issued in May	2,564,531	-
Effect of shares issued in June	-	13,630
Effect of underwritings from the IPO in June	103,360,101	-
Effect of shares re-purchased in July	(3,445,297)	-
Effect of shares issued in August	-	402,463
Effect of shares issued in October	-	36,708
<b>Weighted-average number of ordinary shares at 31 December</b>	<b>278,148,979</b>	<b>206,824,808</b>

**Earnings per share**

Basic and diluted earnings per share (RON)	<b>1.03</b>	<b>1.18</b>
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## 14 SHORT-TERM EMPLOYEE BENEFITS

	31 December 2014	31 December 2013
Personnel payables	38,632	30,073
Current portion of defined benefit liability and other long-term employee benefits	12,790	11,432
Social security charges	64,172	80,215
Tax on salaries	15,567	14,618
Other employees benefits	-	15,853
Termination benefits	15,553	-
<b>Total</b>	<b>146,714</b>	<b>152,191</b>

For details of the related employee benefit expenses, see Note 16.

In Romania, all employers and employees, as well as other persons, are contributors to the state social security system. The social security system covers pensions, allocations for children, temporary inability to work, risks of works and professional diseases and other social assistance services, unemployment benefits and incentives for employers creating new workplaces.

Termination benefits refer to lay-off indemnities for the employees of ServiciiEnergetice Moldova.

Other employee benefits at 31 December 2013 include mainly employee bonuses granted in accordance with Order no. 144/2005.

The Group has overdue social security and other salary taxes of RON 39,541 thousand at 31 December 2014 (2013: RON 58,476 thousand) which relate mainly to the four subsidiaries with financial difficulties described in Note 33.

## 15 POST-EMPLOYMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

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

The Group also provides cash benefits to employees depending on seniority and years of service at

retirement.

In 2014 and 2013, employee benefit obligations were computed by independent actuaries using the projected unit credit method with benefits calculated proportionally to period of service.

	31 December 2014	31 December 2013
Defined benefit liability	141,988	143,911
Other long-term employee benefits	91,184	80,708
<b>Total</b>	<b>233,172</b>	<b>224,619</b>
- Current portion*	12,790	11,432
- Non-current portion	220,382	213,187

\*included in Personnel payables in Note 14

### (I) MOVEMENT IN THE DEFINED BENEFIT LIABILITY AND OTHER LONG-TERM EMPLOYEE BENEFITS

The following tables shows a reconciliation from the opening balances to the closing balances for the defined benefit liability and other long-term employee benefits and its components. There are no plan assets.

Defined benefit liability	2014	2013
<b>Balance at 1 January</b>	<b>143,911</b>	<b>142,241</b>
<b>Included in profit or loss</b>		
Current service cost	3,694	3,255
Interest (income) / cost	(1,946)	7,955
<b>Included in other comprehensive income</b>		
<i>Remeasurements loss (gain)</i>		
- Actuarial loss /(gain)	3,922	(3,297)
<b>Other</b>		
Benefits paid	(7,593)	(6,243)
<b>Balance at 31 December</b>	<b>141,988</b>	<b>143,911</b>

Other long-term employee benefits	2014	2013
<b>Balance at 1 January</b>	<b>80,708</b>	<b>88,030</b>
<b>Included in profit or loss</b>		
Current service cost	3,242	3,255
Actuarial gain	(565)	(11,129)
Interest cost	11,522	3,961
Benefits paid	(3,723)	(3,409)
<b>Balance at 31 December</b>	<b>91,184</b>	<b>80,708</b>

## (II) ACTUARIAL ASSUMPTIONS

The following were the principal actuarial assumptions at the respective reporting date:

### (a) Macroeconomic assumptions:

- inflation. The actuaries used the Consumer Price Index (CPI) published by the Economist Intelligence Unit:

Year	Valuation date	
	31 December 2014	31 December 2013
2014	-	2.3%
2015	2.1%	3.3%
2016	3.2%	3.2%
2017	2.7%	2.9%
2018+	2.5%	2.7%

- the discount rate used was the yield for Romanian government bonds maturing in 10 years at the reporting date of 4.5% for the year 2014 (2013: 5.2%);
- the electricity price per KWh used is 0.464 RON at 31 December 2014 (2013: 0.499RON/ KWh);
- the mortality rate published by the National Institute of Statistics was adjusted to allow for an anticipated decrease in mortality rates;
- taxes and social charges are those in force as at the reporting date.

### (b) Group specific assumptions:

- salaries increase in line with the estimated inflation rates in the future periods;
- employees' turnover: turnover rates are based on statistical information regarding employees' mobility during 2007-2014. Considering historical retirement data, it is assumed that the personnel turnover rate decreases with the employees' age;
- jubilee and retirement bonuses based on seniority according to the collective labour contract, as follows:

#### Jubilee bonus based on years of service

Seniority	No of gross monthly base salaries	
	31 December 2014	31 December 2013
20 years	0.8	0.8
30 years	1.6	1.6
35 years	2.4	2.4
40 years	3.2	3.2
45 years	4	4

#### Retirement bonus based on years of service in the Group

Seniority	No of gross monthly base salaries	
	31 December 2014	31 December 2013
Between 8 and 10 years	1	1
Between 10 and 25 years	2	2
More than 25 years	3	3

The Group also offers 1,200 kWh of free electricity per year to retired employees for certain years of seniority.

#### Termination benefits

In accordance with the Collective labour contract concluded between the Group and the Unions, when individual labour contract are terminated at the Group's initiative, the Group will pay termination benefits to the employees depending on their period of service, as follows:

Period of service	No of gross monthly base salaries
1- 5 years	4
5- 10 years	6
10- 20 years	7
More than 20 years	10

For collective lay-offs, according to the Collective labour contract, the Group will pay termination benefits to the employees depending on their period of service, as follows:

Period of service	No of gross monthly base salaries
1- 3 years	4
3- 5 years	6
5- 10 years	7
10- 20 years	15
More than 20 years	20

Collective lay-offs and termination benefits are only applicable subject to approval of a rectification of the budget, such that the approved salary fund for the year will not be affected by such measures. The above mentioned stipulations do not apply to employees with individual labour contract concluded for a determined period. The

above stipulations do not apply to employees that obtained other higher cumulative salary compensation rights, provided by legal regulations regarding the Group's reorganization and restructuring. Employees who are re-employed within the Group after lay-off are not entitled to the above mentioned benefits.

## 16 EMPLOYEE BENEFIT EXPENSES

	2014	2013
Average number of employees	12,308	12,773
Number of employees at 31 December	11,740	12,780

	2014	2013
Wages and salaries	548,336	563,224
Social security contributions	150,505	164,867
Meal tickets	24,212	21,016
Termination benefits	15,553	3,595
Other employee benefits	-	13,230
<b>Total</b>	<b>738,606</b>	<b>765,932</b>

Termination benefits for the year 2014 refer to lay-off indemnities for the employees of Servicii Energetice Moldova (2013: for Electrica SA).

Other employee benefits for the year 2013 include mainly employee bonuses granted in accordance with Order no. 144/2005.

## 17 INCOME TAXES

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. The Group considers that the accounting records for taxes due are adequate for all open tax years, based on assessment

made by management taking into account various factors, including the interpretation of tax legislation and previous experience. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

### (I) AMOUNTS RECOGNISED IN PROFIT OR LOSS

	2014	2013 restated*
Current tax expense	88,836	61,748
Deferred tax expense	19,955	19,461
<b>Total income tax</b>	<b>108,791</b>	<b>81,209</b>

\*See Note 7



**(II) AMOUNTS RECOGNISED IN OTHER COMPREHENSIVE INCOME**

	2014			2013 restated*		
	Before tax	Tax (expense) benefit	Net of tax	Before tax	Tax (expense) benefit	Net of tax
Revaluation of property, plant and equipment	59	-	59	-	-	-
Remeasurement of defined benefit liability	(3,922)	628	(3,294)	3,297	(528)	2,769
<b>Total</b>	<b>(3,863)</b>	<b>628</b>	<b>(3,235)</b>	<b>3,297</b>	<b>(528)</b>	<b>2,769</b>

\*See Note 7

**(III) RECONCILIATION OF EFFECTIVE TAX RATE**

	2014		2013 restated*	
Profit before tax		510,196		396,856
Tax using Company's domestic tax rate	16%	81,631	16%	63,497
Non-deductible expenses	7%	37,991	5%	18,581
Non-taxable income	-2%	(8,961)	-5%	(15,006)
Deduction of legal reserves	-1%	(4,782)	-1%	(2,122)
Other tax effects	-1%	(3,413)	2%	8,167
Effect of share of profit of equity-accounted investees	0%	-	-3%	(10,073)
Recognition of tax effect of previously unrecognised tax losses	0%	-	-3%	(10,736)
Current-year tax losses for which no deferred tax asset is recognised	3%	13,473	3%	10,576
Change in recognised temporary differences	-1%	(7,148)	5%	18,325
<b>Income tax</b>	<b>21%</b>	<b>108,791</b>	<b>20%</b>	<b>81,209</b>

\*See Note 7

**(IV) MOVEMENT IN DEFERRED TAX BALANCES**

	Balance at 31 December 2014						
	Net balance at 1 January 2014	Recognised in profit or loss	Recognised in other comprehensive income	Effect of loss of control over subsidiary	Net	Deferred tax assets	Deferred tax liabilities
2014							
Property, plant and equipment and intangible assets	229,625	(6,122)	-	(5,631)	217,872	-	217,872
Employee benefits	(17,490)	11	(628)	-	(18,107)	(18,107)	-
Impairment of trade receivables	(74,466)	18,562	-	-	(55,904)	(55,904)	-
Tax loss carried forward	(26,269)	7,504	-	-	(18,765)	(18,765)	-
Other items	4,447	-	-	-	4,447	-	4,447
<b>Tax liabilities (assets) before set-off</b>	<b>115,847</b>	<b>19,955</b>	<b>(628)</b>	<b>(5,631)</b>	<b>129,543</b>	<b>(92,776)</b>	<b>222,319</b>
Set off of tax	-	-	-	-	-	33,151	(33,151)
<b>Net tax liabilities (assets)</b>	<b>115,847</b>	<b>19,955</b>	<b>(628)</b>	<b>(5,631)</b>	<b>129,543</b>	<b>(59,625)</b>	<b>189,168</b>

	Balance at 31 December 2013					
	Net balance at 1 January 2013	Recognised in profit or loss	Recognised in other comprehensive income	Net	Deferred tax assets	Deferred tax liabilities
2013 restated*						
Property, plant and equipment and intangible assets	219,103	10,522	-	229,625	-	229,625
Employee benefits	(17,089)	(929)	528	(17,490)	(17,490)	-
Impairment of trade receivables	(84,371)	9,905	-	(74,466)	(74,466)	-
Tax loss carried forward	(26,232)	(37)	-	(26,269)	(26,269)	-
Other items	4,447	-	-	4,447	-	4,447
<b>Tax liabilities (assets) before set-off</b>	<b>95,858</b>	<b>19,461</b>	<b>528</b>	<b>115,847</b>	<b>(118,225)</b>	<b>234,072</b>
Set off of tax	-	-	-	-	32,864	(32,864)
<b>Net tax liabilities (assets)</b>	<b>95,858</b>	<b>19,461</b>	<b>528</b>	<b>115,847</b>	<b>(85,361)</b>	<b>201,208</b>

\*See Note 7

#### (V) UNRECOGNISED DEFERRED TAX ASSETS

Deferred tax assets have not been recognised in respect of the following items, because it is not probable that future taxable profit will be available against which the entity generating it can use the benefits therefrom.

	2014	2013
Tax losses	293,972	262,721

Tax losses for which no deferred tax assets were recognised expire as follows:

Year when the tax loss was generated:	Tax losses	
	2014	2013
2014 (expiring in 2021)	84,206	-
2013 (expiring in 2020)	62,179	66,095
2012 (expiring in 2019)	70,175	70,175
2011 (expiring in 2018)	10,896	-
2010 (expiring in 2016-2017)	66,516	66,516
2009 (expired in 2014)	-	59,935
<b>Total</b>	<b>293,972</b>	<b>262,721</b>

The Group has not recognized deferred tax assets for tax losses related to the subsidiaries with financial difficulties. The Group also has not recognized deferred tax assets for tax losses

generated before 2011 (this was generated by one company within the Group), as it is considered unlikely that future taxable profit would be sufficient to recover such assets.

## 18 TRADE RECEIVABLES

	31 December 2014	31 December 2013
Trade receivables, gross	1,928,476	2,253,069
Bad debt allowance	(1,147,655)	(1,165,524)
<b>Total trade receivables, net</b>	<b>780,821</b>	<b>1,087,545</b>

Receivables from related parties are presented in Note 32.

Trade receivables gross comprise:

	31 December 2014	31 December 2013
Electricity distribution and supply	737,960	1,033,920
Late payment penalties receivable	120,026	152,089
Electricity receivables from clients in litigation, insolvency and bankruptcy	865,223	839,407
Late payment penalties from clients in litigation, insolvency and bankruptcy	113,794	130,495
Repairs, maintenance and other services	20,774	38,076
Other	70,699	59,082
<b>Total trade receivables, gross</b>	<b>1,928,476</b>	<b>2,253,069</b>

The movement in the bad debt allowance for trade receivables is as follows:

Bad debt allowance	2014	2013
<b>Balance as at 1 January</b>	<b>1,165,524</b>	<b>1,188,904</b>
Impairment recognized	8,460	53,751
Impairment reversed	(9,449)	(75,456)
Amounts written off	(16,880)	(1,675)
<b>Balance as at 31 December</b>	<b>1,147,655</b>	<b>1,165,524</b>

For the ageing of trade receivables refer to Note 31. A significant part of the bad debt allowances refers to clients in litigation, insolvency or bankruptcy procedures, many of them being older than three years. The Group will derecognize these receivables together with the related allowances after the finalization of the bankruptcy process.

On 25 April 2014 ElectricaFurnizare SA subsidiary concluded an agreement with the National Railway Company - Compania Nationala de Cai Ferate "CFR" SA ("CFR") (a state-owned company) on the settlement of CFR debts towards ElectricaFurnizare SA. On this basis, on 13 May 2014 the Group collected RON 221,183 thousand.

## 19 DEPOSITS, TREASURY BILLS AND GOVERNMENT BONDS

Deposits, treasury bills and government bonds include treasury bills and government bonds of RON 901,417 thousands denominated in RON with original maturity of more than three months with an average interest

rate (yield) of 1.6% and deposits with maturity of more than three months of RON 319,104 thousands. The treasury bills and government bonds were classified as investments held to maturity.

## 20 OTHER RECEIVABLES

	31 December 2014	31 December 2013
Good performance guarantees	8,553	12,485
VAT receivable	3,850	14,797
Interest receivable	4,212	4,609
Structural funds	7,234	16,023
Other receivables	37,889	44,473
Bad debt allowance	(37,127)	(35,177)
<b>Total other receivables, net</b>	<b>24,611</b>	<b>57,210</b>

The movement in the bad debt allowance for other receivables is as follows:

Bad debt allowance	2014	2013
<b>Balance as at 1 January</b>	<b>35,177</b>	<b>39,087</b>
Impairment recognized	5,621	935
Amounts written off	(3,671)	(4,845)
<b>Balance as at 31 December</b>	<b>37,127</b>	<b>35,177</b>

## 21 CASH AND CASH EQUIVALENTS

	31 December 2014	31 December 2013
Bank current accounts	77,225	108,543
Call deposits	1,352,487	541,891
Cash in hand	296	401
Treasury bills and government bonds with original maturities of less than 3 months	199,500	-
<b>Total cash and cash equivalents in the consolidated statement of financial position</b>	<b>1,629,508</b>	<b>650,835</b>
Overdrafts used for cash management purposes	(48,132)	(79,684)
<b>Total cash and cash equivalents in the consolidated statement of cash flows</b>	<b>1,581,376</b>	<b>571,151</b>

Cash and cash equivalents include treasury bills and government bonds denominated in RON of RON 199,500 thousands with original maturities of 3

months or less. These bear an average interest rate (yield) of 1.7% p.a.

The Group has overdrafts from ING and BRD, as follows:

Bank	Contract date	Facility type	Maturity	Annual interest	Overdraft limit (th RON)	Balance at 31 December 2014
ING Bank N.V. and BRD Groupe Societe Generale	9-Dec-14	working capital financing and issuance of potential commitments	1 year for overdraft, 2 years for potential commitments	1M ROBOR- 1.3%	40,000	9,171
ING Bank N.V. and BRD Groupe Societe Generale	8-Dec-14	working capital financing and issuance of potential commitments	1 year for overdraft, 2 years for potential commitments	1M ROBOR + 0.49%	70,000	38,961
<b>Total</b>					<b>110,000</b>	<b>48,132</b>

Bank	Contract date	Facility type	Maturity	Annual interest	Overdraft limit (th RON)	Balance at 31 December 2013
ING	9-Oct-13	working capital financing and issuance of potential commitments	1 year for overdraft, 2 years for potential commitments	1M ROBOR- 2.5%	190,000	37,466
ING	27-Sep-13	working capital financing (80,000) and issuance of potential commitments (120,000)	1 year for overdraft, 2 years for potential commitments	1M ROBOR- 2.5%	80,000	42,218
<b>Total</b>					<b>270,000</b>	<b>79,684</b>

The security for these overdrafts is presented in Note 35 c).

The following information is relevant in the context of the consolidated statement of cashflows:

Non-cash activity includes:

■ purchases on suppliers' credit related to property, plant and equipment and concessions of RON 96 million in 2014 (2013: RON 53 million);

■ land contributed by the majority shareholder (2014: nil; 2013: RON 9.1 million);

■ set-off between trade receivables and trade payables of RON 73 million in 2014 (2013: RON 54 million);

■ effect of loss of control over subsidiaries under financial distress in amount of RON 0.3 million in 2014 (see Note 33).

## 22 PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment in 2014 and 2013 were as follows:

	Land and land improvements	Buildings	Equipment	Vehicles, furniture and office equipment	Construction in progress	Total
<b>Gross carrying amount</b>						
<b>Balance at 1 January 2013 restated*</b>	389,361	284,558	91,440	110,852	128,548	1,004,759
Additions	10,162	270	1,493	1,210	61,653	74,788
Transfers from construction in progress	-	3,382	61,593	4,940	(69,915)	-
Disposals	(1,550)	(1,906)	(593)	(366)	(1,195)	(5,610)
<b>Balance at 31 December 2013 restated*</b>	<b>397,973</b>	<b>286,304</b>	<b>153,933</b>	<b>116,636</b>	<b>119,091</b>	<b>1,073,937</b>
Additions	6,224	5,664	2,474	3,679	44,275	62,316
Transfer from construction in progress	-	2,681	1,077	1,235	(4,993)	-
Disposals	(7,167)	(2,889)	(3,481)	(10,391)	-	(23,928)
Revaluation recognized in other comprehensive income, net	(7,847)	7,906	-	-	-	59
Revaluation recognized in profit or loss, net	(36,655)	(5,296)	-	-	-	(41,951)
Gross book value netted off against the accumulated depreciation at revaluation	-	(11,299)	-	-	-	(11,299)
Valuation of land contribution from the shareholders, net	(10,315)	-	-	-	-	(10,315)
Effect of loss of control over subsidiaries	(27,669)	(19,939)	(1,575)	(8,419)	(635)	(58,237)
<b>Balance at 31 December 2014</b>	<b>314,544</b>	<b>263,132</b>	<b>152,428</b>	<b>102,740</b>	<b>157,738</b>	<b>990,582</b>

	Land and land improvements	Buildings	Equipment	Vehicles, furniture and office equipment	Construction in progress	Total
<b>Accumulated depreciation and impairment losses</b>						
<b>Balance at 1 January 2013 restated*</b>	-	<b>18,321</b>	<b>36,439</b>	<b>84,944</b>	<b>16,615</b>	<b>156,319</b>
Depreciation	-	13,212	11,608	5,696	-	30,516
Disposals	-	(194)	(593)	(287)	-	(1,074)
Impairment loss	-	-	-	-	12,466	12,466
Reversal of impairment loss	-	(5)	-	-	-	(5)
<b>Balance at 31 December 2013 restated*</b>	-	<b>31,334</b>	<b>47,454</b>	<b>90,353</b>	<b>29,081</b>	<b>198,222</b>
Depreciation	-	11,557	14,958	6,769	-	33,284
Disposals	-	(1,572)	(2,338)	(8,072)	-	(11,982)
Impairment loss	-	-	-	20	169	189
Reversal of impairment loss	-	(1,550)	(4,930)	(2,846)	-	(9,326)
Accumulated depreciation netted off against gross book value at revaluation	-	(11,299)	-	-	-	(11,299)
Effect of loss of control over subsidiaries	-	(3,526)	(1,528)	(8,275)	-	(13,329)
<b>Balance at 31 December 2014</b>	-	<b>24,944</b>	<b>53,616</b>	<b>77,949</b>	<b>29,250</b>	<b>185,759</b>
<b>Net carrying amounts</b>						
<b>At 1 January 2013 restated*</b>	<b>389,361</b>	<b>266,237</b>	<b>55,001</b>	<b>25,908</b>	<b>111,933</b>	<b>848,440</b>
<b>At 31 December 2013 restated*</b>	<b>397,973</b>	<b>254,970</b>	<b>106,479</b>	<b>26,283</b>	<b>90,010</b>	<b>875,715</b>
<b>At 31 December 2014</b>	<b>314,544</b>	<b>238,188</b>	<b>98,812</b>	<b>24,791</b>	<b>128,488</b>	<b>804,823</b>

\*See Note 7

Property, plant and equipment includes mainly land and buildings. At 31 December 2014, the Group performed a revaluation of land and buildings, except for the land and buildings of subsidiaries in financial

distress, which are recognised on an alternate basis due to going concern issues (see Note 33).

The restrictions on property, plant and equipment are presented in Note 35c).

### Measurement of fair value

The following table shows the valuation techniques used in measuring fair values (Level 3) for the revaluation of land and buildings as of 31 December 2014, as well as the significant unobservable inputs used.

Category	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
<b>Land</b>	<p><i>Market approach</i></p> <p>The fair value is estimated based on selling price per square meter of land of similar characteristics (i.e. ownership, legal limitations, location, physical properties, and best use). The market price is mainly based on recent transactions.</p>	<ul style="list-style-type: none"> <li>■ Adjustment for liquidity, location, size</li> </ul>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>■ Adjustment for liquidity, location, size was lower (higher)</li> </ul>
<b>Buildings</b>	<p><i>Market approach and discounted cash-flows (DCF) method</i></p> <p>The market approach is based on the selling price per square meter for buildings of similar characteristics, adjusted for liquidity, location, size etc. The valuation model based on the DCF method estimates the present value of net cash flows to be generated by a building taking into account occupancy rate and costs not paid by tenants. The discount rate estimation considers, inter alia, the quality of a building and its location.</p>	<ul style="list-style-type: none"> <li>■ Occupancy rates (70-90%)</li> <li>■ Discount rates (10% on average)</li> <li>■ Costs not paid by tenants (average 10%)</li> <li>■ Annual rent per sqm</li> <li>■ Rental growth</li> <li>■ Adjustment for liquidity, location, size</li> </ul>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>■ Occupancy rates were higher (lower)</li> <li>■ Discount rates were lower (higher)</li> <li>■ Costs not paid were lower (higher)</li> <li>■ Annual rent per sqm was higher (lower)</li> <li>■ Rental growth was higher (lower)</li> <li>■ Adjustment for liquidity, location, size was lower (higher)</li> </ul>

## 23 INTANGIBLE ASSETS

Intangible assets include mainly intangible assets related to distribution service concession agreements recorded in accordance with IFRIC 12 "Service Concession Arrangements", licenses and costs of implementation of SAP ERP, customer management and billing system, and automation software, as follows:

	Intangible assets related to concession agreements	Software and licenses	Intangible assets in progress	Total
<b>Gross book value</b>				
<b>Balance at 1 January 2013 restated*</b>	<b>4,734,986</b>	<b>156,798</b>	<b>801</b>	<b>4,892,585</b>
Additions	299,298	931	1,478	301,707
Transfers from intangibles in progress	-	1,620	(1,620)	-
Disposals	-	(1,411)	-	(1,411)
<b>Balance at 31 December 2013 restated*</b>	<b>5,034,284</b>	<b>157,938</b>	<b>659</b>	<b>5,192,881</b>
Additions	449,742	6,832	991	457,565
Transfers from intangibles in progress	-	833	(833)	-
Disposals	-	(2,489)	-	(2,489)
Balance at 31 December 2014	5,484,026	163,114	817	5,647,957
<b>Accumulated amortisation and impairment losses</b>				
<b>Balance at 1 January 2013 restated*</b>	<b>1,416,654</b>	<b>149,818</b>	<b>-</b>	<b>1,566,472</b>
Amortisation	277,527	5,184	-	282,711
Disposals	-	(1,317)	-	(1,317)
<b>Balance at 31 December 2013 restated*</b>	<b>1,694,181</b>	<b>153,685</b>	<b>-</b>	<b>1,847,866</b>
Amortisation	288,661	3,753	-	292,414
Disposals	-	(2,319)	-	(2,319)
<b>Balance at 31 December 2014</b>	<b>1,982,842</b>	<b>155,119</b>	<b>-</b>	<b>2,137,961</b>
<b>Carrying amounts</b>				
<b>At 1 January 2013 restated*</b>	<b>3,318,332</b>	<b>6,980</b>	<b>801</b>	<b>3,326,113</b>
<b>At 31 December 2013 restated*</b>	<b>3,340,103</b>	<b>4,253</b>	<b>659</b>	<b>3,345,015</b>
<b>At 31 December 2014</b>	<b>3,501,184</b>	<b>7,995</b>	<b>817</b>	<b>3,509,996</b>

\*See Note 7

The European Union adopted IFRIC 12 "Service Concession Arrangements" effective for financial years starting on or after 1 April 2009. The distribution subsidiaries (as operators) concluded concession contracts with the Ministry of Economy and Commerce (as grantor) in 2005, updated in 2009 by addenda. These contracts concern the operation of electricity distribution service in the established territory (Transilvania Nord, Transilvania Sud, Muntenia Nord), on the risk and responsibility of the operators and taking into account the technical regulations applicable to the operation, modernization, rehabilitation and development of energy distribution networks specified in the Electricity Law, the terms and conditions of the licenses for electricity distribution and the regulations issued by ANRE. Before entering into these service concessions, the distribution infrastructure was held by the operators and accounted

as property, plant and equipment.

The concession contracts are concluded for a period of 49 years and may be extended for a period equal to no more than half of that period. As a price for the concession, the companies pay an annual royalty fee recognized in the distribution tariff of 1/1000 of the revenues from electricity distribution. According to the concession contracts, the companies use the assets representing the distribution network owned by them located in the above-mentioned territory for electricity distribution. According to the concession contracts, the grantor will buy at the end of the term of concession contract the ownership right on the "relevant assets", that are mainly the electricity distribution networks, at a price equal to the value of the regulated assets base at the end of the concession.



For the year ended 31 December 2014, the Group has recognized construction revenue related to the concession agreements of RON 449,742 thousand (2013: RON 298,496 thousand) and construction costs of RON 440,337 thousand (2013: RON 290,405 thousand).

Intangible assets in progress as at 31 December 2014 and 2013 include the cost of implementation for IT applications that imply a certain implementation period.

The Group tested the intangible assets related to

concession agreements for impairment. The recoverable amount was estimated based on value in use and is higher than its carrying amount, therefore no impairment was necessary. The key assumptions used in the estimation of the recoverable amount are set out below:

- Discount rate: 9%
- Inflation rate: 2%
- EBITDA: amortization of the intangible assets related to concession agreements plus the regulated return on RAB of 7.7% (see Note 1)

## 24 SPIN OFF

Based on the Extraordinary General Shareholders decision dated 20 March 2014 and the resolution of the Bucharest Court dated 10 April 2014, the Group recognised the spin-off of the Company's shareholdings to a new company- „Societatea de Administrare a Participatiilor in Energie SA” - wholly owned by the Ministry of Energy, Small and Medium-sized Enterprises and Business Environment. The spin-off referred to the transfer of the shares held by

the Company in 10 entities (Enel Distributie Muntenia, Enel Energie Muntenia, Enel Distributie Banat, Enel Distributie Dobrogea, Enel Energie, E.On Moldova Distributie, E.On Energie, Electrica Soluziona, Hidro Tarnita and BRM). The investments included equity accounted investees and other investments and were classified as assets held for distribution as at 31 December 2013, as follows:

Assets held for Distribution	Carrying amount at 31 December 2013	Percentage ownership interest
Enel Distributie Muntenia	823,183	23.57%
Enel Energie Muntenia	91,054	23.57%
Enel Distributie Banat	552,147	24.87%
Enel Distributie Dobrogea	394,297	24.90%
Enel Energie	158,667	36.99%
E.On Distributie	213,000	27.00%
E.On Energie	11,000	3.78%
Electrica Soluziona	49	49.00%
Hidro Tarnita	57	50%
BRM	40	
<b>Total assets held for distribution</b>	<b>2,243,494</b>	

The spin-off was recorded as follows:

	Carrying amount
Assets held for distribution	2,232,476
Share capital	507,429
Revaluation reserve related to equity accounted investees	388,018
Other reserves (legal reserves)	408,195
Retained earnings	928,834
<b>Total</b>	<b>2,232,476</b>

On 17 February 2014 the Company sold part of the shares held in E.On Moldova Distributie and E.On Energie Romania to E.On following the exercise of call options by E.On. E.On paid the exercise price of

RON 140,920 thousand to the Company. Cash received from transaction with E.ON less the directly attributable costs were transferred to Societatea de Administrare a Participatiilor in Energie SA (RON 129,902 thousand).

The Group's share of the profit or loss and other comprehensive income for 2013 of its equity-accounted investees was as follows:

	2013	
	Share of profit or loss	Share of other comprehensive income
Enel Distributie Banat	45,751	-
Enel Distributie Dobrogea	31,825	-
Enel Energie	(14,617)	-
<b>Total</b>	<b>62,959</b>	<b>-</b>

In order to record its share of the associates' profit or loss and changes in other comprehensive income, the Group used information from the statutory financial

statements of its associates, as financial statements prepared in accordance with IFRS/ IFRS-EU were not available.

## 25 CAPITAL AND RESERVES

### (A) SHARE CAPITAL AND SHARE PREMIUM

The issued share capital in nominal terms consists of 345,939,929 ordinary shares at 31 December 2014 (2013: 207,839,904) with a nominal value of RON 10 per share.

All shares rank equally with regard to the Company's residual assets. The holders of ordinary shares are entitled to receive dividends as declared, and are entitled to one vote per share at meetings of the Company.

	Ordinary shares	
	2014	2013
Number of shares at 1 January	207,839,904	206,229,044
Shared issued during the year	181,223,805	1,610,860
Decrease in the number of shares due spin-off	(43,123,780)	-
<b>Number of shares at 31 December</b>	<b>345,939,929</b>	<b>207,839,904</b>

The Company recognizes changes in share capital only after their approval in the General Shareholders Meeting and their registration by the Trade Register. The contributions made by the shareholders which are not yet registered with the Trade Register at year end are recognized as pre-paid capital contributions from shareholders.

On 25 February 2014 an increase of share capital of 188,264 ordinary shares was registered in the Trade Registry. The shares were issued in respect of land contributed by the shareholder in previous periods.

On 10 April 2014 Bucharest Court approved the spin-off by Electrica SA through transfer of part of its assets (investments held by Electrica SA in other entities – see Note 24) to a new company „Societatea de Administrare a Participatiilor in Energie SA”, owned by the Romanian State, represented by the Ministry of Economy – Department for Energy. As a consequence of this transaction, share capital was decreased by 43,123,780 ordinary shares.

On 16 May 2014 an increase of share capital of 3,846,797 ordinary shares was registered in the Trade Registry. The shares were issued in respect of land contributed by the shareholder in previous periods for shares.

Between 11 and 27 June 2014 the Company organised an IPO, which entailed to an offering of 142,007,744 shares and 8,795,250 GDRs, each GDR representing four shares (see also Note 1). The subscriptions amounted to RON 1,556,095 thousand and USD 120,143,115. On 2 July 2014 the increase of share capital by 177,188,744 ordinary shares was recorded in the Trade Register. Consequently, the Group recognised an increase of share capital of RON 1,771,887 thousand and a share premium of RON 171,128 thousand. The transaction costs of RON 68,079 thousand were deducted from the share premium.

Until 31 December 2003, the statutory share capital in nominal terms was restated according to IAS 29 “Financial Reporting in Hyperinflationary Economies” with a corresponding adjustment to retained earnings.

### (B) TREASURY SHARES

In July 2014 the Company purchased 5,206,593 ordinary shares and 421,000 Global Depository Receipts, equivalent to 1,684,000 shares. The total amount paid for acquiring the shares and Global Depository Receipts was RON 75,372 thousand.

### (C) REZERVA DIN REEVALUARE

The reconciliation between opening and closing revaluation reserve is as follows:

	2014	2013 restated*
<b>Balance at 1 January</b>	<b>572,825</b>	<b>588,951</b>
Revaluation of property, plant and equipment attributable to the owners of the Company	(835)	-
Share of changes in revaluation reserve of equity accounted investees	-	(1,558)
Release of revaluation reserve to retained earnings corresponding to depreciation and disposals of property, plant and equipment	(15,202)	(14,568)
Spin-off effect	(388,018)	-
Loss of control over subsidiaries	(12,752)	-
<b>Balance as at 31 December</b>	<b>156,018</b>	<b>572,825</b>

\*See Note 7

### (D) OTHER RESERVES

Other reserves include:

- legal reserves – set up as 5% of the gross profit for the year in the statutory individual financial statements of the companies within the Group, until the total legal reserves reach 20% of the paid-up nominal share capital of each company, according to the legislation. These reserves are deductible for income tax purposes and are not distributable;
- other reserves set up in compliance with legislation in force.

	Legal reserves	Other reserves	Total other reserves
<b>Balance at 1 January 2013</b>	<b>232,606</b>	<b>369,036</b>	<b>601,642</b>
Set-up of legal reserves	13,264	-	13,264
<b>Balance at 31 December 2013</b>	<b>245,870</b>	<b>369,036</b>	<b>614,906</b>
Set-up of legal reserves	29,886	-	29,886
Spin-off effect	(39,159)	(369,036)	(408,195)
<b>Balance at 31 December 2014</b>	<b>236,597</b>	<b>-</b>	<b>236,597</b>

### (E) DIVIDENDS

Romanian companies may distribute dividends from statutory earnings only, as per separate financial statements prepared in accordance with Romanian accounting regulations.

The dividends distributed by the Company in 2014 and 2013 (from the statutory profits of preceding years) were as follows:

	Distribution of dividends	
	2014	2013
To the owners of the Company	22,475	13,211
To non-controlling interests	67,250	25,468
<b>Total</b>	<b>89,725</b>	<b>38,679</b>

The dividends per share paid to the owners of the Company were: 2014: RON 0.108, 2013: RON 0.064 per share.

## 26 NON-CONTROLLING INTERESTS

The following tables summarises the information related to each of the Group's subsidiaries that has material NCI, before any intra-group elimination.

31 December 2014	Electrica Distributie Muntenia Nord	Electrica Distributie Transilvania Nord	Electrica Distributie Transilvania Sud	Electrica Furnizare	Intra-group eliminations	Total
<b>NCI percentage</b>	<b>22%</b>	<b>22%</b>	<b>22%</b>	<b>22%</b>		
Non-current assets	1,232,023	1,109,674	1,160,070	129,534		
Current assets	448,692	155,693	178,432	1,064,741		
Non-current liabilities	(205,044)	(92,368)	(133,449)	(71,220)		
Current liabilities	(163,163)	(182,825)	(225,139)	(729,007)		
<b>Net assets</b>	<b>1,312,508</b>	<b>990,174</b>	<b>979,914</b>	<b>394,048</b>		
<b>Carrying amount of NCI</b>	<b>288,752</b>	<b>217,838</b>	<b>215,581</b>	<b>86,691</b>	<b>1,658</b>	<b>810,520</b>
Revenues	876,482	750,669	815,823	3,994,524		
Profit	133,197	127,948	74,292	180,786		
Other comprehensive income	(2,082)	625	(1,925)	3,070		
<b>Total comprehensive income</b>	<b>131,115</b>	<b>128,573</b>	<b>72,367</b>	<b>183,856</b>		
Profit allocated to NCI	29,303	28,149	16,344	39,772		113,568
Other comprehensive income allocated to NCI	(458)	138	(424)	676		(68)
Cash flows from operating activities	181,225	162,827	181,781	443,936		
Cash flows from investing activities	(276,110)	(133,883)	(80,000)	(1,116)		
Cash flows from financing activities**	(135,141)	(81,689)	(142,270)	(89,262)		
<b>Net increase/(decrease) in cash and cash equivalents*</b>	<b>(230,026)</b>	<b>(52,745)</b>	<b>(40,489)</b>	<b>353,558</b>		
Dividends paid to NCI during the year	23,212	11,666	12,734	19,638		67,250

\*Amounts presented represent cash flows of the subsidiaries

\*\*Cash flows from financing activities include dividends paid to NCI

31 December 2013	Electrica Distributie Muntenia Nord	Electrica Distributie Transilvania Nord	Electrica Distributie Transilvania Sud	Electrica Furnizare	Intra-group eliminations	Total
<b>NCI percentage</b>	<b>22%</b>	<b>22%</b>	<b>22%</b>	<b>22%</b>		
Non-current assets	1,163,400	1,058,720	1,120,981	134,762		
Current assets	487,055	166,371	203,496	1,077,618		
Non-current liabilities	(160,211)	(128,205)	(131,481)	(62,957)		
Current liabilities	(203,388)	(182,258)	(227,567)	(849,970)		
<b>Net assets</b>	<b>1,286,856</b>	<b>914,628</b>	<b>965,429</b>	<b>299,453</b>		
<b>Carrying amount of NCI</b>	<b>283,108</b>	<b>201,218</b>	<b>212,394</b>	<b>65,880</b>	<b>1,670</b>	<b>764,270</b>
Revenues	804,891	713,826	742,213	4,692,686		
Profit	119,969	60,805	58,132	84,890		
Other comprehensive income	25	(1,446)	637	3,335		
<b>Total comprehensive income</b>	<b>119,994</b>	<b>59,359</b>	<b>58,769</b>	<b>88,225</b>		
Profit allocated to NCI	26,393	13,377	12,789	18,676		71,235
Other comprehensive income allocated to NCI	6	(318)	140	734		562
Cash flows from operating activities	174,345	152,104	155,652	61,031		
Cash flows from investing activities	(55,006)	(83,981)	(24,075)	(2,109)		
Cash flows from financing activities**	(95,977)	(42,373)	(75,991)	(42,094)		
<b>Net increase in cash and cash equivalents*</b>	<b>23,362</b>	<b>25,750</b>	<b>55,586</b>	<b>16,828</b>		
Dividends paid to NCI during the year	16,206	-	-	9,262		25,468

\*Amounts presented represent cash flows of the subsidiaries

\*\*Cash flows from financing activities include dividends paid to NCI

## 27 FINANCING FOR NETWORK CONSTRUCTION RELATED TO CONCESSION AGREEMENTS

Financing for network construction related to concession agreements is based on suppliers' credit. The amounts are denominated in EUR and are backed by promissory notes issued by the Group to its suppliers. Part of these promissory notes

are discounted by the suppliers at banks for early settlement. Such financing is measured at amortized cost, by using an average effective interest rate of 4.1% in 2014 (2013: 5%).

The amounts are due as follows:

	31 December 2014	31 December 2013
Less than 1 year	99,064	142,584
Between 1 and 5 years	151,486	129,827
<b>Total</b>	<b>250,550</b>	<b>272,411</b>

## 28 TRADE PAYABLES

	31 December 2014	31 December 2013
Electricity suppliers	318,549	345,597
Capital expenditure suppliers	93,283	73,357
Other suppliers	143,424	162,568
<b>Total</b>	<b>555,256</b>	<b>581,522</b>

Electricity suppliers are mainly state-owned power generators, as detailed in Note 32, but also other participants on the electricity market. Other suppliers include suppliers of services, materials, consumables, etc.

## 29 OTHER PAYABLES

	31 December 2014		31 December 2013	
	Current	Non-current	Current	Non-current
VAT payable	136,831	-	167,114	-
Late payment penalties to the State budget	70,720	11,238	69,300	22,423
Liabilities related to radio and TV tax	12,424	-	11,563	-
Liabilities related to green certificates acquisition obligation	42,396	-	46,097	-
Other liabilities	14,590	41,943	13,413	43,953
<b>Total</b>	<b>276,961</b>	<b>53,181</b>	<b>307,487</b>	<b>66,376</b>

Part of the late payment penalties to the State are rescheduled for payment based on a plan issued by ANAF to Electrica Serv for a period of 48 months starting August 2012. In relation to this ANAF instituted a pledge on certain property, plant and equipment of Electrica Serv (see Note 35c)). The late payment penalties refer to services subsidiaries, including those in financial distress presented in Note 33. In accordance with Law no. 533/2003, that amended Law no. 41/1994 regarding the organization and

functioning of Romanian Radio Company and Romanian Television Company, radio and TV taxes are collected by Electrica Furnizare SA on behalf of these companies. The payable of the Group to the above mentioned institutions represents radio and TV tax collected and not paid by the year-end. Other liabilities include mainly guarantees and sundry creditors. Other non-current liabilities refer to guarantees from customers related to electricity supply.

## 30 PROVISIONS

	Provisions
<b>Balance at 1 January 2014</b>	<b>84,735</b>
Provisions raised	40,491
Provisions used	(8,904)
Provisions reversed	(40,904)
Effect of loss of control over subsidiaries under financial distress	(2,784)
<b>Balance at 31 December 2014</b>	<b>72,634</b>

As at 31 December 2014, provisions refer mainly to:

- RON 34,175 thousand representing potential fiscal obligations of the Group (including interest and penalties);
- RON 21,497 thousand representing claims of individuals in respect of land of the Group.

The provisions raised in 2014 refer mainly to potential fiscal obligations of the Group following

several controls by the Court of Accounts concluded with certain findings and recommendations, some with fiscal impact. The Group raised provisions for the amount of the probable outflow of economic resources.

Reversals during 2014 mainly relate to a provision for litigation with ANAF for a claim of RON 30,777 thousand, following aintermediaryfavorable court decision for the Company.

## 31 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

### (A) ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including

their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Note	Carrying amount				Fair value			
		Loans and receivables	Held to maturity financial assets	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
<b>31 December 2014</b>									
<b>Financial assets not measured at fair value</b>									
Trade receivables	18	780,821	-	-	780,821				
Deposits, treasury bills and government bonds		-	1,220,521	-	1,220,521				
Cash and cash equivalents	21	1,629,508	-	-	1,629,508				
<b>Total</b>		<b>2,410,329</b>	<b>1,220,521</b>	<b>-</b>	<b>3,630,850</b>				
<b>Financial liabilities not measured at fair value</b>									
Bank overdrafts	21	-	-	48,132	48,132				
Financing for network construction related to concession agreements	27	-	-	250,550	250,550		256,130		256,130
Finance lease		-	-	294	294				
Trade payables	28	-	-	555,256	555,256				
<b>Total</b>		<b>-</b>	<b>-</b>	<b>854,232</b>	<b>854,232</b>		<b>256,130</b>		<b>256,130</b>

	Note	Carrying amount			Fair value			
		Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
<b>31 December 2013</b>								
<b>Financial liabilities not measured at fair value</b>								
Trade receivables	18	1,087,545	-	1,087,545				
Cash and cash equivalents	21	650,835	-	650,835				
<b>Total</b>		<b>1,738,380</b>	<b>-</b>	<b>1,738,380</b>				
<b>Financial liabilities not measured at fair value</b>								
Bank overdrafts	21	-	79,684	79,684				
Financing for network construction related to concession agreements	27	-	272,411	272,411		288,475		288,475
Finance lease		-	788	788				
Trade payables	28	-	581,522	581,522				
<b>Total</b>		<b>-</b>	<b>934,405</b>	<b>934,405</b>		<b>288,475</b>		<b>288,475</b>

### (B) MEASUREMENT OF FAIR VALUES

The following table shows the valuation techniques used in measuring Level 2 fair values, as well as the significant unobservable inputs used.

*Financial instruments not measured at fair value*

Type	Valuation technique	Significant unobservable inputs
Other financial liabilities	<i>Discounted cash flows (DCF) method</i>	Not applicable
	The discount rates used are the average 12 M ROBID-ROBOR interest rates of 1.67% as at 31 December 2014 (2013: 2.78%).	

### (C) FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk.

#### (i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, cash and cash equivalents, bank deposits

and treasury bills and government bonds.

Cash, bank deposits, treasury bills and government bonds are placed in financial institutions, which are considered to have minimal risk of default.

The carrying amount of financial assets represents the maximum credit exposure.

#### Trade receivables

The Group's credit risk in respect of receivables is concentrated around state-controlled companies. The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables..



### Impairment

The ageing of trade receivables was as follows:

	31 December 2014		31 December 2013	
	Gross value	Bad debt allowance	Gross value	Bad debt allowance
Neither past due nor impaired	501,052	-	686,315	-
Past due 1-90 days	240,421	-	201,939	-
Past due 90-180 days	23,542	-	64,846	(1,947)
Past due 180-360 days	29,463	(13,657)	121,536	(33,543)
Past due 1-2 years	52,801	(52,801)	180,802	(132,403)
Past due 2-3 years	105,710	(105,710)	244,905	(244,905)
Past due more than 3 years	975,487	(975,487)	752,726	(752,726)
<b>Total</b>	<b>1,928,476</b>	<b>(1,147,655)</b>	<b>2,253,069</b>	<b>(1,165,524)</b>

	Net trade receivables	
	31 December 2014	31 December 2013
Neither past due nor impaired	501,052	686,315
Past due 1-90 days	240,421	201,939
Past due 90-180 days	23,542	62,899
Past due 180-360 days	15,806	87,993
Past due 1-2 years	-	48,399
<b>Total</b>	<b>780,821</b>	<b>1,087,545</b>

### (ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed

conditions, without incurring unacceptable losses.

The Group aims to maintain the level of its cash and cash equivalents at an amount in excess of expected cash outflows on financial liabilities. The Group also monitors the level of expected cash inflows on trade receivables together with expected cash outflows on trade and other payables. In addition, the Group maintains overdrafts (refer to Note 21).

### Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments.

Financial liabilities	Carrying amount	Contractual cash flows				
		Total	less than 1 year	1-2 years	2-5 years	More than 5 years
<b>31 December 2014</b>						
Bank overdrafts	48,132	48,132	48,132	-	-	-
Financing for network construction related to concession agreements	250,550	262,332	101,633	87,114	73,484	101
Finance lease	294	294	294	-	-	-
Trade payables	555,256	555,256	555,256	-	-	-
<b>Total</b>	<b>854,232</b>	<b>866,014</b>	<b>705,315</b>	<b>87,114</b>	<b>73,484</b>	<b>101</b>
<b>31 December 2013</b>						
Bank overdraft	79,684	79,684	79,684	-	-	-
Financing for network construction related to concession agreements	272,411	288,693	144,623	93,755	50,315	-
Finance lease	788	788	498	290	-	-
Trade payables	581,522	581,522	581,522	-	-	-
<b>Total</b>	<b>934,405</b>	<b>950,687</b>	<b>806,327</b>	<b>94,045</b>	<b>50,315</b>	<b>-</b>

### (iii) Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates – will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

### Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between the currencies

in which sales, purchases and borrowings are denominated and the functional currency of the Group. The functional currency of all entities belonging to the Group is the Romanian Leu (RON). The currencies in which these transactions are primarily denominated are RON and EUR. Certain liabilities are denominated in foreign currency (EUR). The Group also has deposits and bank accounts denominated in foreign currency (EUR). The Group's policy is to use the local currency in its transactions as far as practically possible. The Group does not use derivative or hedging instruments.

### Exposure to currency risk

The summary quantitative data about the Group's exposure to currency risk as follows:

in thousands of RON	31 December 2014	31 December 2013
	EUR	EUR
Cash and cash equivalents	10,138	136,173
Deposits (deposits, treasury bills and government bonds)	136,704	-
Financing for network construction related to concession agreements	(250,550)	(272,411)
Finance lease	(294)	(788)
<b>Net statement of financial position exposure</b>	<b>(104,002)</b>	<b>(137,026)</b>

The following significant exchange rates have been applied during the year:

	Average rate		Year-end spot rate	
	2014	2013	2014	2013
RON				
1 EUR	4.4446	4.4190	4.4821	4.4847

### Sensitivity analysis

A reasonably possible strengthening (weakening) of the EUR against RON at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and profit before

tax by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

Effect	Profit before tax	
	Strengthening	Weakening
<b>31 December 2014</b>		
EUR (5% movement)	(5,200)	5,200
<b>31 December 2013</b>		
EUR (5% movement)	(6,851)	6,851

### Interest rate risk

The Group's policy is to mainly use supplier credit for financing its capital investments. The Group does not have significant long-term bank loans.

### Exposure to interest rate risk

The interest rate profile of the Group's interest-bearing financial instruments is as follows:

	31 December 2014	31 December 2013
<b>Fixed-rate instruments</b>		
<b>Financial assets</b>		
Bank accounts (cash and cash equivalent)	1,352,487	541,891
Treasury bills and government bonds (cash and cash equivalent)	199,500	-
Deposits, treasury bills and government bonds	1,220,521	-
<b>Financial liabilities</b>		
Financing for network construction related to concession agreements	(250,550)	(272,411)
Finance lease	(294)	(788)
	<b>2,521,664</b>	<b>268,692</b>
<b>Variable-rate instruments</b>		
<b>Financial liabilities</b>		
Overdrafts	(48,132)	(79,684)
	<b>(48,132)</b>	<b>(79,684)</b>

### Fair value sensitivity analysis for fixed-rate instruments

The Group does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

### Cash flow sensitivity analysis for variable-rate instruments

A reasonably possible change of 50 basis points in interest rates at the reporting date would have increased (decreased) profit before tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	Profit before tax	
	50 bp increase	50 bp decrease
<b>31 December 2014</b>		
Variable-rate instruments	(240)	240
<b>31 December 2013</b>		
Variable-rate instruments	(399)	399

## 32 RELATED PARTIES

### (A) MAIN SHAREHOLDERS

As at 31 December 2014, the main shareholder of Electrica SA is the Romanian State, represented by the Ministry of Energy, Small and Medium-sized

Enterprises and Business Environment(48.78%), after the ownership dilution following an initial public offer. The next large shareholder is the European Bank for Reconstruction and Development with 8.66%.

### (B) MANAGEMENT AND ADMINISTRATORS' COMPENSATION

	2014	2013
<b>Management compensation</b>	<b>4,030</b>	<b>3,556</b>

Compensations granted to the members of the Board of Directors and representatives in the General Meeting of Shareholders were as follows:

	2014	2013
Members of Board of Directors	3,093	2,861
Representatives in the General Meeting of Shareholders	115	116
<b>Total</b>	<b>3,208</b>	<b>2,977</b>

No loans were granted to managers or administrators in 2014 and 2013.

### (C) TRANSACTIONS WITH ASSOCIATES

#### (i) Balances receivables and payables from/ to associates as at 31 December 2013

Receivables from associates are as follows:

31 December 2013	Trade receivables	Bad debt allowance	Total receivables
Enel Distributie Muntenia	17,631	-	17,631
Enel Energie Muntenia	496	-	496
Enel Distributie Banat	821	-	821
Enel Distributie Dobrogea	773	-	773
Enel Energie	912	-	912
E.On Moldova Distributie	5,537	(3,959)	1,578
<b>Total</b>	<b>26,170</b>	<b>(3,959)</b>	<b>22,211</b>

Trade receivables from associates refer mainly to maintenance, repairs and other services rendered.

Payables to associates are as follows:

	31 December 2013
Enel Distributie Muntenia	1,928
Enel Energie Muntenia	51
Enel Distributie Banat	3,075
Enel Distributie Dobrogea	1,012
Enel Energie	451
E.On Moldova Distributie	2,809
Electrica Soluziona	964
<b>Total</b>	<b>10,290</b>

(ii) Transactions with associates for 2013

Sales to:	Sales of electricity and electricity distribution services	Maintenance and repairs and other services
	2013	2013
Enel Distributie Muntenia	-	48,302
Enel Energie Muntenia	2,741	-
Enel Distributie Banat	2	5,243
Enel Distributie Dobrogea	-	3,600
Enel Energie	3,299	6
E.On Moldova Distributie	4	10,136
<b>Total</b>	<b>6,046</b>	<b>67,287</b>

Purchases from:	2013
Enel Distributie Muntenia	8,388
Enel Energie Muntenia	655
Enel Distributie Banat	6,351
Enel Distributie Dobrogea	5,126
Enel Energie	847
E.On Moldova Distributie	9,411
Electrica Soluziona	<b>4,116</b>
<b>Total</b>	<b>34,894</b>

Purchases from associates refer mainly to electricity distribution services. Purchases from Electrica Soluziona represent maintenance of the customer management system.

**(D) TRANSACTIONS WITH COMPANIES IN WHICH THE STATE HAS CONTROL OR SIGNIFICANT INFLUENCE**

The Group has transactions with companies in which the state has control or significant influence in the ordinary course of its business, related mainly to the acquisition of electricity, transmission and system services and sale of electricity. Significant purchases and balances are mainly with energy suppliers, as follows:

Supplier	Purchases (without VAT)		Balance (including VAT)	
	2014	2013	31 December 2014	31 December 2013
Nuclearelectrica	391,517	563,884	35,619	18,608
Transelectrica	504,776	444,903	156,759	182,354
Complexul Energetic Oltenia	2,892	388,039	6,000	27,050
Hidroelectrica	553,509	379,811	55,065	10,381
OPCOM	391,742	315,146	2,449	140
Electrocentrale Bucuresti	4,565	143,657	1	-
Complexul Energetic Hunedoara	-	95,677	-	3,283
SNGN ROMGAZ	19,296	126,872	-	-
CN Posta Romana SA	7,442	30,960	324	5,511
CET Govora	-	24,849	-	-
Electrocentrale Oradea	618	15,923	-	85
Electrocentrale Galati	2,495	5,351	-	426
Alti	30,676	8,835	5,540	-
<b>Total</b>	<b>1,909,528</b>	<b>2,543,907</b>	<b>261,757</b>	<b>247,838</b>

The Group also makes sales to companies in which the state has control or significant influence representing electricity supplied, of which the most important transactions are the following:

Client	Sales (without VAT)	Balance, gross (including VAT)	Allowance (including VAT)	Balance, net
	2014	31 December 2014		
CFR	126,868	1,367	-	1,367
Electricitare CFR	4,328	27,681	(19,711)	7,970
SNGN ROMGAZ	23,032	1,544	-	1,544
OPCOM	13,722	2,374	-	2,374
Societatea Comerciala "Cupru Min"- S.A. Abrud	31,399	24,122	(24,122)	-
Transelectrica	17,167	2,080	-	2,080
CN Romarm	9,412	366	-	366
Electrocentrale Oradea	1,991	341	-	341
CN Remin SA	349	71,192	(71,192)	-
C.N.C.A.F. MINVEST S.A.	-	78,735	(78,735)	-
Oltchim	-	715,277	(715,277)	-
SNTGN Transgaz Medias	2,668	110	-	110
Hidroelectrica	3,996	306	-	306
Baita SA	2,143	6,366	-	6,366
Enel Distributie Muntenia	33,918	14,814	-	14,814
Alti	13,359	4,737	(75)	4,662
<b>Total</b>	<b>284,352</b>	<b>951,412</b>	<b>(909,112)</b>	<b>42,300</b>

Client	Sales (without VAT)	Balance, gross (including VAT)	Allowance (including VAT)	Balance, net
	2013	31 December 2013		
Oltchim	467	715,277	(715,277)	-
CFR	162,963	240,632	-	240,632
SNGN ROMGAZ	78,785	6,795	-	6,795
OPCOM	54,223	142	-	142
Societatea Comerciala "Cupru Min"- S.A. Abrud	33,100	36,122	(36,122)	-
Transelectrica	18,264	2,281	-	2,281
Electrocentrale Oradea	5,208	1,180	-	1,180
CN Romarm	7,899	485	-	485
Societatea Nationala a Sarii	5,582	-	-	-
CN Remin SA	-	71,151	(71,151)	-
C.N.C.A.F. MINVEST S.A.	-	78,735	(78,735)	-
Alti	12,008	10,455	(7,742)	2,713
<b>Total</b>	<b>378,499</b>	<b>1,163,255</b>	<b>(909,027)</b>	<b>254,228</b>

### 33 SUBSIDIARIES IN FINANCIAL DISTRESS

In 2013 the Company approved the liquidation of ServiciiEnergetice Moldova, ServiciiEnergetice Banat and Servicii Energetice Dobrogea.

Servicii Energetice Banat entered in bankruptcy in November 2014 and consequently the Company discontinued consolidation at that date as it no longer has control over it. The individual assets and liabilities at that date were as follows:

	Carrying amount
Property, plant and equipment	44,908
Trade receivables	484
Cash and cash equivalents	312
<b>Total assets</b>	<b>45,704</b>
Trade payables	9,654
Other payables	28,524
Employee benefits	31,460
Provisions	2,784
Deferred tax liabilities	5,631
<b>Total liabilities</b>	<b>78,053</b>
<b>Gain on loss of control</b>	<b>32,349</b>

In January 2014 the Board of Directors of ServiciiEnergeticeOltenia and in October 2014, the Board of Directors of Servicii Energetice Muntenia decided the commencement of the insolvency procedure with a view to reorganization. The insolvency processes were initiated in 2014. Due to the above conditions that indicated the existence of significant uncertainties that cast significant doubt on the ability of these subsidiaries

to continue to operate as going concerns, the Group has recognised the carrying amounts of the assets and liabilities of these subsidiaries on an alternate basis as at 31 December 2013 (for Servicii Energetice Moldova SA, Servicii Energetice Dobrogea SA, Servicii Energetice Banat and Servicii Energetice Oltenia SA) and 31 December 2014 (for Servicii Energetice Moldova SA, Servicii Energetice Dobrogea SA, Servicii Energetice Oltenia SA, and Servicii Energetice Muntenia).

As at 31 December 2013 and 31 December 2014 the carrying amount of the assets and liabilities of these companies, included in the consolidated financial statements are as follows:

	Servicii Energetice Moldova	Servicii Energetice Dobrogea	Servicii Energetice Muntenia	Servicii Energetice Oltenia	Total
<b>31 December 2014</b>					
Property, plant and equipment	40,418	3,435	109,180	35,006	<b>188.039</b>
Trade receivables	811	1,313	16,894	3,729	<b>22.747</b>
Cash and cash equivalents	1,971	2,863	291	1,095	<b>6.220</b>
<b>Total assets</b>	<b>43,200</b>	<b>7,611</b>	<b>126,365</b>	<b>39,830</b>	<b>217.006</b>
Trade payables	(2,900)	(2,098)	(5,976)	(2,865)	<b>(13.839)</b>
Payables to the State budget	(47,735)	(22,006)	(1,887)	(4,297)	<b>(75.925)</b>
Social security and other salary taxes	(38,192)	(17,130)	(2,471)	(6,120)	<b>(63.913)</b>
Provisions, employee benefits and deferred taxes	(26,387)	(5,228)	(27,762)	(13,914)	<b>(73.291)</b>
<b>Total liabilities</b>	<b>(115,214)</b>	<b>(46,462)</b>	<b>(38,096)</b>	<b>(27,196)</b>	<b>(226.968)</b>

31 December 2013	Servicii Energetice Moldova	Servicii Energetice Dobrogea	Servicii Energetice Banat	Servicii Energetice Oltenia	Total
Property, plant and equipment	40,492	15,764	54,795	36,633	147,684
Trade receivables	1,991	3,151	2,535	4,795	12,472
Cash and cash equivalents	195	226	198	299	918
<b>Total assets</b>	<b>42,678</b>	<b>19,141</b>	<b>57,528</b>	<b>41,727</b>	<b>161,074</b>
Trade payables	(4,361)	(1,682)	(7,358)	(2,452)	(15,853)
Payables to the State budget	(38,161)	(20,691)	(27,257)	(2,541)	(88,650)
Social security and other salary taxes	(24,960)	(14,560)	(23,864)	(3,035)	(66,419)
Provisions, employee benefits and deferred taxes	(9,512)	(4,191)	(9,536)	(13,366)	(36,605)
<b>Total liabilities</b>	<b>(76,994)</b>	<b>(41,124)</b>	<b>(68,015)</b>	<b>(21,394)</b>	<b>(207,527)</b>

The Group has not classified the assets and liabilities of these subsidiaries as held for sale as at 31 December 2014, as the assets are not available for immediate sale in their present condition, the assets or disposal groups were not actively marketed for sale, the Group is not committed to a plan to sell the assets or disposal groups, and it has not initiated an active programme to locate a buyer and complete the disposal plan. Consequently, the Group has not presented these subsidiaries as discontinued operations in the income statement for the year ended 31 December 2014.

*Assumptions used for adjusting the carrying amount of assets and liabilities of subsidiaries under financial distress.*

The carrying amount of assets and liabilities were recognised on a liquidation basis as at the reporting date when significant doubt on the ability of each

subsidiary to continue as going concern existed.

*Property, plant and equipment (PP&E).*

Land and buildings were valued under a forced sale assumption, where the Group recognized impairment adjustments to carrying amounts based on market experience for forced sale transactions. The impairment losses recognized in 2014 were RON 60 million, of which RON 26 million decreased the revaluation reserve and RON 34 million was recognised in profit or loss.

*Provisions, employee benefits and payables to the State budget.*

The Group recognised provisions or liabilities for the obligations as at 31 December 2014 and 2013. In addition, all non-current liabilities, if any, were reclassified as current liabilities.

## 34 COMMITMENTS

### (A) LITIGATION AND CLAIMS

The Group is involved in various litigations; the most significant are the followings:

- In 2012, the Group was sued by Orange Media, claiming the payment of RON 18,819 thousand representing damages requested by the claimant as a result of the cancelation of a public acquisition contract by the Group. By sentence no. 4890/13.06.2013 issued by Bucharest Court, Orange Media's claim was dismissed. By sentence no. 573/24.02.2014 the Bucharest Court of Appeal upheld the appeal, voided the sentence and referred the case back to Bucharest Court. By sentence no. 5200/30.10.2014 issued by Bucharest Court, the claim was dismissed again. An appeal against this sentence was made by Orange Media. The next term is set for March 2015. The Group expects a favourable outcome for this case.
- The Group was sued by Termoelectrica, claiming the payment of RON 25,047 thousand representing penalties related to certain invoices, for the period 1 April 2007 – 31 March 2008. In the first sentence the claim was dismissed. Following the appeal this decision was overruled. The Group expects a favourable outcome for this case.
- During 2014, one company from the Group was subject to controls performed by ANAF. As at the date of the financial statements, ANAF report was not finalised, but the subsidiary received only minutes for its branches whereby the amount of possible additional tax liabilities claimed by ANAF are approx. RON 5.8 million (late payment and interest were not calculated). The subsidiary will contest these findings and considers likely a favourable result.



### (B) FISCAL ENVIRONMENT

Tax audits are frequent in Romania, consisting of detailed verifications of the accounting records of tax payers. Such audits sometimes take place after months, even years, from the date liabilities are established. Consequently, companies may be found liable for significant taxes and fines. Moreover, tax legislation is subject to frequent changes and the authorities

demonstrate inconsistency in interpretation of the law. Income tax returns may be subject to revision and corrections by tax authorities, generally for a five year period after they are completed.

The management of the Group believes that adequate provisions were recorded for all significant tax obligations.

## 35 COMMITMENTS

### (A) CONTRACTUAL COMMITMENTS

The Group has the following contractual commitments as at 31 December 2014:

	Amount
Purchase of electricity	781,588
Purchase of property, plant and equipment and intangible assets	214,885
	<b>996,473</b>

### (B) OPERATING LEASES

The main operating leases refer to vehicles and equipment leased by ElectricaServ, as follows:

Supplier	Contractual amount
Operational Autoleasing SRL	60,241
RCI Finantare Romania SA	1,569
Electrical Business Center SRL	12,862
Energopetroleum Top Service SRL	6,244
<b>Total</b>	<b>80,916</b>

The future minimum lease payments related to the operating lease contracts mentioned above are as follows:

	31 December 2014	31 December 2013
Less than 1 year	18,094	8,577
Between 1 and 5 year	52,484	23,257
<b>Total</b>	<b>70,578</b>	<b>31,834</b>

### (C) INVESTMENT PROGRAM

The investment program approved for the year 2015 is as follows:

	2015
Distribution activity	595,000
Supply activity	19,731
Maintenance activity	14,949
Other/ shared	44,433
<b>Total</b>	<b>674,113</b>

The amounts actually incurred may differ from the ones planned.

### (D) GUARANTEES AND PLEDGES

At 31 December 2014 and 2013, the Group has guarantees on its bank accounts opened at ING and BRD for the overdrafts contracted (please see Note 21).

At 31 December 2014 the Group has outstanding bank letters of guarantee of RON 180,127 thousand (2013:

RON 90,078 thousand) issued in favour of its suppliers. In 2012, ANAF instituted pledges on land and buildings of ElectricaServ in relation with outstanding taxes and contributions. As at 31 December 2014 the pledges amount to RON 73 million (2013: RON 77 million).



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### Independent Auditors' Report (free translation<sup>1</sup>)

To the shareholders of  
 Electrica S.A.

#### Report on the Consolidated Financial Statements

- 1 We have audited the accompanying consolidated financial statements of Electrica S.A. ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of income, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Consolidated Financial Statements*

- 2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

- 3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the standards on auditing as adopted by the Romanian Chamber of Financial Auditors. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

<sup>1</sup> TRANSLATOR'S EXPLANATORY NOTE: This translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version.



- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

*Basis for Qualified Opinion*

- 6 Our audit opinion on the consolidated financial statements as at and for the year ended 31 December 2013 was modified because we did not obtain sufficient and appropriate audit evidence in relation with the accounting treatment of the Company's investments in other entities classified as assets held for distribution as at that date, as described in Note 24 to the accompanying consolidated financial statements. The Company disposed of these assets in 2014. Our opinion on the current year's consolidated financial statements is also modified because of the possible effects of this matter on the corresponding figures for assets held for distribution, retained earnings and reserves as at 31 December 2013, share of profit or loss of equity-accounted investees, profit or loss and other comprehensive income for the year ended 31 December 2013.

*Qualified Opinion*

- 7 In our opinion, except for the possible effects on the corresponding figures as at and for the year ended 31 December 2013 of the matter described in paragraph 6, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2014, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

*Emphasis of matter*

- 8 Without further qualifying our opinion, we draw attention to Notes 4 and 7 to the accompanying consolidated financial statements, which describe the fact that the Group elected to change its accounting policy for the service concession agreements and made retrospective adjustments to the comparative information in the consolidated accompanying financial statements. Consequently, the comparative information in the accompanying consolidated financial statements has been restated.

*Other Matter*

- 9 This independent auditors' report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for the report on the consolidated financial statements and the report on conformity, or for the opinion we have formed.

**Report on conformity of the consolidated Administrators' Report with the consolidated financial statements**

In accordance with the Order of the Minister of Public Finance no. 1286/2012 and related amendments, article no. 30 of accounting regulations in accordance with International Financial Reporting Standards applicable to companies whose securities are traded on a regulated market, we have read the consolidated Administrators' Report attached to the consolidated financial statements. The consolidated Administrators' Report is not a part of the consolidated financial statements. In the consolidated Administrators' Report we have not identified any financial information which is not in accordance, in all material respects, with the information presented in the accompanying consolidated financial statements.

**For and on behalf of KPMG Audit SRL:****Mikael Olsson**

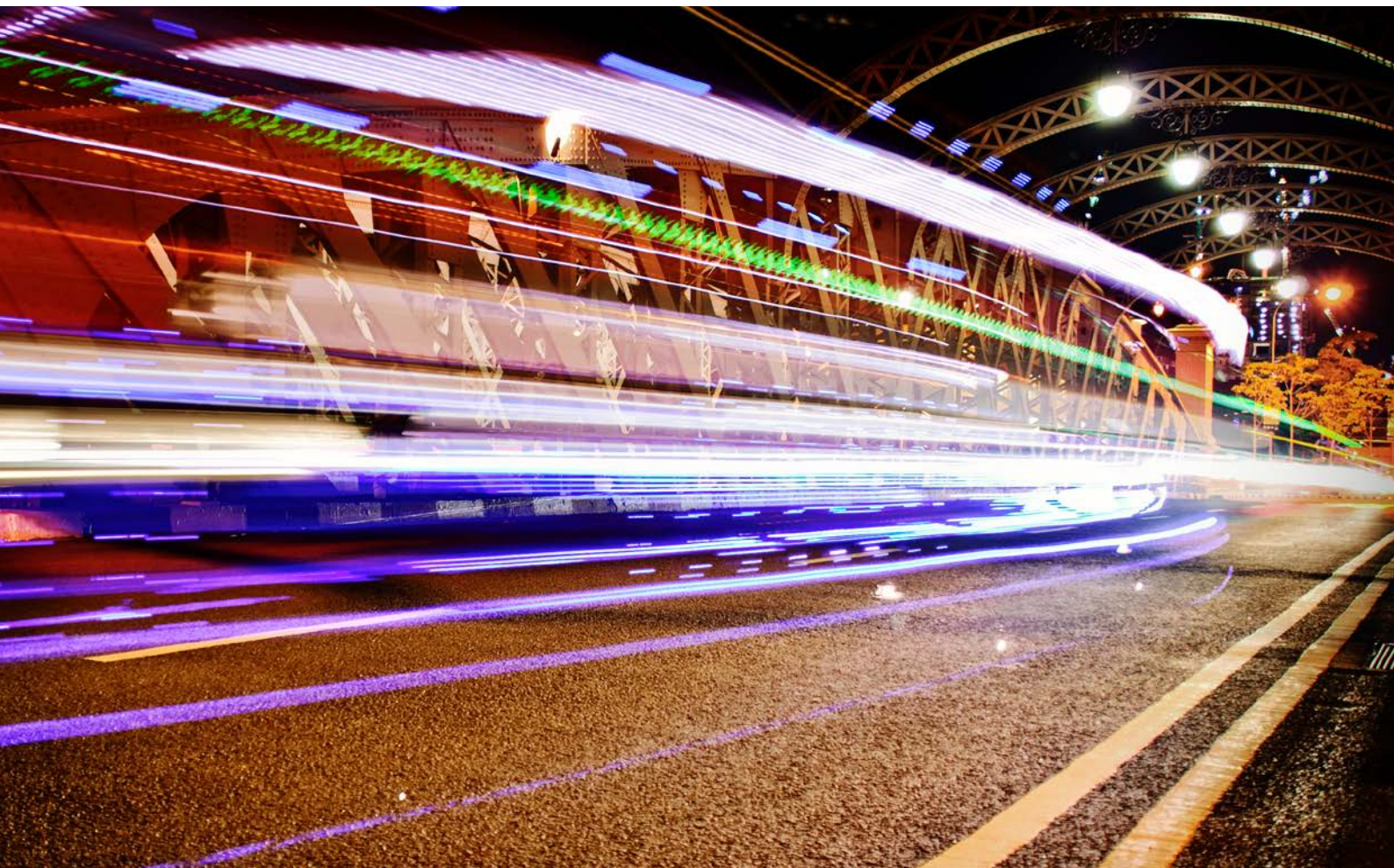
registered with the Chamber of Financial  
Auditors of Romania under no 662/2001

Bucharest, 26 March 2015

**KPMG Audit SRL**

registered with the Chamber of Financial  
Auditors of Romania under no 9/2001





# 2014 DIRECTOR'S REPORT (INDIVIDUAL)

(based on the audited individual financial statements prepared in accordance with IFRS)  
REGARDING THE ECONOMIC-FINANCIAL ACTIVITY OF SDFEE ELECTRICA SA  
according to art. 227 from Law 297/2004 and to  
annex no. 32 to CNVM Reg. no. 1/2006, for the year ended December 31, 2014



## IDENTIFICATION DETAILS ON REPORT AND ISSUER

**Report date:** March 20, 2015

**Name of the Issuer:** SDFEE ELECTRICA SA

**Headquarter:** no. 9 Grigore Alexandrescu Street, 1st District, Bucharest, Romania

**Telephone/fax number:** +4021.208.5002; +4021.208.5004

**Fiscal Code:** RO13267221

**Trade Registry No:** J40/7425/2000

**Share capital:** RON 3,459,399,290 subscribed and paid (see Note 1)

**Main characteristic of issued shares:** 345,939,929 ordinary shares of 10 RON nominal value, issued in dematerialized form and freely transferable, nominative, tradable and fully paid.

Regulated market where the issued securities are traded: As at December 31, 2014 the Company shares are listed on the Bucharest Stock Exchange and Global Depositary Receipts are listed on the London Stock Exchange. (see Note 2)

### Note 1

Pursuant to the registration certificate no. 2340001 and the resolution no. 78473/ 02.07.2014 issued by the National Trade Registry Office, the share capital was increased by 1,771,887,440 RON, following the successful completion of the process of underwriting new shares issued by the Company in the initial public offering. As at the date of the current report the subscribed and paid up capital of SC Electrica SA is 3,459,399,290 RON.

### Note 2

Following the completion of initial public offering, the Company's securities were admitted to trading on the Bucharest Stock Exchange (BSE) under the trading symbol EL and on the London Stock Exchange (LSE) under the trading symbol ELSA on July 3, 2014.

## HIGHLIGHTS

SDFEE Electrica SA has the unique registration number 13267221, registered at the Trade Registry under no. J40/7425/2000, with core business "Consulting and business management activities" - CAEN code 7022,

has as it's main goal coordinating and effective control of stakes in subsidiaries that perform distribution and supply of electricity as well as energy services activities.

A summary of the main indicators is described below:

- In the period ended 31 December 2014 the revenues from dividends received from its subsidiaries increased by RON 148.1 million as compared to 2013;
- The financial result increased in 2014 to RON 286.9, by 192.9 million as compared to 2013, mainly from the sale of shares held in in E.On Moldova Distributie and E.On Energie Romania to E.On following the exercise of call options by E.On
- In the period ended 31 December 2014 the net profit reached RON 269 million, an 632% increase or RON 233 million as compared to 2013.

## ORGANIZATIONAL STRUCTURE

The Company is a holding company for the Group, which comprises in its distribution segment three subsidiaries for electricity distribution: Electrica Distributie Muntenia Nord, Electrica Distributie Transilvania Nord, Electrica Distributie Transilvania Sud, and one for maintenance and repairs, Electrica Serv, and one subsidiary, Electrica Furnizare, in its supply segment.

The Group also includes four service entities owned by Electrica, i.e. Servicii Energetice Muntenia, Servicii

Energetice Dobrogea, Servicii Energetice Moldova and Servicii Energetice Oltenia, and until November 2014 included Servicii Energetice Banat also.

Out of these Servicii Energetice Oltenia and Servicii Energetice Muntenia are under insolvency proceedings, Servicii Energetice Dobrogea and Servicii Energetice Moldova are currently subject to dissolution and liquidation and Servicii Energetice Banat is in bankruptcy.

The Company's subsidiaries are the following:

Filiala	Activitatea	Cod unic de inregistrare	Sediu social	% participatie la 31 decembrie 2014	% participatie la 31 decembrie 2013
Electrica Distributie Muntenia Nord SA	Electricity distribution in geographical area of Muntenia Nord	14506181	Ploiesti	78.0000021%	78.0000021%
Electrica Distributie Transilvania Nord SA	Electricity distribution in geographical area of Transilvania Nord	14476722	Cluj-Napoca	77.99999%	77.99999%
Electrica Distributie Transilvania Sud SA	Electricity distribution in geographical area of Transilvania Sud	14493260	Brasov	78.0000019%	78.0000019%
Electrica Furnizare SA	Electricity Supply	28909028	Bucuresti	77.99997%	77.99997%
Electrica Serv SA	Services in the energy sector (maintenance, repairs, construction)	17329505	Bucuresti	100%	100%
Servicii Energetice Muntenia SA	Services in the energy sector (maintenance, repairs, construction)	29384120	Bucuresti	100%	100%
Servicii Energetice Moldova SA	Services in the energy sector (maintenance, repairs, construction)	29386768	Bacau	100%	100%
Servicii Energetice Banat SA*	Services in the energy sector (maintenance, repairs, construction)	29388211	Timisoara	100%	100%
Servicii Energetice Dobrogea SA	Services in the energy sector (maintenance, repairs, construction)	29388378	Constanta	100%	100%
Servicii Energetice Oltenia SA	Services in the energy sector (maintenance, repairs, construction)	29389861	Craiova	100%	100%

\* Electrica SA lost the control of Servicii Energetice Banat starting with November 2014

## SHAREHOLDER STRUCTURE

The General Meeting of Shareholders (GMS) is the main corporate governance body of Electrica, deciding on the items as outlined in the Articles of Association. The convening, functioning, voting as well as other provisions regarding the GMS are detailed in Electrica's Articles of Association. Until July 2014, the Romanian State, acting through the Ministry of Energy, Small and Medium

Enterprises and Business Environment, was the sole shareholder of Electrica. Starting 4 July 2014 the Company's shares are listed on Bucharest Stock Exchange, and the GDRs are listed on London Stock Exchange. The latest available information regarding the shareholder structure has been provided by Depozitarul Central on 21 November 2014 and is presented in the table below:

Shareholder	Shares	Percent of share capital
Ministry of Energy, Small and Medium Enterprises and Business Environment, Bucharest, Romania	168,751,185	48.7805 %
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT, LONDON, UK	29,944,090	8.6559 %
BNY MELLON DRS, NEW YORK, USA	27,442,180	7.9326 %
Legal persons	100,506,060	29.0530 %
Individual persons	19,296,414	5.5780 %
<b>TOTAL</b>	<b>345,939,929</b>	<b>100 %</b>

Source: Central Depository, Electrica S.A.

Following the stabilization process after the IPO, Electrica SA owns 6,890,593 of its own shares, representing

1.9918% of the total share capital. These shares do not entitle Electrica to voting rights, nor dividends.

## BOARD OF DIRECTORS STRUCTURE

The board of directors consists of five non-executive directors appointed by the general meeting of shareholders. One of the Directors was appointed on the proposal of the Romanian state, represented by the Ministry of Energy, Small and Medium Enterprises and Business Environment, three were appointed on the proposal of the private shareholders and one was named both on the proposal of the Romanian state and private shareholders. Four of the five directors meet the criteria for independence provided by the Article of

Association of Electrica.

The Board is entrusted with fulfilling all the necessary and useful acts for performing the Company's business object and for supervising the management's activity, save for the ones assigned to the General Meeting of Shareholders. The composition, organisation, duties and responsibilities of the Board of Directors are set out in the Articles of Association and in the Charter of the Board of Directors.

The current members of the Board of Directors were elected for four years, through the cumulative voting method, by the General Meeting of Shareholders, during the first meeting after the IPO, on 22 September 2014. The composition of the Board of Directors is the following:

- Mr. Victor Cionga – non-executive director, elected as Chairman of the Board of Directors until January 2016
- Ms. Arielle Malard de Rothschild – non-executive director
- Mr. Michael Boersma – non-executive director
- Mr. Cristian Busu – non-executive director
- Mr. Victor Vlad Grigorescu – non-executive director

During the first Board of Directors meeting on 14 October 2014, the Board has established three consultative committees, with the following composition:

### a) The Nomination and Remuneration Committee

- Ms. Arielle Malard de Rothschild – Chair of the committee
- Mr. Michael Boersma
- Mr. Cristian Busu

### b) The Audit Committee

- Mr. Cristian Busu – Chair of the committee
- Mr. Victor Vlad Grigorescu
- Ms. Arielle Malard de Rothschild



### c) The Strategy, Restructuring and Corporate Governance Committee

- Mr. Michael Boersma – Chair of the committee
- Mr. Victor Vlad Grigorescu
- Mr. Victor Cionga

The members of the committees are elected for a one-year term. The organisation, duties and responsibilities of each committee are laid down in Electrica's Articles of Association, respectively in the charters of each committee.

The Board of Directors delegates Electrica's management to one or more managers, appointing one of them as general manager. The duties and

responsibilities of the general manager are set out in Electrica's Articles of Association.

According to our information, there is no agreement, understanding or family relationship between the Company's directors and another person that contributed to their appointment as managers.

Details regarding the bios of the Board of Directors members can be accessed on the company's website.

The table below comprises the number of Electrica S.A. shares held by the Company's directors as of March 2015:

No.	Name	Number of shares	Stake held (as % of the share capital)
1.	Mr. Victor Cionga	5.000	0.00144534%
2.	Ms. Arielle Malard de Rothschild	-	-
3.	Mr. Cristian Busu	-	-
4.	Mr. Michael Boersma	-	-
5.	Mr. Victor Vlad Grigorescu	-	-

According to our information, the persons mentioned above, have not been involved in litigations or administrative proceedings related to their activity in the Company in the last 5 years, nor in proceedings related to their capacity of fulfilling the duties in the Company. Until September 22, 2014 the Board of Directors members were:

- Dl. Marius Eugen Untescu – non-executive administrator, president of the board of directors
- Dl. Niculae Plesa – non-executive administrator
- Dl. Constantin Dinescu – non-executive administrator
- Dl. Rares Ion Popescu – non-executive administrator
- Dl. Ioan Rosca – non-executive administrator, general manager

### EXECUTIVE MANAGEMENT

#### IOAN ROSCA – GENERAL MANAGER (CEO)

Pursuant to the decision of the Board of Directors no. 24 dated 5th July 2013, the Board of Directors has appointed Mr. Ioan Rosca to the position of general manager of the Company and delegated

him responsibilities and duties related to internal management and representation.

The table below shows the company's managers who do not have delegated powers from the Board of Directors:

Name	Position	Department
<b>Electrica Headquarters</b>		
Angelescu Ramiro Robert Eduard	Deputy General Manager	
Dumbrava Ioan	Manager	Operations
Petre Marin	Deputy Manager	Operations
Geanta Marian	Deputy Manager	Operations
Marin Emilia- Elena	Manager	Economic
Popescu Borisilavschi Alexandra Romana Augusta	Manager	Corporate Finance and Governance
Stan Corneliu	Deputy Manager	Corporate Finance and Governance
Crisan Mariana	Manager	Human Resources, Control and Communication
Pindichi Valentin Cosmin	Deputy Manager	Human Resources, Control and Communication

According to the Articles of Incorporation, the Board of Directors appoints and revokes the General Manager and the other managers with mandate agreements –art.18, letter A, paragraph (f) and (k). The General Manager performs his activity according to the provisions of the mandate agreement concluded with the Company.

The Managers with managing functions are employees of the company, having an individual labor agreement and they are appointed and revoked by the General Manager. According to our information, there is no agreement, understanding or family relationship between the Company's managers and another person that contributed to their appointment as managers.

The table below shows the number of shares held by the Company's managers as of March, 2015:

Item no.	Name	Number of shares	Share in the share capital (%)
1.	Ioan Rosca	25,000	0.00722669%
2.	Angelescu Ramiro Robert Eduard	1,000	0.00028907%
3.	Geanta Marian	1,000	0.00028907%

According to information at hand the persons mentioned above have not been involved in any litigations or administrative proceedings related

to their activity within the Company in the last 5 years and their capacity to fulfil their work-related attributes.

## FINANCIAL REPORTING

The financial statements for the year ended 31 December 2014 represent the first set of individual financial statements prepared in accordance with International Financial Reporting Standards, a

mandatory provision according to the Minister of Finance no. 881/2012 applicable to companies whose securities are admitted to trading on a regulated market.

## BALANCE SHEET HIGHLIGHTS

### SELECTED FINANCIAL INFORMATION FROM THE COMPANY BALANCE SHEET (THOUSANDS RON)

	31-Dec-14	31-Dec-13	Var.
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	291,259	302,373	-4%
Intangible assets	678	798	-15%
Investments in subsidiaries	1,427,361	1,405,190	2%
Deferred tax assets	7,206	13,932	-48%
<b>Total non-current assets</b>	<b>1,726,502</b>	<b>1,722,293</b>	<b>0%</b>
<b>Current assets</b>			
Trade receivables	87,696	95,660	-8%
Other receivables	15,391	32,500	-53%
Cash and cash equivalents	1,075,620	144,126	646%
Deposits, treasury bills and government bonds	1,038,420	-	-
Inventories	166	135	23%
Prepayments	337	328	3%
Income tax receivable	23,134	22,795	1%
Assets held for distribution	-	507,266	-
<b>Total current assets</b>	<b>2,240,763</b>	<b>802,810</b>	<b>179%</b>
<b>Total assets</b>	<b>3,967,265</b>	<b>2,525,104</b>	<b>-57%</b>

	31-Dec-14	31-Dec-13	Var.
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital out of which:	3,814,242	2,509,306	-52%
Subscribed and paid in share capital	3,459,399	2,078,399	66%
Inflation adjustment to share capital	354,843	430,907	-18%
Share premium	103,049	-	-
Treasury shares reserve	(75,372)	-	-
Pre-paid capital contributions in kind from shareholders	3,277	47,493	-93%
Revaluation reserve	829	-	-
Legal reserves	127,897	114,093	12%
Retained earnings	(104,364)	(317,249)	-67%
<b>Total equity</b>	<b>3,869,557</b>	<b>2,353,644</b>	<b>64%</b>
	31-Dec-14	31-Dec-13	Var.
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Employee benefits	2,991	2,759	8%
Other payables	-	5,498	-
<b>Total non-current liabilities</b>	<b>2,991</b>	<b>8,256</b>	<b>-64%</b>
<b>Current liabilities</b>			
Bank overdrafts	-	36,999	-
Trade payables	83,400	86,799	-4%
Other payables	8,663	4,190	107%
Deferred revenue	384	410	-6%
Employee benefits	2,270	4,027	-44%
Provisions	-	30,777	-
<b>Total current liabilities</b>	<b>94,718</b>	<b>163,204</b>	<b>-42%</b>
<b>Total liabilities</b>	<b>97,709</b>	<b>171,460</b>	<b>-43%</b>
<b>Total equity and liabilities</b>	<b>3,967,266</b>	<b>2,525,104</b>	<b>57%</b>

### NON-CURRENT ASSETS

Electrica's non-current assets increased by RON 4 million in the year ended 31 December, 2014 compared with the year ended 31 December, 2013 to RON 1,726 million from RON 1,722 million, respectively.

Increase in non-current assets was generated by the shares conversion of the loan granted to Electrica

Serv, to contribution in kind (land) to the Electrica Serv share capital, adjustments for the participations held by Electrica SA in Electrica Serv based on the revaluation report made by an independent valuator in view of estimating the recoverable amount of shares held in Electrica Serv.

### TRADE RECEIVABLES

Trade receivables decreased by RON 8 million at the end of 2014 as compared to YE 2013, to RON 88 million from RON 96 million, due to termination of

services and representation contracts concluded with its subsidiaries.

### CASH AND EQUIVALENTS

As at 31 December 2014 compared to 31 December 2013 cash and cash equivalents and deposits, treasury bills and government bonds increased by RON 1,970 million, to RON 2,114 million from RON 144 million

at 31 December 2013 due to cashing related to the transfer of the ownership of the new shares issued by the company in July 2014.

### ASSETS HELD FOR DISTRIBUTION

Based on the Extraordinary General Shareholders decision dated 20 March 2014 and the resolution of the Bucharest Court dated 10 April 2014, the Group recognised the spin-off of the Company's shareholdings to a new company - „Societatea de Administrare a Participatilor in Energie SA” - wholly owned by the Ministry of Energy, Small and Medium-sized Enterprises and Business Environment. The spin-off referred to

the transfer of the shares held by the Company in 10 entities (Enel Distributie Muntenia, Enel Energie Muntenia, Enel Distributie Banat, Enel Distributie Dobrogea, Enel Energie, E.On Moldova Distributie, E.On Energie, Electrica Soluziona, Hidro Tarnita and BRM). The investments included equity accounted investees and other investments and were classified as assets held for distribution as at 31 December 2013.

### SHARE CAPITAL

The issued share capital in nominal terms consists of 345,939,929 ordinary shares at 31 December 2014, with a nominal value of RON 10 per share. All shares rank equally with regard to the Company's residual assets. The holders of ordinary shares are entitled to receive dividends as declared, and are entitled to one vote per share at meetings of the Company.

On 25 February 2014 an increase of share capital of 188,264 ordinary shares was registered in the Trade Registry. The shares were issued in respect of land contributed by the shareholder in previous periods. On 10 April 2014 Bucharest Court approved the spin-off by Electrica SA through transfer of part of its assets (investments held by Electrica SA in other entities) to a new company „Societatea de Administrare a Participatilor in Energie SA”, owned by the Romanian State, represented by the Ministry of Economy – Department for Energy. Following this transaction, the share capital decreased by 43,123,780 ordinary shares. On 16 May 2014 an increase of share capital of

3,846,797 ordinary shares was registered in the Trade Registry. The shares were issued in respect of land contributed by the shareholder in previous periods. In June 2014 the Company organised an IPO, which entailed to an offering of 142,007,744 shares and 8,795,250 GDRs, each GDR representing four shares. The subscriptions amounted to RON 1,556,095 thousand and USD 120,143,115. On 2 July 2014 the increase of share capital by 177,188,744 ordinary shares was recorded in the Trade Register. Consequently, the Group recognised an increase of share capital of RON 1,771,887,440 and a share premium of RON 171,128,062. The transaction costs of RON 68,079,885 were deducted from the share premium.

In July 2014 the Company purchased 5,206,593 ordinary shares and 421,000 Global Depository Receipts, equivalent to 1,684,000 shares. The total amount paid for acquiring the shares and Global Depository Receipts was RON 75,372,435.

### DIVIDENDS

Dividends for the year ended 31 December 2013, in amount of 22,475,225 RON, were declared on the basis of individual annual statutory financial statements.

The dividends in respect of the year ended 31 December 2013 were approved by OGMS of the Company no. 29 on 28 May 2014 and were paid on 28 July 2014.



## RESULTS OF OPERATIONS

### SELECTED FINANCIAL INFORMATION FROM THE COMPANY INCOME STATEMENT (THOUSANDS RON)

Indicator	2014	2013	Var.
<b>Revenues</b>	<b>244,517</b>	<b>282,988</b>	<b>-14%</b>
Other income	4,462	15,357	-71%
Electricity purchased	(224,176)	(227,939)	-2%
Employee benefits	(16,699)	(22,737)	-27%
Depreciation and amortization	(13,252)	(9,378)	41%
Impairment of property, plant and equipment, net	-	(12,466)	-
Impairment of investments in subsidiaries, net	(4,675)	(48,398)	-90%
Reversal of impairment / (Impairment) of trade and other receivables, net	(2,469)	16,594	-
Other operating expenses, net of variation in provisions	1,460	(49,962)	-
<b>Operating loss</b>	<b>(10,832)</b>	<b>(55,940)</b>	<b>-81%</b>
Finance income:	257,583	95,987	168%
Dividends income	238,432	90,291	164%
Interest income	19,151	5,696	236%
Finance costs	(2,486)	(2,044)	22%
Gain from disposals of shares held in other entities	31,809	-	-
<b>Net finance cost</b>	<b>286,907</b>	<b>93,942</b>	<b>205%</b>
<b>Profit before tax</b>	<b>276,075</b>	<b>38,002</b>	<b>626%</b>
Income tax expense	(6,586)	(1,182)	457%
<b>Profit for the year</b>	<b>269,490</b>	<b>36,819</b>	<b>632%</b>

In 2014, Electrica posted revenues of RON 244 million as compared to RON 283 million in 2013. The RON 39 million decrease in 2014 as compared

to 2013 is mainly due to termination of services and representation contracts concluded with its subsidiaries.

The income structure is as follows:

	Th. RON	
	2014	2013
Supply of electricity on the balancing market and day ahead market	230,731	232,817
Management and advisory services	9,051	45,436
Revenue from service contracts in relation to Automatic Meter Reading System	4,735	4,735
<b>Total</b>	<b>244,517</b>	<b>282,988</b>

#### OTHER INCOME

Other income mainly include rental income and late payment penalties from customers.

#### ELECTRICITY PURCHASED

Electricity purchased include the cost of electricity purchased for settlements on the balancing market and the day ahead market.

Salaries and other employee benefits decreased by RON 6 million, to RON 17 million from RON 23 million

in 2013, due to layoffs in the company's reorganization and restructuring program.

### OPERATIONAL PROFIT

In 2014, the company recorded a operating loss decrease compared to 2013, from 56 million to 11

million, due to lower operating expenses.

### REVENUES FROM THE DIVIDEND DISTRIBUTED BY SUBSIDIARIES

The main part of Electrica's income comes from dividends distributed by its subsidiaries.

amount to RON 238 million compared to RON 90 million in 2013, their structure is as follows:

Income from dividends from subsidiaries in 2014

	mil. RON	
	2014	2013
FDEE Electrica Muntenia Nord SA	82	57
FDEE Electrica Transilvania Nord SA	41	-
FDEE Electrica Transilvania Sud SA	45	-
FFEE Electrica Furnizare SA	70	33
<b>TOTAL</b>	<b>238</b>	<b>90</b>

### INTEREST REVENUES

In 2014, the company recorded an increase in interest revenue to RON 19 million from RON 6 million in 2013. The Company's strategy was to place the IPO money

through the Underwriter banks, member of the Syndicate, in risk-free titles and deposits, on short-term.

IPO Proceeds Inflows	Cashing from IPO: 4 July		Cashing from IPO: 7 July		Cashing of amounts not used by the banks in the stabilization process: 7 August		Cashing of amounts not used by the banks in the stabilization process: 21 August	
	Raiffeisen Bank – value of shares: 1,556mn RON Less amount held for stabilization : 74mn RON <b>Received: 1,482mn RON</b>		Citi Bank – value of GDR's: 387mn RON Less amount held for stabilization: 19mn RON <b>Received: 368mn RON</b>		Raiffeisen Bank – 16.7mn RON <b>Received: 16.7mn RON</b>		Citi Bank – 0.2mn RON <b>Received: 0.2mn RON</b>	
Placements	<b>4 July</b> T-bills: 1,224mn RON Deposits: 258mn RON <b>Total amounts placed: 1,482mn RON</b>	<b>28 July</b> T-bills: 988mn RON (reinvested from the amounts cashed in from T-bills expired) <b>Total amounts placed: 988mn RON</b>	<b>7 August</b> T-bills: 17mn RON <b>Total amounts placed: 17mn RON</b>	<b>7 October</b> T-bills: 100mn RON Deposits: 211mn RON <b>Total amounts placed: 311mn RON</b>	<b>27 October</b> T-bills: 685mn RON Deposits: 721mn RON <b>Total amounts placed: 1,406mn RON</b>	<b>5 November</b> T-bills: 78mn RON <b>Total amounts placed: 78mn RON</b>	<b>7 July</b> T-bills: 58mn RON Deposits: 311mn RON <b>Total amounts placed: 369mn RON</b>	
	<b>31 July</b> T-bills: 1mn RON <b>Total amounts placed: 1mn RON</b>	<b>1 October</b> Deposits: 201mn RON <b>Total amounts placed: 201mn RON</b>	<b>9 October</b> T-bills: 142mn RON Deposits: 86mn RON <b>Total amounts placed: 228mn RON</b>	<b>31 October</b> T-bills: 259mn RON <b>Total amounts placed: 259mn RON</b>	<b>7 November</b> T-bills: 86mn RON <b>Total amounts placed: 86mn RON</b>	<b>27 January</b> T-bills: 723mn RON <b>Total amounts placed: 723mn RON</b>	<b>28 January</b> T-bills: 211mn RON <b>Total amounts placed: 211mn RON</b>	

The increasing of financial performance is due to interest income: RON 4,739,363 relating to investments in deposits and RON 9,866,661 related investments in treasury bills and government bonds, cash earned by the company in July 2014 following the transfer of property

rights on new shares.

The Company obtained so far in 2015, interest income related to investments in treasury bills and government bonds of RON 5,421,770 and RON 825.236 from deposits.

### PROFIT BEFORE TAX

In 2014 the profit before tax increased by RON 238 million, to RON 276 million from RON 38 million in 2013, due to increasing of dividend revenues from its subsidiaries and operating expenses reduction. The profit before tax was impacted by an one-off transaction, respectively on 17 February 2014 the Company sold part of the shares held in E.On Moldova Distributie and E.On Energie Romania to E.On following

the exercise of call options by E.On. E.On paid the exercise price of RON 140,920 thousand to the Company.

Cash received from transaction with E.ON less the directly attributable costs were transferred to Societatea de Administrare a Participatiilor in Energie SA (RON 129 mill).

### INCOME TAX

In 2014, income tax expense increased by RON 5.4 million to RON 6.6 million from RON 1.2 million in 2013.

The increase is mainly generated by its deferred tax component related to Oltchim following restatements.

### NET PROFIT FOR THE PERIOD

As a result of the factors discussed above, net profit in 2014 recorded a significant increase compared to 2013, to RON 269 million from RON 37 million.

The company's main objective is to maximize Electrica's individual net profit, coordination and effective control

of participations in subsidiaries, so as to ensure the possibility of fulfilling the intention of management, declared in the Prospectus, to distribute dividends in the amount representing 85% of consolidated net profit.

## CASH FLOW

In 2014 the profit before tax was RON 276 million compared to RON 38 million in 2013.

The key adjustments in 2014 were: (i) adding depreciation and amortisation in the amount of RON 13 million, (ii) a net change in trade and other receivables of RON 31 million, (iii) deducting a change in trade and other payables of RON 14 million.

The key adjustments in 2013 were: (i) adding

depreciation and amortisation in the amount of RON 9 million, (ii) change in adjustments related to non-current assets depreciation, participations in its subsidiaries, trade and other receivables in amount of RON 44 million, (iii) deducting a change in trade and other payables of RON 53 million. Income tax and interest paid amounted to a total of RON 2.6 million.

## PERSONNEL

The average number of employees decreased in 2014 as compared to 2013 by 49 employees, to 139 employees from 188 employees, as a result of the lay-offs in the company's reorganization and restructuring program, while the actual staff number is constant 149.

At 31 December 2014, approximately 93% of the Group's employees are members of labour unions and their employment conditions are governed by a collective bargaining agreement that is renegotiated at least every two years and filed with the relevant labour authorities in Romania.

Electrica has not experienced any strike or other form of labour disturbances that have interfered with its operations, and management considers its relationship with employees to be good.

In compliance with Law No. 319/2006 on labour safety

and health and its methodological norms the company has established a committee for labour safety and health. Electrica's training programmes aim to upgrade the skills of the employees so they can adapt to broader tasks to better utilise its existing resources. Management believes that its emphasis on training and development helps its employees meet business challenges effectively.

The Company has in place internal regulations that generally relate to general employment provisions, non-discrimination, labour safety and health, rights and obligations of the employer and of the employees, employee complaint procedures, rules on labour discipline, disciplinary sanctions and disciplinary infringements, rules regarding disciplinary procedure, the criteria and procedure for the professional evaluation of employees and final provisions.

## RISK MANAGEMENT AND INTERNAL CONTROL

### Risk management and Internal Control

Underlying legislation for implementing a risk management system as well as a system for internal control/management has been:

- Order of the Ministry of Public Finance no. 946/2005 regarding development of a internal control/management system with all subsequent ammendments;
- Government Order no. 119/1999 regarding internal control and preventive financial control with all subsequence ammendments.

In addition, the risk management together with the internal control and management system at Electrica SA level takes place in accordance with internal procedures agreed.

A major concern for the management is building awareness of employees regarding the importance of managing risk inside the organization and the necessity of direct involvement in unfolding the risk management

process, as well as aligning best practices on national and international level by following legislation in place, standards and related norms.

In June last year Executive management of Electrica SA started with classifying the risks for the Company in terms of probability of occurrence and impact on the Company. Five impact levels and five probability levels were identified, ranging from risks that are tolerable and risks that have zero tolerance and risks that have low probability and risks with high probability. One risk, which has to do with loss of intellectual capital, was quantified in the highest category, which means that urgent managerial control measures are needed. A further five risks were classified in the area of low tolerance, for which short term managerial control measures are required. Corrective actions have been taken for these six risk areas. During 2015 the risk management system will be further detailed, improved and discussed with the board.

### FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk.

#### (i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers, cash and cash equivalents, bank deposits and treasury bills and government bonds.

The company has a high credit risk mainly with the state-owned companies. Until 2012, the Company

had a credit risk concentration with Oltchim SA, which became insolvent. Currently, the Company considers that the credit risk exposure significantly decreased. Cash, bank deposits, treasury bills and government bonds are placed in financial institutions, which are considered to have minimal risk of default.

The carrying amount of financial assets represents the maximum credit exposure.

#### Trade receivables

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables.

#### Impairment

The ageing of trade receivables was as follows:

In RON	31 December 2014		31 December 2013	
	Gross value	Bad debt allowance	Gross value	Bad debt allowance
Neither past due nor impaired	83,382,090	-	92,780,614	
Past due 1-90 days	743,587	-	77,738	
Past due 90-180 days	498,036	-	773,759	
Past due 180-360 days	3,072,053	-	2,028,375	
Past due 1-2 years	3,804,652	(3,804,652)	32,264,483	(32,264,483)
Past due 2-3 years	34,542,103	(34,542,103)	229,020,902	(229,020,902)
Past due more than 3 years	632,051,499	(632,051,499)	406,643,388	(406,643,388)
<b>Total</b>	<b>758,094,020</b>	<b>(670,398,254)</b>	<b>763,589,259</b>	<b>(667,928,773)</b>



The allowance for impairment refers mainly to customer Oltchim SA.

<i>In RON</i>	Net trade receivables	
	31 December 2014	31 December 2013
Neither past due nor impaired	83,382,090	92,780,614
Past due 1-90 days	743,587	77,738
Past due 90-180 days	498,036	773,759
Past due 180-360 days	3,072,053	2,028,375
<b>Total</b>	<b>87,695,766</b>	<b>95,660,486</b>

#### (ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without

incurring unacceptable losses.

The Company aims to maintain the level of its cash and cash equivalents at an amount in excess of expected cash outflows on financial liabilities. The Company also monitors the level of expected cash inflows on trade receivables together with expected cash outflows on trade and other payables.

#### Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The

amounts are gross and undiscounted, and include estimated interest payments.

<i>In RON</i>	Contractual cash flows		
	Carrying amount	Total	less than 1 year
<b>Financial liabilities 31 December 2014</b>			
Trade payables	83,400,334	83,400,334	83,400,334
<b>Total</b>	<b>83,400,334</b>	<b>83,400,334</b>	<b>83,400,334</b>

#### (iii) Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates – will affect the Company's income or the value of its holdings of financial instruments. The objective of

market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

#### Currency risk

The Company is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales, purchases and borrowings are denominated and the functional currency of the Company. The functional currency of all entities belonging to the Company is the Romanian Leu (RON).

The currencies in which these transactions are primarily denominated are RON and EUR. The Company also has deposits and bank accounts denominated in foreign currency (EUR). The Company's policy is to use the local currency in its transactions as far as practically possible. The Company does not use derivative or hedging instruments.

#### Exposure to currency risk

The summary quantitative data about the Company's exposure to currency risk is as follows:

<i>in thousands of RON</i>	31 December 2014	31 December 2013
	EUR	EUR
Cash and cash equivalents	10,137,641	136,172,767
Deposits (deposits, treasury bills and government bonds)	136,704,050	-
<b>Expunere neta la nivelul situatiei pozitiei financiare</b>	<b>146,841,691</b>	<b>136,172,767</b>

The following significant exchange rates have been applied during the year:

	Average rate		Year-end spot rate		
	2014	2013	2014	2013	2011
RON					
EUR 1	4.4446	4.4190	4.4821	4.4847	4,4287

#### Sensitivity analysis

A reasonably possible strengthening (weakening) of the EUR against RON at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and profit before

tax, and respectively the equity by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

Effect	Profit before tax	
	Strengthening	Weakening
<b>31 December 2014</b>		
EUR (5% movement)	7,342,085	(7,342,085)
<b>31 December 2013</b>		
EUR (5% movement)	6,808,638	(6,808,638)

#### Interest rate risk

The company does not have long-term bank loans.

#### Exposure to interest rate risk

The interest rate profile of the Company's interest-bearing financial instruments is as follows:

	31 December 2014	31 December 2013
<b>Fixed-rate instruments</b>		
<b>Financial assets</b>		
Bank accounts (cash and cash equivalent)	874,243,283	140,619,441
Deposits, treasury bills and government bonds	1,038,419,841	-
	<b>1,912,663,124</b>	<b>140,619,441</b>
<b>Variable-rate instruments</b>		
<b>Financial liabilities</b>		
Overdrafts	-	(36,999,437)
Short-term bank loans	-	-
	-	<b>(36,999,437)</b>

#### Fair value sensitivity analysis for fixed-rate instruments

The Company does not account for any fixed-rate financial assets or financial liabilities at fair value through

profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

#### Cash flow sensitivity analysis for variable-rate instruments

A reasonably possible change of 50 basis points in interest rates at the reporting date would have increased (decreased) profit before tax by the

amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	Profit before tax	
	50 bp increase	50 bp decrease
<b>31 December 2014</b>		
Variable-rate instruments	-	-
<b>31 December 2013</b>		
Variable-rate instruments	(184,997)	184,997

## ENVIRONMENTAL ASPECTS

The company has implemented management system in relation to environmental and health and operational safety matters. The annual capital investment budget include expenditure for environmental matters.

As at the date of this report, the company holds all material permits required for it to conduct its business,

and the company's business is conducted in compliance with all specific environmental regulations. Integrated Quality, Environment, Occupational Health and Safety management systems certified in accordance with ISO 9001:2008, ISO 14001:2014 and EN OHSAS 18001:2007 have been implemented by the company.

## R&D ACTIVITY

An important endeavour in promoting technological innovation constitutes the dissemination of improvement solutions for electricity networks related to smart grid concepts. As such, Electrica is organizing every year in November conferences with international attendance which have as an alternative theme smart grid solutions in one year and smart metering solutions in the next year. Best practices in

the field for each investment category are presented. Moreover, we can emphasize the participation at international conferences organized by the World Energy Council, CIGRE and CIRED international conferences which aim at tackling technological innovation and promoting new technologies which improve operational efficiency.

## CONCLUDED CONTRACTS

Contracts concluded during 2014 reported according to art. 225 of Law 297/2004:

- SC Filiala de Intretinere si Servicii Energetice „Electrica Serv” SA – C54/28-02-2014- Auto transport services- value: 2,996 th RON
- SC FDEE Electrica Distributie Muntenia Nord SA – C59/28-02-2014 – Management and advisory services – value: 953 th. RON
- SC FDEE Electrica Distributie Transilvania Nord SA – C60/28-02-2014 – Management and advisory services- value: 953 th. RON
- SC FDEE Electrica Distributie Transilvania Sud SA – C61/28-02-2014 – Management and advisory services- value: 953 th. RON

## SUBSEQUENT EVENTS

From 1 January 2015 until the date of this report, the company did not record subsequent events with significant impact on the financial situation such as new significant commitments or contingent liabilities (e.g. issuing significant guarantees or getting

significant loans, etc), capital increases, significant Company's shares transactions, controls from various state institutions, major acquisitions or disposals of assets, etc.



## KEY FACTORS, DRIVERS AND SIGNIFICANT MARKET TRENDS AFFECTING THE RESULTS OF ELECTRICA'S OPERATIONS

Directors distinguishes between key factors, drivers and significant market trends it cannot control and those that it can (albeit often only to a limited degree) control. Key factors, drivers and significant market trends that Directors cannot control include:

- (i) the cost of electricity purchased;
- (ii) macroeconomic trends in the Romanian economy;
- (iii) demand for electricity;
- (iv) the general regulatory and legal framework under which the company operates, including ANRE's policies;

Key factors and drivers that Directors can at least partially control include the company's capital expenditures and operating expenses.

Key factors and directions that you can control Board of Directors at least partially, include the

company's capital investment and operating expenses.

Directors believe that in the mid- to long-term the continued growth of Romania's real GDP, and of the Romanian economy generally, will have some positive impact on electricity consumption in Romania, which, in turn, will have a positive effect on Electrica's business) and its results of its operations. In particular, Directors believe that as long as Romanian economic growth continues to outpace that of the EU, per capita electricity consumption in Romania is likely to continue to rise. Conversely, a significant slowdown in the growth of Romania's GDP and of the Romanian economy in general could have some negative effect on energy consumption in Romania and, in turn, on Electrica's business and its results of operations.

## STATEMENTS

During the year ended 31 December 2014, DFEE ELECTRICA SA complied with all its financial obligation. Also, there are no factors of uncertainty that could affect the company's liquidity.

Attached hereto are the individual audited financial

statements for the year ended on 31 December, 2014, prepared in accordance with the International Financial Reporting Standards, approved through the Board of Directors Decision no. 9 on 26 March 2015

**Chairman of the Board of Directors,**  
**Victor CIONGA**





# INDIVIDUAL FINANCIAL STATEMENTS

For the year ended  
31 December 2014



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	Note	31 December 2014	31 December 2013	1 January 2013
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	20	291.258.568	302.373.419	257.387.192
Intangible assets	21	677.666	797.803	318.000
Investments in subsidiaries	22	1.427.360.547	1.405.189.737	1.453.587.987
Investments in associated entities	23	-	-	507.266.152
Deferred tax assets	15	7.205.689	13.932.473	15.156.826
<b>Total non-current assets</b>		<b>1.726.502.470</b>	<b>1.722.293.432</b>	<b>2.233.716.157</b>
<b>Current assets</b>				
Cash and cash equivalents	19	1.075.619.774	144.125.683	185.208.969
Deposits, treasury bills and government bonds	17	1.038.419.841	-	-
Trade receivables	16	87.695.766	95.660.486	86.841.490
Other receivables	18	15.390.676	32.500.435	38.665.771
Inventories		166.347	134.502	217.965
Prepayments		336.573	328.120	443.126
Income tax receivable		23.134.100	22.794.808	5.878.858
Assets held for distribution	23	-	507.266.152	-
<b>Total current assets</b>		<b>2.240.763.077</b>	<b>802.810.186</b>	<b>317.256.179</b>
<b>Total assets</b>		<b>3.967.265.547</b>	<b>2.525.103.618</b>	<b>2.550.972.336</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital out of which:	24	3.814.242.000	2.509.306.102	2.493.197.502
<i>Subscribed share capital</i>	24	<i>3.459.399.290</i>	<i>2.078.399.040</i>	<i>2.062.290.440</i>
<i>Inflation adjustment to share capital</i>	30	<i>354.842.710</i>	<i>430.907.062</i>	<i>430.907.062</i>
Share premium	24	103.049.177	-	-
Treasury shares reserve	24	(75.372.435)	-	-
Pre-paid capital contributions in kind from shareholders		3.277.268	47.492.961	54.481.291
Revaluation reserve	24	828.548	-	-
Legal reserves	24	127.896.823	114.093.070	114.093.070
Retained earnings		(104.364.433)	(317.248.563)	(341.076.784)
<b>Total equity</b>		<b>3.869.556.948</b>	<b>2.353.643.570</b>	<b>2.320.695.079</b>

(Continued on next page)



	Note	31 December 2014	31 December 2013	1 January 2013
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Employee benefits	13	2.990.743	2.758.753	2.828.309
Other payables	26	-	5.497.560	10.625.446
<b>Total non-current liabilities</b>		<b>2.990.743</b>	<b>8.256.313</b>	<b>13.453.755</b>
<b>Current liabilities</b>				
Bank loans	28	-	-	10.333.911
Bank overdrafts	19	-	36.999.437	55.732.038
Trade payables	25	83.400.334	86.798.928	94.529.169
Other payables	26	8.663.437	4.190.377	34.541.668
Deferred revenue		384.428	410.264	361.339
Employee benefits	12,13	2.269.657	4.027.375	3.825.288
Provisions	27	-	30.777.354	17.500.089
<b>Total current liabilities</b>		<b>94.717.856</b>	<b>163.203.735</b>	<b>216.823.502</b>
<b>Total liabilities</b>		<b>97.708.599</b>	<b>171.460.048</b>	<b>230.277.257</b>
<b>Total equity and liabilities</b>		<b>3.967.265.547</b>	<b>2.525.103.618</b>	<b>2.550.972.336</b>

**General Manager**  
Ioan Rosca

**Economic Manager**  
Emilia Elena Marin

	Note	2014	2013
Revenues	8	244.517.469	282.988.139
Other income	9	4.462.492	15.356.685
Electricity purchased	9	(224.176.045)	(227.938.870)
Employee benefits	14	(16.699.072)	(22.737.116)
Depreciation and amortization	20,21	(13.252.249)	(9.377.572)
Impairment of property, plant and equipment, net	20	-	(12.465.531)
Impairment of investments in subsidiaries, net		(4.674.871)	(48.398.250)
Reversal of impairment / (Impairment) of trade and other receivables, net	16,18	(2.469.481)	16.594.284
Other operating expenses, net of variation in provisions	9	1.459.641	(49.962.140)
<b>Operating loss</b>		<b>(10.832.116)</b>	<b>(55.940.371)</b>
Finance income	10	257.583.262	95.986.764
Finance costs	10	(2.485.569)	(2.044.364)
Gain from disposals of shares held in other entities	10	31.809.478	-
<b>Net finance cost</b>		<b>286.907.171</b>	<b>93.942.400</b>
<b>Profit before tax</b>		<b>276.075.055</b>	<b>38.002.029</b>
Income tax expense	15	(6.585.537)	(1.182.446)
<b>Profit for the year</b>		<b>269.489.518</b>	<b>36.819.583</b>
<b>Earnings per share</b>			
Basic and diluted earnings per share	11	0,97	0,18

**General Manager**

Ioan Rosca

**Economic Manager**

Emilia Elena Marin

	Note	2014	2013
<b>Profit for the year</b>		<b>269.489.518</b>	<b>36.819.583</b>
<b>Other comprehensive income</b>			
<i>Items that will never be reclassified to profit or loss</i>			
Revaluation of property, plant and equipment	20	986.367	-
Tax related to revaluation of property, plant and equipment	15	(157.819)	-
Remeasurements of the defined benefit liability	13	(103.574)	261.921
Tax related to remeasurements of the defined benefit liability	15	16.572	(41.907)
<b>Other comprehensive income, net of tax</b>		<b>741.546</b>	<b>220.014</b>
<b>Total comprehensive income</b>		<b>270.231.064</b>	<b>37.039.597</b>

**General Manager**

Ioan Rosca

**Economic Manager**

Emilia Elena Marin

Note	Subscribed share capital	Inflation adjustment to share capital	Share premium	Treasury shares	Pre-paid capital contributions in kind from shareholders	Revaluation reserve	Revaluation reserve	Retained earnings	Total
<b>Balance at 31 December 2013</b>	<b>2.078.399.040</b>	<b>430.907.062</b>	-	-	<b>47.492.961</b>	-	<b>114.093.070</b>	<b>(317.248.563)</b>	<b>2.353.643.570</b>
<b>Comprehensive income</b>									
Profit	-	-	-	-	-	-	-	269.489.518	269.489.518
Other comprehensive income	-	-	-	-	-	828.548	-	(87.002)	741.546
<b>Total comprehensive income</b>	-	-	-	-	-	<b>828.548</b>	-	<b>269.402.516</b>	<b>270.231.064</b>
<b>Transactions with owners of the Company</b>									
<b>Contributions and distributions</b>									
Underwritings from the IPO, net	24	1.771.887.440	-	103.049.177	-	-	-	-	1.874.936.617
Treasury shares acquired	24	-	-	(75.372.435)	-	-	-	-	(75.372.435)
Issue of ordinary shares in respect of land contributed by the shareholders	24	40.350.610	-	-	(44.215.693)	-	-	-	(3.865.083)
Dividends	24	-	-	-	-	-	-	(22.475.225)	(22.475.225)
Spin-off effect	23	(431.237.800)	(76.064.352)	-	-	-	-	(20.239.408)	(527.541.560)
<b>Total transactions with owners of the Company</b>		<b>1.381.000.250</b>	<b>(76.064.352)</b>	<b>103.049.177</b>	<b>(75.372.435)</b>	<b>(44.215.693)</b>	-	<b>(42.714.633)</b>	<b>1.245.682.314</b>
<b>Other changes in equity</b>									
Set up of legal reserves		-	-	-	-	-	13.803.753	(13.803.753)	-
<b>Balance at 31 December 2014</b>	<b>3.459.399.290</b>	<b>354.842.710</b>	<b>103.049.177</b>	<b>(75.372.435)</b>	<b>3.277.268</b>	<b>828.548</b>	<b>127.896.823</b>	<b>(104.364.433)</b>	<b>3.869.556.948</b>

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Note	Subscribed share capital	Inflation adjustment to share capital	Share premium	Treasury shares	Pre-paid capital contributions in kind from shareholders	Revaluation reserve	Revaluation reserve	Retained earnings	Total
<b>Balance at 1 January 2013</b>	<b>2.062.290.440</b>	<b>430.907.062</b>	-	-	<b>54.481.291</b>	-	<b>114.093.070</b>	<b>(341.076.784)</b>	<b>2.320.695.079</b>
<b>Comprehensive income</b>									
Profit	-	-	-	-	-	-	-	36.819.583	36.819.583
Other comprehensive income	-	-	-	-	-	-	-	<b>220.014</b>	<b>220.014</b>
<b>Total comprehensive income</b>	-	-	-	-	-	-	-	<b>37.039.597</b>	<b>37.039.597</b>
<b>Transactions with owners of the Company</b>									
<b>Contributions and distributions</b>									
Issue of ordinary shares in respect of land contributed by the shareholders	24	16.108.600	-	-	(16.108.600)	-	-	-	-
Land for which ownership rights were obtained	24	-	-	-	9.120.270	-	-	-	9.120.270
Dividends	24	-	-	-	-	-	-	(13.211.376)	(13.211.376)
<b>Total transactions with owners of the Company</b>		<b>16.108.600</b>	-	-	<b>(6.988.330)</b>	-	-	<b>(13.211.376)</b>	<b>(4.091.106)</b>
<b>Balance at 31 December 2013</b>	<b>2.078.399.040</b>	<b>430.907.062</b>	-	-	<b>47.492.961</b>	-	<b>114.093.070</b>	<b>(317.248.563)</b>	<b>2.353.643.570</b>

The accompanying notes are an integral part of these individual financial statements.

	Note	2014	2013
<b>Cash flows from operating activities</b>			
Profit for the year		<b>269.489.518</b>	<b>36.819.583</b>
<b>Adjustments for:</b>			
Depreciation	20	12.806.965	9.291.239
Amortisation	21	445.284	86.333
Impairment loss on property, plant and equipment, net	20	-	12.465.531
Impairment of investments in subsidiaries, net	22	4.674.871	48.398.250
Impairment / (Reversal of impairment) of trade and other receivables, net	18,20	2.469.481	(16.594.284)
Net finance income	10	(286.907.171)	(93.942.400)
Income tax expense	15	6.585.537	1.182.446
		9.564.485	(2.293.302)
<b>Changes in :</b>			
Trade receivables		(48.019.061)	(91.696.728)
Other receivables		17.040.412	(6.730.352)
Trade payables		52.585.186	73.669.223
Other payables		(38.536.239)	(20.720.113)
Employee benefits and provisions		(1.629.302)	394.452
<b>Cash used in operating activities</b>		<b>(8.994.519)</b>	<b>(47.376.820)</b>
Interest paid		(34.807)	(2.615.320)
<b>Net cash used in operating activities</b>		<b>(9.029.326)</b>	<b>(49.992.140)</b>

(Continued on next page)

	Note	2014	2013
<b>Cash flows from investing activities</b>			
Payments for purchases of property, plant and equipment		(31.416.511)	(57.622.727)
Payments for purchase of intangible assets		(325.147)	(566.136)
Proceeds from sale of other investments	23	140.920.000	-
Payments for purchase of treasury bills and government bonds		(1.194.250.628)	-
Proceeds from maturity of treasury bills and government bonds		295.598.291	-
Payments in deposits with maturity of 3 months or longer		(137.004.050)	-
Proceeds from borrowings granted to subsidiaries		-	10.271.379
Payments for share acquisition in associates		-	(57.500)
Interest received		17.866.153	7.390.381
Dividends received	22	238.431.719	90.293.077
<b>Net cash from / (used in) investing activities</b>		<b>(670.180.173)</b>	<b>49.708.474</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares, net of transaction costs	24	1.874.936.617	-
Re-purchase of treasury shares	24	(75.372.435)	-
Dividends paid	24	(22.475.225)	(13.211.376)
Repayment of bank borrowings		-	(10.333.911)
Cash transferred at spin off	23	(129.385.930)	-
<b>Net cash from / (used in) financing activities</b>		<b>1.647.703.027</b>	<b>(23.545.287)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>968.493.528</b>	<b>(23.828.953)</b>
Cash and cash equivalents at 1 January	19	107.126.246	129.476.931
Effect of movements in exchange rates on cash held		-	1.478.268
<b>Cash and cash equivalents at 31 December</b>	<b>19</b>	<b>1.075.619.774</b>	<b>107.126.246</b>

The accompanying notes are an integral part of these individual financial statements.

**General Manager**

Ioan Rosca

**Economic Manager**

Emilia Elena Marin

## 1 REPORTING ENTITY

These financial statements are the individual financial statements of Societatea de Distributie si Furnizare a Energiei Electrice Electrica S.A. ("the Company"). Electrica was originally incorporated as a company in 1998 by Government Decision no. 365/1998, following the restructuring of the former National Electricity Kings (RENEL). On 1 August 2000, following the restructuring of the former National Electricity Company (Electrical Company) under the Government Decision no. 627/2000, the Company was allocated a new tax registration number, without changing the object of activity (distribution and supply of electricity

in Romania). The registered office of the Company is 9 Grigore Alexandrescu Street, Sector 1, Bucharest, Romania. The Company has unique registration number 13267221 and Trade Register registration number J40/7425/2000.

As at 31 December 2014 the major shareholder of Electrica SA is the Romanian State, represented by the Ministry of Energy, Small and Medium-sized Enterprises and Business Environment (48.78%), after the ownership dilution following an initial public offer. The second shareholder based on the share of ownership is EBRD with 8.66%.

As at 31 December 2014 and 2013, the Company has the following shareholdings:

Subsidiary	Activity	Tax code	Head Office	% shareholding as at 31 Dec 2014	% shareholding as at 31 Dec 2013
Electrica Distributie Muntenia Nord SA	Electricity distribution in geographical area of Muntenia Nord	14506181	Ploiesti	78.0000021%	78.0000021%
Electrica Distributie Transilvania Nord SA	Electricity distribution in geographical area of Transilvania Nord	14476722	Cluj-Napoca	77.99999%	77.99999%
Electrica Distributie Transilvania Sud SA	Electricity distribution in geographical area of Transilvania Sud	14493260	Brasov	78.0000019%	78.0000019%
Electrica Furnizare SA	Electricity Supply	28909028	Bucuresti	77.99997%	77.99997%
Electrica Serv SA	Services in the energy sector (maintenance, repairs, construction)	17329505	Bucuresti	100%	100%
Servicii Energetice Muntenia SA (societate in reorganizare)	Services in the energy sector (maintenance, repairs, construction)	29384120	Bucuresti	100%	100%
Servicii Energetice Moldova SA (societate in insolventa)	Services in the energy sector (maintenance, repairs, construction)	29386768	Bacau	100%	100%
Servicii Energetice Banat SA* (societate in faliment)	Services in the energy sector (maintenance, repairs, construction)	29388211	Timisoara	100%	100%
Servicii Energetice Dobrogea SA (societate in insolventa)	Services in the energy sector (maintenance, repairs, construction)	29388378	Constanta	100%	100%
Servicii Energetice Oltenia SA (societate in reorganizare)	Services in the energy sector (maintenance, repairs, construction)	29389861	Craiova	100%	100%

\* Electrica SA lost the control of Servicii Energetice Banat starting with November 2014 (see Note 22).

### THE MAIN ACTIVITIES OF THE COMPANY

Currently, the core business of the Company, according to the Statute, annex to Government Decision no. 627/2000, consolidated, amended and supplemented, is the "Activities of business and management consulting." The Company also covers services on the balancing electricity market, trading and import-export.

According to the Commercial Code of the wholesale electricity market, balancing market was introduced and began operating in Romania in July 2005. The

purpose of this market is to allow the balance of the production and consumption of power in real time, using resources provided in a competitive system. Each participant at the wholesale market (producer, supplier, operator, eligible consumer) has the obligation to register at the Operator of the balancing market of CN Transelectrica SA as a Balance Responsible Party ("BRP") or to transfer his balancing responsibility to another licence holder registered as BRP. The Company operates as Balance Responsible Party for 110 license holders.



### INITIAL PUBLIC OFFERING

The Government Decision no. 85/2013, amended and completed by Government Decision no. 477/2014 approved the privatization strategy of Electrica SA by initial public offer (“IPO”). The privatization strategy included the offer for sale of a 51% stake by issuance of new shares representing 105% of the existing share capital as at the date of the IPO. The shares were offered to both individual and institutional investors on the Romanian market, as well as to qualified investors on the US market and outside USA, and Global Depository Receipts (“GDRs”) on the UK market. The IPO was organised between 11 and 27 June 2014 and entailed to an offering by the Company of 177,188,744 ordinary shares in the form of shares

and in the form of GDRs, each GDR representing four shares. Following the IPO, the Company sold 142,007,744 shares and 8,795,250 GDRs, at the offer prices of RON 11 per share and 13.66 USD per GDR. The allocation of shares and GDRs and the offering prices were concluded on 27 June 2014. The transfer of ownership rights to new shares and the collection of cash by the Company took place on 2 July 2014. At the same date the increase in share capital was recorded in the Trade Register.

Starting 4 July 2014 the Company’s shares are listed on the Bucharest Stock Exchange, and the GDRs are listed on the London Stock Exchange.

## 2 BASIS OF ACCOUNTING

These individual financial statements have been prepared in accordance with the Minister of Public Finance Order no. 1286/2012 for approving the Accounting Regulations in accordance with International Financial Reporting Standards (“IFRS”), applicable to companies whose securities are admitted to trading on a regulated market, and related amendments (“OMPF 1286/2012”). In acceptance of OMPF 1286/2012, International Financial Reporting Standards are standards adopted under the procedure provided by the European Commission Regulation no. 1606/2002 of the European Parliament and of the Council of 19 July 2002 regarding the application of the international accounting standards.

These financial statements are the first set of individual financial statements prepared in accordance with OMPF 1286/2012 and IFRS 1 “First-time Adoption of the International Financial Reporting Standards” (“IFRS 1”) was applied. According to the Minister of Public Finance Order no. 881/2012, starting with financial year 2014, the company has the obligation to apply the International Financial Reporting Standards for the annual individual financial statements. Explanations on how the transition to IFRS has affected the reported financial position and financial performance of the Company are presented in note

30. Date of transition to the International Financial Reporting Standards was 1 January 2013. Starting with financial year 2012, companies whose securities are admitted to trading on a regulated market are required to apply IFRS for the annual individual financial statements.

The individual financial statements for the year 2014 compliant with the OMPF 1286/2012 have been prepared by restating the accounting information organized under the accounting regulations compliant with Directive IV of the European Economic Community, approved by the Minister of Public Finance Order no. 3055/2009 approving the accounting regulations compliant with European Directives, and related amendments (“OMPF 3055/2009”).

The most significant changes brought to financial statements prepared in accordance with accounting regulations compliant with Directive IV of the European Economic Community to align them with International Financial Reporting Standards requirements (“IFRS”) are presented in Note 32.

The individual financial statements were authorized for issue by the Board of Directors on 25 March 2015. The financial statements will be submitted for shareholders’ approval in the meeting scheduled on 27 April 2015.

## 3 FUNCTIONAL AND PRESENTATION CURRENCY

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

## 4 USE OF JUDGEMENTS AND ESTIMATES

In preparing these individual financial statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

### (A) JUDGEMENTS

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the individual financial statements is included below:

#### Commissions

Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. If the Company acts in the capacity of an agent rather than as the principal in a transaction, then the income recognised is the net amount of commission earned by the Company.

### (B) ASSUMPTIONS AND ESTIMATION UNCERTAINTIES

Information about assumptions and estimation uncertainties that may result in a material adjustment in the subsequent twelve month period is included in the following notes:

- Note 6 h) and i) – assumptions regarding the useful life of the tangible and intangible assets;
- Notes 16 and 28 – assumptions and estimates about the recoverability of trade receivables;
- Note 20- assumptions regarding the revalued amount of the intangible assets;
- Note 22 – assumptions and estimates regarding the evaluation of shares in subsidiaries;

- Note 15 – recognition of deferred tax assets: availability of future taxable profit against which tax loss carried forward can be used;
- Notes 27 and 30 – recognition and measurement of provisions and contingencies;
- Note 13 – measurement of defined benefit obligations and other long-term employee benefits: key actuarial assumptions;
- Note 20 – determining whether a contract contains a lease.

#### Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about the assumptions made in measuring fair values is included in Note 20- Intangible assets.

## 5 BASIS OF MEASUREMENT

The individual financial statements have been prepared on the historical cost basis except for the intangible assets which are measured based on revaluation model.

## 6 SIGNIFICANT ACCOUNTING POLICIES

The Company has consistently applied the following accounting policies to all periods presented in these individual financial statements:

### (A) REVENUE

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company, and the amount of the revenue can be measured reliably. Revenue is recognized at the fair value of the services rendered or goods delivered, net of VAT, excises or other taxes related to the sale.

### Rendering of services

Revenues related to services rendered are recognised in the period in which the services were rendered based on statements of work performed, regardless of when paid or received, in accordance with the accrual basis.

### Sales of goods

Revenue from sale of goods is recognized when the goods are delivered and significant risks and rewards of ownership of the goods have passed to the buyer.

### (B) COMMISSIONS

Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements except for collection of radio and TV taxes. If the Company acts in the capacity of an agent rather than as the principal in a transaction, then the income recognised is the net amount of commission earned by the Company.

### (C) FINANCE INCOME AND FINANCE COSTS

The Company's finance income and finance costs include:

- interest income;
- interest expense;
- the foreign currency gain or loss on financial assets and financial liabilities;
- impairment losses recognised on financial assets (other than trade receivables).

Interest income or expense is recognised using the effective interest method.

### (D) FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated to the functional currency at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date, as communicated by the National Bank of Romania.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the

functional currency at the exchange rate when the fair value was determined. Foreign currency differences are recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

### (E) EMPLOYEE BENEFITS

#### (i) Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### (ii) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

#### (iii) Defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in other comprehensive income. The Company determines the net interest expense (income) on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Company recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

#### (iv) Other long-term employee benefits

The Company's net obligation in respect of long-

term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

**(v) Termination benefits**

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

**(F) INCOME TAX**

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or in other comprehensive income.

**(i) Current tax**

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

**(ii) Deferred tax**

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when

they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that the future taxable profits will be available against which they can be used.

**(G) INVENTORIES**

Inventories consist mainly of consumables, goods for resale and other inventories.

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of the business, minus the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories is based on the weighted average cost method. The cost of inventories includes all the acquisition costs and other expenses related to bringing the inventories to their current place and condition.

**(H) PROPERTY, PLANT AND EQUIPMENT**

**(i) Recognition and measurement**

Property, plant and equipment are stated initially at cost, which includes purchase price and other costs directly attributable to acquisition and bringing the asset to the location and condition necessary for their intended use.

After initial recognition, land and buildings are measured at revalued amounts less any accumulated depreciation and any accumulated impairment losses since the most recent valuation.

The Company used the fair value as deemed cost for the tangible assets for the opening of the financial position.

Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.

When a building is revalued, the accumulated depreciation is eliminated against the gross carrying amount of that item, and the net amount is restated to the revalued amount of the asset.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Spare parts, stand-by and servicing equipment are classified as property, plant and equipment if they are expected to be used during more than one period

or can be used only in connection with an item of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

#### (ii) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

#### (iii) Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land and construction in progress are not depreciated.

The estimated useful lives of property, plant and equipment are as follows:

Category	Useful lives
Buildings	60-70 (average 67 years)
Equipment	4-12 (average 7 years)
Office equipment	3-10 (average 7 years)

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### (I) INTANGIBLE ASSETS

#### (i) Recognition and measurement

Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

#### (ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

#### (iii) Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

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

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### (J) ASSETS HELD FOR DISTRIBUTION

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-distribution if it is highly probable that they will be recovered primarily through distribution rather than through continuing use.

Such assets, or disposal groups, are measured at the

lower of their carrying amount and fair value less costs of distribution. Impairment losses on initial classification as held-for-distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

### (K) FINANCIAL INSTRUMENTS

The Company classifies non-derivative financial assets into the following categories: loans and receivables, held to maturity investments and financial assets available for sale.

The Company classifies non-derivative financial liabilities into the other financial liabilities category.

#### (i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Company initially recognises loans and receivables on the date when they are originated. Financial liabilities are initially recognised on the trade date, which is the date the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of

financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

**(ii) Non-derivative financial assets – measurement  
Loans and receivables**

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

Loans and receivables comprise trade receivables, cash and cash equivalents and deposits, treasury bills and government bond.

*Trade receivables*

Trade receivables include mainly unsettled invoices issued until reporting date for settlements on the balancing market, late payment penalties and accrued revenue for settlements on the balancing market until the end of the year, but invoiced after the end of the year. Also trade receivables include issued invoices or issued by the subsidiaries for their rendered services.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits and deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

*Held-to-maturity investments*

Held-to-maturity financial assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

*Financial assets available for sale*

Available for sale financial assets are non-derivative financial assets that are designated as available for sale. Financial assets available for sale are initially recognized at fair value plus any directly attributable transaction costs.

After the initial recognition, they are measured at cost minus any impairment losses.

Financial assets available for sale for which there isn't an active market and it is not possible to reliably determine the fair value, are measured at cost and periodically tested for impairment.

Financial assets available for sale include investments in subsidiaries and investments in associates.

**(iii) Non-derivative financial liabilities – measurement**

Non-derivative financial liabilities are initially

recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities include bank borrowings, bank overdrafts, and trade payables.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents in the statement of cash flows.

**(iv) Share capital**

*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity.

*Repurchase and reissue of ordinary shares  
(treasury shares)*

When shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury share reserve. When shares are sold or reissued subsequently, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is presented within share premium.

**(L) IMPAIRMENT**

**(i) Non-derivative financial assets**

Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

*Financial assets measured at amortised cost*

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found

not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics. In assessing collective impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and are reflected in an allowance account. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

#### (ii) Non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units ("CGUs").

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss, except for the property, plant and equipment measured at the revalued amount, in which case the impairment loss is recognised in other comprehensive income and decreases the revaluation reserve within equity to the extent that it reverses a previous revaluation surplus related to the same asset.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined,

net of depreciation or amortisation, if no impairment loss had been recognised.

A reversal of an impairment loss other than on revalued assets is recognised in profit or loss. A reversal of an impairment loss on a revalued asset is recognised in profit or loss to the extent that it reverses an impairment loss on the same asset that was previously recognised as an expense in profit or loss. Any additional increase in the carrying amount of the asset is treated as a revaluation increase.

#### (M) REVALUATION RESERVE

The difference between the revalued amount and the net carrying amount of property, plant and equipment is recognised as revaluation reserve included in equity. If an asset's carrying amount is increased as a result of a revaluation, the increase is recognised and accumulated in equity under the heading of revaluation reserve. However, the increase is recognised in profit and loss to the extent that it reverses a revaluation decrease of the same amount of the asset previously recognised in profit and loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in profit or loss. However, the decrease is recognized in equity in revaluation reserves if there is any credit balance existing in the revaluation reserve in respect of that asset.

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

#### (N) DIVIDENDS

Dividends are recognized as a deduction from equity in the period in which their distribution is approved and recognised as a liability to the extent it is unpaid at the reporting date. Dividends are disclosed in the notes to the financial statements when their distribution is proposed after the reporting date and before the date of the issuance of the financial statements.

#### (O) PRE-PAID CAPITAL CONTRIBUTIONS IN KIND FROM SHAREHOLDERS

These contributions from a shareholder (the Romanian State) represent pre-paid contributions of land for which the Company obtained title deeds in respect of future issuance of shares. The amounts recorded are based on the fair value of the land.

#### (P) PROVISIONS

A provision is recognised if, as a result of a past event, the Company 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 discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

## **(Q) LEASES**

### **(i) Determining whether an arrangement contains a lease**

At inception of an arrangement, the Company determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Company separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes that, for a finance lease, it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Company's incremental borrowing rate.

### **(ii) Leased assets**

Assets held by the Company under leases that transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets and finance lease liability are measured initially at an amount equal to the lower of their fair value and the present value of the minimum

lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Company's individual statement of financial position.

### **(iii) Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### **(iv) Rental income**

Rental income from property other than investment property is recognised as other income. Rental income is recognised on a straight-line basis over the term of the lease.

## **(R) SUBSEQUENT EVENTS**

Events occurring after the reporting date 31 December 2014, which provide additional information about conditions prevailing at those reporting dates (adjusting events) are reflected in the individual financial statements. Events occurring after the reporting date that provide information on events that occurred after the reporting dates (non-adjusting events) are disclosed in the notes to the individual financial statements when they are significant. When the going concern assumption is no longer appropriate at or after the reporting period, the financial statements are not prepared on a going concern basis.

## **7 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. Any of new standards are not expected to have a significant impact of the Company's individual financial statements.





## 8 REVENUE

	2014	2013
Supply energy in balancing market and a-day-ahead-market	230.730.695	232.816.597
Management and consultancy services	9.051.202	45.435.970
Revenues from services contracts on Automatic Meter Reading System (Note 20)	4.735.572	4.735.572
<b>Total</b>	<b>244.517.469</b>	<b>282.988.139</b>

## 9 OTHER OPERATING REVENUE AND EXPENSES

### (A) OTHER OPERATING INCOME

Other income mainly include rent income and late payment penalties from customers.

### (B) ELECTRICITY PURCHASED

Electricity purchased include the cost of electricity purchased for settlements on balancing market and a-day-ahead-market.

### (C) OTHER OPERATING EXPENSES

	2014	2013
Rent	65.564	48.364
Repairs and maintenance expenses	1.770.137	655.589
IT Services	1.009.657	914.760
Postage and telecommunication	5.761.386	4.038.840
Penalties to the State for late payment of taxes	669.980	17.414
Other taxes and duties	1.590.988	6.947.942
Movement in provisions (Note 27)	(30.777.354)	13.277.265
Legal and consultancy fees	5.155.146	10.328.226
Bank commissions	1.932.248	1.774.384
Others	11.362.607	11.959.356
<b>Total</b>	<b>(1.459.641)</b>	<b>49.962.140</b>

## 10 NET FINANCE INCOME

	Net Finance Income	
	2014	2013
Interest income	19.090.471	5.661.232
Dividends	238.431.719	90.293.077
Other finance income	61.072	32.455
<b>Total finance income</b>	<b>257.583.262</b>	<b>95.986.764</b>
Interest expense	(34.807)	(2.411.652)
Interest cost for employee benefits (Note 15)	(147.286)	(193.563)
Foreign exchange loss	(1.801.036)	1.445.813
Other finance costs	(502.440)	(884.962)
<b>Total finance costs</b>	<b>(2.485.569)</b>	<b>(2.044.364)</b>
Gain from disposals of shares held in other entities	31.809.478	-
<b>Net finance income</b>	<b>286.907.171</b>	<b>93.942.400</b>

On 17 February 2014 the Company sold part of the shares held in E.On Moldova Distributie and E.On Energie Romania to E.On following the exercise of call options by E.On. (see Note 23). The Company recognize this transaction as follows:

	Carrying amount
Sale price of share held in other entities	140,920,000
Carrying amount of share held in other entities	(109,110,522)
Gain from disposals of shares held in other entities	31,809,478

## 11 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding:

### Profit attributable to ordinary shareholders

	2014	2013
Profit for the year attributable to the owners of the Company	269.489.518	36.819.583
<b>Profit attributable to ordinary shareholders</b>	<b>269.489.518</b>	<b>36.819.583</b>

### Weighted-average number of ordinary shares (in number of shares)

	2014	2013
<b>Issued ordinary shares at 1 January</b>	<b>207.839.904</b>	<b>206.229.044</b>
Effect of shares issued in February	172.575	142.963
Effect of spin-off in April	(32.342.835)	-
Effect of shares issued in May	2.564.531	-
Effect of shares issued in June	-	13.630
Effect of underwritings from the IPO in June	103.360.101	-
Effect of shares re-purchased in July	(3.445.297)	-
Effect of shares issued in August	-	402.463
Effect of shares issued in October	-	36.708
<b>Weighted-average number of ordinary shares at 31 December</b>	<b>278.148.979</b>	<b>206.824.808</b>
<b>Earnings per share</b>		
Basic and diluted earnings per share (RON)	0,97	0,18

## 12 SHORT-TERM EMPLOYEE BENEFITS

	31 December 2014	31 December 2013	1 January 2013
Personnel payables	1.164.359	1.869.401	2.319.447
Current portion of defined benefit liability and other long-term employee benefits	252.613	169.156	429.432
Social security charges	663.931	1.288.539	760.022
Tax on salaries	188.754	700.279	316.387
<b>Total</b>	<b>2.269.657</b>	<b>4.027.375</b>	<b>3.825.288</b>

For details of the related employee benefits expenses, see Note 14.

In Romania, all employers and employees, as well as other persons, are contributors to the state social security system. The social security system covers

pensions, allocations for children, temporary inability to work, risks of works and professional diseases and other social assistance services, unemployment benefits and incentives for employers creating new workplaces.

## 13 POST-EMPLOYMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

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

The Company also provides cash benefits to employees depending on seniority and years of service at

retirement.

In 2014 and 2013, employee benefit obligations were computed by independent actuaries using the projected unit credit method with benefits calculated proportionally to period of service.

	31 December 2014	31 December 2013	1 January 2013
Defined benefit liability	1.731.636	1.512.070	1.551.022
Other long-term employee benefits	1.511.720	1.415.839	1.706.719
<b>Total</b>	<b>3.243.356</b>	<b>2.927.909</b>	<b>3.257.741</b>
- Current portion*	252.613	169.156	429.432
- Non-current portion	2.990.743	2.758.753	2.828.309

\* included in Personnel payables in Note 12

### (I) MOVEMENT IN THE DEFINED BENEFIT LIABILITY AND OTHER LONG-TERM EMPLOYEE BENEFITS

The following tables shows a reconciliation from the opening balances to the closing balances for the defined benefit liability and other long-term employee benefits and its components. There are no plan assets.

Defined benefit liability	2014	2013
<b>Balance at 1 January</b>	<b>1.512.070</b>	<b>1.667.720</b>
<b>Included in profit or loss</b>		
Current service cost	70.506	75.435
Interest (income) / cost	76.064	99.222
	<b>146.570</b>	<b>174.657</b>
<b>Included in other comprehensive income</b>		
Remeasurements loss (gain)		
- Actuarial loss /(gain)	<b>103.574</b>	<b>(261.921)</b>
<b>Other</b>		
Benefits paid	(30.578)	(68.386)
<b>Balance at 31 December</b>	<b>1.731.636</b>	<b>1.512.070</b>

Other long-term employee benefits	2014	2013
<b>Balance at 1 January</b>	<b>1.415.839</b>	<b>1.590.021</b>
<b>Included in profit or loss</b>		
Current service cost	64.922	72.963
Actuarial gain/(loss)	18.684	(273.127)
Interest cost	71.222	94.341
Benefits paid	(58.947)	(68.359)
<b>Balance at 31 December</b>	<b>1.511.720</b>	<b>1.415.839</b>

## (ii) ACTUARIAL ASSUMPTIONS

The following were the principal actuarial assumptions at the respective reporting date:

(a) *Macroeconomic assumptions:*

■ Inflation. The actuaries used the Consumer Price Index (CPI) published by the Economist Intelligence Unit:

Year	Valuation date 31 December 2014	Valuation date 31 December 2013
2014	-	2,3%
2015	2,1%	3,3%
2016	3,2%	3,2%
2017	2,7%	2,9%
2018+	2,5%	2,7%

- the discount rate used was the yield for Romanian government bonds maturing in 10 years at the reporting date of 4.5% for the year 2014 (2013: 5.2%);
- the electricity price per kWh used is 0.464 RON at 31 December 2014 (2013: 0.499 RON/ kWh);
- the mortality rate published by the National Institute of Statistics was adjusted to allow for an anticipated decrease in mortality rates;
- taxes and social charges are those in force as at the reporting date.

(b) *Company specific assumptions:*

- salaries increase in line with the estimated inflation rates in the future periods;
- employees' turnover: turnover rates are based on statistical information regarding employees' mobility during 2006-2013. Considering historical retirement data, it is assumed that the personnel turnover rate decreases with the employees' age;
- jubilee and retirement bonuses based on seniority according to the collective labour contract, as follows:

### Jubilee bonus based on years of service

Seniority	No of gross monthly base salaries	
	31 December 2014	31 December 2013
20 ani	0,8	0,8
30 ani	1,6	1,6
35 ani	2,4	2,4
40 ani	3,2	3,2
45 ani	4	4

### Retirement bonus based on years of service in the Company

Seniority	No of gross monthly base salaries	
	31 December 2014	31 December 2013
Between 8 and 10 years	1	1
Between 10 and 25 years	2	2
More than 25 years	3	3

The Company also offers 1,200 kWh of free electricity per year to retired employees for certain years of seniority. In the event of pensioner's death, husband/wife is entitled to receive the same benefit until he/she will marries again.

#### Termination benefits

In accordance with the Collective labour contract concluded between the Company and the Unions, when individual labour contract are terminated at the Company's initiative, the Company will pay termination benefits to the employees depending on their period of service, as follows:

Period of service	No of gross monthly base salaries
1- 5 years	4
5- 10 years	6
10- 20 years	7
More than 20 years	10

For collective lay-offs, according to the Collective labour contract, the Company will pay termination benefits to the employees depending on their period of service, as follows:

Period of service	No of gross monthly base salaries
1- 3 years	4
3- 5 years	6
5- 10 years	7
10- 20 years	15
More than 20 years	20

Collective lay-offs and termination benefits are only applicable subject to approval of a rectification of the budget, such that the approved salary fund for the year will not be affected by such measures.

The above mentioned stipulations do not apply to employees with individual labour contract concluded for a determined period. The above stipulations do not apply to employees that obtained other higher

cumulative salary compensation rights, provided by legal regulations regarding the Group's reorganization and restructuring. Employees who are re-employed within the Group after lay-off are not entitled to the above mentioned benefits.

The financial statements do not include any provision for liabilities relating to compensation payments because there isn't a present obligation in this regard.

## 14 EMPLOYEE BENEFITS EXPENSES

	2014	2013
Average number of employees	139	188
Number of employees at 31 December	149	149
	2014	2013
Wages and salaries	13.288.226	18.074.979
Social security contributions	3.140.154	4.326.566
Meal tickets	270.692	335.571
<b>Total</b>	<b>16.699.072</b>	<b>22.737.116</b>

## 15 INCOME TAXES

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. The Company considers that the accounting records for taxes due are adequate for all open tax years, based on

assessment made by management taking into account various factors, including the interpretation of tax legislation and previous experience. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

**(I) AMOUNTS RECOGNISED IN PROFIT OR LOSS**

	2014	2013
Deferred tax expense	6.585.537	1.182.446
<b>Total income tax</b>	<b>6.585.537</b>	<b>1.182.446</b>

**(II) AMOUNTS RECOGNISED IN OTHER COMPREHENSIVE INCOME**

	2014			2013		
	Before tax	Tax (expense) benefit	Net of tax	Before tax	Tax (expense) benefit	Net of tax
Revaluation of property, plant and equipment	986.367	(157.819)	828.548	-	-	-
Remeasurement of defined benefit liability	(103.574)	16.572	(87.002)	261.921	(41.907)	220.014
<b>Total</b>	<b>882.793</b>	<b>(141.247)</b>	<b>741.546</b>	<b>261.921</b>	<b>(41.907)</b>	<b>220.014</b>

**(III) RECONCILIATION OF EFFECTIVE TAX RATE**

	2014	2013
<b>Profit before tax</b>	<b>276.075.055</b>	<b>38.002.029</b>
Tax using Company's domestic tax rate	16% 44.172.009	16% 6.080.325
Non-deductible expenses	1% 2.783.994	25% 9.566.690
Non-taxable income	-14% (38.149.075)	-38% (14.446.892)
Deduction of legal reserves	-1% (2.208.600)	0% -
Other tax effects	0% (12.791)	0% (17.677)
<b>Income tax</b>	<b>2% 6.585.537</b>	<b>3% 1.182.446</b>

Non-taxable income represents dividend income in the amount of RON 238,431,719 (2013: RON 90,293,077).

**(IV) MOVEMENT IN DEFERRED TAX BALANCES**

	Balance at 31 December 2014					
	Net balance at 1 January 2014	Recognised in profit or loss	Recognised in other comprehensive income	Deferred tax assets, Net	Deferred Tax assets	Deferred tax liabilities
<b>2014</b>						
Intangible assets	2.812.489	(17.218)	157.819	2.953.090	-	2.953.090
Employee benefits	(359.163)	(10.773)	(16.572)	(386.508)	(386.508)	-
Tax loss carried forward	(16.385.799)	6.613.528	-	(9.772.271)	(9.772.271)	-
<b>Tax liabilities (assets) before set-off</b>	<b>(13.932.473)</b>	<b>6.585.537</b>	<b>141.247</b>	<b>(7.205.689)</b>	<b>(10.158.779)</b>	<b>2.953.090</b>

	Balance at 31 December 2013					
	Net balance at 1 January 2013	Recognised in profit or loss	Recognised in other comprehensive income	Deferred tax assets, Net	Deferred Tax assets	Deferred tax liabilities
<b>2013</b>						
Intangible assets	2.829.707	(17.218)	-	2.812.489	-	2.812.489
Employee benefits	(408.476)	7.406	41.907	(359.163)	(359.163)	-
Tax loss carried forward	(17.578.057)	1.192.258	-	(16.385.799)	(16.385.799)	-
<b>Tax liabilities (assets) before set-off</b>	<b>(15.156.826)</b>	<b>1.182.446</b>	<b>41.907</b>	<b>(13.932.473)</b>	<b>(16.744.962)</b>	<b>2.812.489</b>

## 16 TRADE RECEIVABLES

	31 December 2014	31 December 2013	1 January 2013
Trade receivables, gross	758.094.020	763.589.259	754.448.597
Bad debt allowance	(670.398.254)	(667.928.773)	(667.607.107)
<b>Total trade receivables, net</b>	<b>87.695.766</b>	<b>95.660.486</b>	<b>86.841.490</b>

Receivables from related parties are presented in Note 29.

Trade receivables gross comprise:

	31 December 2014	31 December 2013	1 January 2013
Electricity distribution and supply	94.359.475	100.083.722	92.298.877
Electricity receivables from clients in litigation, insolvency and bankruptcy (Oltchim SA)	569.811.232	569.811.231	569.811.232
Late payment penalties from clients in litigation, insolvency and bankruptcy (Oltchim SA)	88.968.313	88.968.313	88.968.313
Other	4.955.000	4.725.993	3.370.175
<b>Total trade receivables, gross</b>	<b>758.094.020</b>	<b>763.589.259</b>	<b>754.448.597</b>

A significant customer of the Company, until January 2012, was Oltchim SA (a state-controlled company), when the Company has transferred the contract with Oltchim to Electrica Furnizare SA. In January 2013 Oltchim became insolvent. Due to uncertainties regarding the recoverability of amounts owed by

this customer, the Company recognized bad debt allowances to the total amount of receivables.

The movement in the bad debt allowance for trade receivables is as follows:

Bad debt allowance	2014	2013
Balance as at 1 January	667.928.773	667.607.107
Impairment recognized	2.546.823	336.600
Impairment reversed	(77.342)	(14.934)
<b>Sold la 31 December</b>	<b>670.398.254</b>	<b>667.928.773</b>

For the ageing of trade receivables refer to Note 28.

## 17 DEPOSITS, TREASURY BILLS AND GOVERNMENT BONDS

Deposits, treasury bills and government bonds include treasury bills and government bonds of RON 901,415,791, denominated in RON with original maturity of more than three months with an average

interest rate (yield) of 1.6% and deposits with maturity of more than three months of RON 137,004,050.

The treasury bills and government bonds were classified as investments held to maturity.

## 18 OTHER RECEIVABLES

	31 December 2014	31 December 2013	1 January 2013
VAT receivable	-	17.763.510	8.445.598
Interest receivable	3.175.177	1.950.918	3.680.067
Other receivables	26.676.226	27.246.734	57.916.783
Bad debt allowance	(14.460.727)	(14.460.727)	(31.376.677)
<b>Total other receivables, net</b>	<b>15.390.676</b>	<b>32.500.435</b>	<b>38.665.771</b>

Other receivables, net include loans granted by the Company to Electrica Serv (see Note 29).

The movement in the bad debt allowance for other receivables is as follows:

Bad debt allowance	2014	2013
Balance as at 1 January	14.460.727	31.376.677
Impairment recognized	-	(16.915.950)
<b>Balance as at 31 December</b>	<b>14.460.727</b>	<b>14.460.727</b>

## 19 CASH AND CASH EQUIVALENTS

	31 December 2014	31 December 2013	1 January 2013
Bank current accounts	1.544.632	3.473.158	22.885.283
Deposits with original maturities of less than 3 months	874.243.283	140.619.441	162.318.391
Cash in hand	19.508	33.084	5.295
Treasury bills and government bonds with original maturities of less than 3 months	199.812.351	-	-
<b>Total cash and cash equivalents in the individual statement of financial position</b>	<b>1.075.619.774</b>	<b>144.125.683</b>	<b>185.208.969</b>
Overdrafts used for cash management purposes	-	(36.999.437)	(55.732.038)
<b>Total cash and cash equivalents in the individual statement of cash flows</b>	<b>1.075.619.774</b>	<b>107.126.246</b>	<b>129.476.931</b>

Cash and cash equivalents include treasury bills and government bonds denominated in RON of RON 199,812,351 and an average interest rate (yield) of 1.7% p.a.

The following information is relevant in the context of the statement of cash flows:

Non-cash activity includes:

- land contributed by the shareholder of RON 0 IN 2014 (2013: RON 9,120,270);
- set-off between trade receivables and trade payables of RON 55,983,780 in 2014 (2013: RON 82,877,732);

## 20 PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment in 2014 and 2013 were as follows:

	Land and land improvements	Buildings	Equipment	Vehicles, furniture and office equipment	Construction in progress	Total
<b>Gross carrying amount</b>						
Balance at 1 January 2013	104.249.525	16.884.919	61.920.038	753.032	91.076.704	274.884.218
Additions	8.063.400	-	59.816	-	57.562.911	65.686.127
Transfers from construction in progress	-	-	60.352.193	-	(60.352.193)	-
Disposals	-	-	(12.263)	(1.351)	-	(13.614)
Revaluation of land contribution from the shareholders, net	1.056.870	-	-	-	-	1.056.870
<b>Balance at 31 December 2013</b>	<b>113.369.795</b>	<b>16.884.919</b>	<b>122.319.784</b>	<b>751.681</b>	<b>88.287.422</b>	<b>341.613.601</b>
Additions	9.265.658	-	396.256	-	34.996.860	44.658.774
Disposals	(33.638.211)	-	-	(8.127)	-	(33.646.338)
Revaluation recognized in other comprehensive income, net	449.420	536.947	-	-	-	986.367
Gross book value netted off against the accumulated depreciation at revaluation	-	(663.294)	-	-	-	(663.294)
Revaluation of land contribution from the shareholders, net	(10.314.815)	-	-	-	-	(10.314.815)
<b>Balance at 31 December 2014</b>	<b>79.131.847</b>	<b>16.758.572</b>	<b>122.716.040</b>	<b>743.554</b>	<b>123.284.282</b>	<b>342.634.295</b>



	Land and land improvements	Buildings	Equipment	Vehicles, furniture and office equipment	Construction in progress	Total
<b>Accumulated depreciation and impairment losses</b>						
Balance at 1 January 2013	-	236.158	16.623.018	637.850	-	17.497.026
Depreciation	-	222.854	9.030.032	38.353	-	9.291.239
Disposals	-	-	(12.263)	(1.351)	-	(13.614)
Reversal of impairment loss	-	-	-	-	12.465.531	12.465.531
<b>Balance at 31 December 2013</b>	-	<b>459.012</b>	<b>25.640.787</b>	<b>674.852</b>	<b>12.465.531</b>	<b>39.240.182</b>
Depreciation	-	222.854	12.554.869	29.242	-	12.806.965
Disposals	-	-	-	(8.126)	-	(8.126)
Accumulated depreciation netted off against gross book value at revaluation	-	(663.294)	-	-	-	(663.294)
<b>Balance at 31 December 2014</b>	-	<b>18.572</b>	<b>38.195.658</b>	<b>695.967</b>	<b>12.465.531</b>	<b>51.375.727</b>
<b>Net carrying amounts</b>						
<b>At 1 January 2013</b>	<b>104.249.525</b>	<b>16.648.761</b>	<b>45.297.020</b>	<b>115.182</b>	<b>91.076.704</b>	<b>257.387.192</b>
<b>At 31 December 2013</b>	<b>113.369.795</b>	<b>16.425.907</b>	<b>96.678.997</b>	<b>76.829</b>	<b>75.821.891</b>	<b>302.373.419</b>
<b>At 31 December 2014</b>	<b>79.131.847</b>	<b>16.740.000</b>	<b>84.520.382</b>	<b>47.587</b>	<b>110.818.751</b>	<b>291.258.568</b>

On 31 December 2014, the buildings and lands include the administrative offices of the Company over which the Company has obtained title deeds and to be contributed to the share capital of the subsidiaries. The building is the administrative headquarters is of RON 16,603,977 of net book value and related land is worth RON 13,410,443 of net book.

On 31 December 2014, the buildings and land were revalued by an independent authorized. The results of revaluation were recognized in other comprehensive income.

The Company has signed four contracts for the implementation and extension of AMR system (Automatic Meter Reading) for measurement and consumption dispatch activities at the Group level. In 2013 the Company put into operation a part of this investment, amounting to RON 59,920,097. Another part of the investment, amounting to

RON 110,133,543, is in the current assets as at 31 December 2014, from which the amount of RON 34,768,016 was conducted during the year.

Related to the AMR system the Company has concluded services agreements with the distribution subsidiaries. The main services provided relates to the direct data acquisition of subsidiaries by the personnel of the distribution subsidiaries using remote reading systems from electricity metering points, owned by the Company. The Company assessed whether the arrangement contains a lease and determined that does not contain a lease as distribution subsidiaries have no right to use specific assets.

During 2013, adjustments for impairment losses of the tangible assets in progress were recorded in the amount of RON 12,456,531, representing ongoing investments in two wind farms, whose activity were interrupted.

### Measurement of fair value

The following table shows the valuation techniques used in measuring fair values (Level 3) for the revaluation of land and buildings, as well as the significant unobservable inputs used.

Category	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
<b>Land</b>	<p><i>Market approach</i></p> <p>The fair value is estimated based on selling price per square meter of land of similar characteristics (i.e. ownership, legal limitations, location, physical properties, and best use). The market price is mainly based on recent transactions.</p>	<ul style="list-style-type: none"> <li>■ Adjustment for liquidity, location, size</li> </ul>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>■ Adjustment for liquidity, location, size was lower (higher)</li> </ul>
<b>Buildings</b>	<p><i>Market approach and discounted cash-flows (DCF) method</i></p> <p>The market approach is based on the selling price per square meter for buildings of similar characteristics, adjusted for liquidity, location, size etc.</p> <p>The valuation model based on the DCF method estimates the present value of net cash flows to be generated by a building taking into account occupancy rate and costs not paid by tenants. The discount rate estimation considers, inter alia, the quality of a building and its location.</p>	<ul style="list-style-type: none"> <li>■ Occupancy rates (80-90%)</li> <li>■ Discount rates (9,5% on average)</li> <li>■ Costs not paid by tenants (average 10%)</li> <li>■ Annual rent per sqm</li> <li>■ Rental growth</li> <li>■ Adjustment for liquidity, location, size</li> </ul>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>■ Occupancy rates were higher (lower)</li> <li>■ Discount rates were lower (higher)</li> <li>■ Costs not paid were lower (higher)</li> <li>■ Annual rent per sqm was higher (lower)</li> <li>■ Rental growth was higher (lower)</li> <li>■ Adjustment for liquidity, location, size was lower (higher)</li> </ul>

## 21 INTANGIBLE ASSETS

Intangible assets include mainly intangible assets related licenses and costs of implementation of SAP ERP, as follows:

	Software and licenses	Intangible assets in progress	Total
<b>Gross book value</b>			
Balance at 1 January 2013	2.240.058	59.000	2.299.058
Additions	-	566.136	566.136
Transfers from intangibles in progress	299.700	(299.700)	-
<b>Balance at 31 December 2013</b>	<b>2.539.758</b>	<b>325.436</b>	<b>2.865.194</b>
Disposals	-	325.147	325.147
Transfers from intangibles in progress	282.600	(282.600)	-
<b>Balance at 31 December 2014</b>	<b>2.822.358</b>	<b>367.983</b>	<b>3.190.341</b>
<b>Accumulated amortisation and impairment losses</b>			
Balance at 1 January 2013	1.981.058	-	1.981.058
Amortisation	86.333	-	86.333
<b>Balance at 31 December 2013</b>	<b>2.067.391</b>	-	<b>2.067.391</b>
Amortisation	445.284	-	445.284
<b>Balance at 31 December 2014</b>	<b>2.512.675</b>	-	<b>2.512.675</b>
<b>Carrying amounts</b>			
At 1 January 2013	259.000	59.000	318.000
<b>At 31 December 2013</b>	<b>472.367</b>	<b>325.436</b>	<b>797.803</b>
<b>At 31 December 2014</b>	<b>309.683</b>	<b>367.983</b>	<b>677.666</b>

## 22 INVESTMENTS IN SUBSIDIARIES

The situation regarding the investments in subsidiaries is presented as follows:

	31 December 2014		31 December 2013		1 January 2013	
	Gross value	Bad debt allowance	Gross value	Bad debt allowance	Gross value	Bad debt allowance
Electrica Distributie Muntenia Nord SA	322.729.680	-	322.729.680	-	322.729.680	-
Electrica Distributie Transilvania Nord SA	336.460.800	-	336.460.800	-	336.460.800	-
Electrica Distributie Transilvania Sud SA	383.398.860	-	383.398.860	-	383.398.860	-
Electrica Furnizare SA	57.695.820	-	57.695.820	-	57.695.820	-
Electrica Serv SA	442.284.000	(144.849.043)	415.437.909	(140.173.762)	415.437.909	(173.808.732)
Servicii Energetice Banat SA	43.761.094	(43.761.094)	43.761.094	(43.761.094)	43.761.094	(43.761.094)
Servicii Energetice Dobrogea SA	23.822.124	(23.822.124)	23.822.124	(23.822.124)	23.822.124	(23.822.124)
Servicii Energetice Muntenia SA	29.640.430	-	29.640.430	-	29.640.430	-
Servicii Energetice Moldova SA	106.162.492	(106.162.492)	106.162.492	(106.162.492)	106.162.492	(106.162.492)
Servicii Energetice Oltenia SA	82.033.220	(82.033.220)	82.033.220	(82.033.220)	82.033.220	-
<b>Total</b>	<b>1.827.988.520</b>	<b>(400.627.973)</b>	<b>1.801.142.429</b>	<b>(395.952.692)</b>	<b>1.801.142.429</b>	<b>(347.554.442)</b>

	Investments in subsidiaries, net value		
	31 December 2014	31 December 2013	1 January 2013
Electrica Distributie Muntenia Nord SA	322.729.680	322.729.680	322.729.680
Electrica Distributie Transilvania Nord SA	336.460.800	336.460.800	336.460.800
Electrica Distributie Transilvania Sud SA	383.398.860	383.398.860	383.398.860
Electrica Furnizare SA	57.695.820	57.695.820	57.695.820
Electrica Serv SA	297.434.957	275.264.147	241.629.177
Servicii Energetice Muntenia SA	29.640.430	29.640.430	29.640.430
Servicii Energetice Oltenia SA	-	-	82.033.220
<b>Total investments in subsidiaries</b>	<b>1.427.360.547</b>	<b>1.405.189.737</b>	<b>1.453.587.987</b>

Based on the GD nr. 760/21.07.2010, at the beginning of year 2012 Electrica Serv subsidiary was reorganized through a partial spin-off, in order to separate the unprofitable branches, being established five new companies, held 100% by Electrica SA: SC Servicii Energetice Banat SA, SC Servicii Energetice Dobrogea SA, SC Servicii Energetice Moldova SA, SC Servicii Energetice Oltenia SA and SC Servicii Energetice Muntenia SA.

In year 2013 the Company approved the liquidation of Servicii Energetice Moldova, Servicii Energetice Banat and Servicii Energetice Dobrogea. For Servicii

Energetice Banat, Timis Court has decided the opening of the simplified insolvency procedure. The bankruptcy of Servicii Energetice Banat was declared and the Company concluded that, starting with the beginning of November 2014, the conditions for establishing the control over the subsidiary were no longer fulfilled. Therefore, the Company has derecognized the investments in Servicii Energetice Banat. On January the 22nd 2015, Constanța Court decided the opening of the simplified insolvency procedure for Servicii Energetice Dobrogea. The Board of Administration of Servicii Energetice Oltenia

(in January 2014) and the Board of Administration of Servicii Energetice Muntenia have decided both the opening of the insolvency procedure for the reorganizing purpose.

Having in view the above-mentioned, during year 2012 the Company recognized Impairment of investments (amount to RON 173,745,710) representing the investments value in the following subsidiaries Servicii Energetice Moldova, Servicii Energetice Banat and Servicii Energetice Dobrogea. During year 2013 the Company increased the Impairment of investments with RON 82,033,220, representing the value of investments in Servicii Energetice Oltenia. The

Company did not adjusted the carrying amount of the investments in Servicii Energetice Muntenia as long this amount is deemed to be recoverable, taking into account the significant asset base of this company and the fact that its net assets have positive value.

As regarding Electrica Serv, the Company recognized Impairments, based on the valuation report prepared by an independent valuator and having as purpose the assessment of the recoverable value of the shares in Electrica Serv SA. The valuator used the discounted cash flows (DCF) method. The model envisages both the asset exploitation potential, based on the current activity and the assets outside exploitation.

## 23 SPIN-OFF

Based on the Extraordinary General Shareholders decision dated 20 March 2014 and the resolution of the Bucharest Court dated 10 April 2014, the Company recognized the spin-off of the Company's shareholdings to a new company- „Societatea de Administrare a Participatiilor in Energie SA” - wholly owned by the Ministry of Energy, Small and Medium-sized Enterprises and Business Environment. The spin-off referred to the transfer of the shares held by

the Company in 10 entities (Enel Distributie Muntenia, Enel Energie Muntenia, Enel Distributie Banat, Enel Distributie Dobrogea, Enel Energie, E.On Moldova Distributie, E.On Energie, Electrica Soluziona, Hidro Tarnita and BRM). The investments included equity accounted investees and other investments and were classified as assets held for distribution as at 31 December 2013, as follows:

Assets held for Distribution	Carrying amount at 31 December 2013	Percentage ownership interest
Enel Distributie Muntenia	77.139.794	23,57%
Enel Energie Muntenia	10.519.062	23,57%
Enel Distributie Banat	100.527.111	24,87%
Enel Distributie Dobrogea	85.763.375	24,90%
Enel Energie	58.498.737	36,99%
E.On Distributie	166.080.960	27,00%
E.On Energie	8.590.613	3,78%
Electrica Soluziona	49.000	49,00%
Hidro Tarnita	57.500	50%
BRM	40.000	
<b>Total assets held for distribution</b>	<b>507.266.152</b>	

The asset transferred through spin-off was recorded as follows:

	Carrying amount
Assets held for distribution	398.155.630
Cash and cash equivalents	129.385.930
<b>Total</b>	<b>527.541.560</b>
Share capital	507.302.152
Retained earnings	20.239.408
<b>Total</b>	<b>527.541.560</b>

On 17 February 2014 the Company sold part of the shares held in E.On Moldova Distributie and E.On Energie Romania to E.On following the exercise of call options by E.On. E.On paid the exercise price of RON 140,920,000 to the Company.

Cash received from transaction with E.ON less the directly attributable costs were transferred to Societatea de Administrare a Participatiilor in Energie SA (RON 129,385,930).

## 24 CAPITAL AND RESERVES

### (A) SHARE CAPITAL AND SHARE PREMIUM

The issued share capital in nominal terms consists of 345,939,929 ordinary shares at 31 December 2014 (2013: 207,839,904) with a nominal value of RON 10 per share. All shares rank equally with regard to the

Company's residual assets. The holders of ordinary shares are entitled to receive dividends as declared, and are entitled to one vote per share at shareholder meetings of the Company.

	2014	2013
Number of shares at 1 January	207.839.904	206.229.044
Shared issued during the year	181.223.805	1.610.860
Decrease in the number of shares due spin-off	(43.123.780)	-
<b>Number of shares at 31 December</b>	<b>345.939.929</b>	<b>207.839.904</b>

The Company recognizes changes in share capital only after their approval in the General Shareholders Meeting and their registration by the Trade Register. The contributions made by the shareholders which are not yet registered with the Trade Register at year end are recognized as pre-paid capital contributions from shareholders.

On 25 February 2014 an increase of share capital of 188,264 ordinary shares was registered in the Trade Registry. The shares were issued in respect of land contributed by the shareholder in previous periods.

On 10 April 2014 Bucharest Court approved the spin-off by Electrica SA through transfer of part of its assets to a new company „Societatea de Administrare a Participatiilor in Energie SA” (see Note 23). As a consequence of this transaction, share capital was decreased by 43,123,780 ordinary shares.

On 16 May 2014 an increase of share capital of 3,846,797 ordinary shares was registered in the Trade Registry. The shares were issued in respect of land contributed by the shareholder in previous periods for shares.

Between 11 and 27 June 2014 the Company organized an IPO, which entailed to an offering of 142,007,744 shares and 8,795,250 GDRs, each GDR representing

four shares (see Note 1). The subscriptions amounted to RON 1,556,094,600 and USD 120,143,115. On 2 July 2014 the increase of share capital by 177,188,744 ordinary shares was recorded in the Trade Register. Consequently, the Company recognized an increase of share capital of RON 1,771,887,440 and a share premium of RON 171,128,062. The transaction costs of RON 68,078,885 were deducted from the share premium.

Until 31 December 2003, the statutory share capital in nominal terms was restated according to IAS 29 “Financial Reporting in Hyperinflationary Economies” with a corresponding adjustment to retained earnings.

### (B) TREASURY SHARES

In July 2014 the Company purchased 5,206,593 ordinary shares and 421,000 Global Depository Receipts, equivalent to 1,684,000 shares. The total amount paid for acquiring the shares and Global Depository Receipts was RON 75,372,435.

### (C) REVALUATION RESERVE

The reconciliation between opening and closing revaluation reserve is as follows:

	2014
Balance at 1 January	-
Revaluation of property, plant and equipment	986.367
Tax related to the defined benefit	(157.819)
<b>Balance as at 31 December</b>	<b>828.548</b>

Starting with the date of IFRS implementation, the Company has choose to apply the presumed cost exception, according to IFRS 1, therefore the difference resulting from the revaluations recorded prior to January 1st 2013 was transferred to retained earnings (see Note 30).

### (D) LEGAL RESERVES

The Legal reserves are set up as 5% of the gross profit, until the total legal reserves reach 20% of the paid-up nominal share capital of the Company, according to the legislation. These reserves are deductible for income tax purposes and are not distributable.

## (E) DIVIDENDS

The dividends distributed by the Company in 2014 and 2013 (from the statutory profits of preceding years) were as follows:

	2014	2013
Distributed dividends	22.475.225	13.211.376

The dividends per share paid to the owners of the Company were: 2014: RON 0.108, 2013: RON 0.064 per share.

## 25 TRADE PAYABLES

	31 December 2014	31 December 2013	1 January 2013
Electricity suppliers	73,665,026	76,709,422	77,844,660
Capital expenditure suppliers	3,547,546	1,953,737	9,025,568
Other suppliers	6,187,762	8,135,769	7,658,941
<b>Total</b>	<b>83,400,334</b>	<b>86,798,928</b>	<b>94,529,169</b>

Electricity suppliers are mainly state-owned power generators, as detailed in Note 29. Other suppliers include suppliers of services, materials, consumables, etc.

## 26 OTHER PAYABLES

	31 December 2014		31 December 2013		1 January 2013	
	Current	Non-current	Current	Non-current	Current	Non-current
Payables to the State budget	8,386,846	-	5,577	-	13,283,732	-
Other liabilities	276,591	-	4,184,800	5,497,560	21,257,936	10,625,446
<b>Total</b>	<b>8,663,437</b>	<b>-</b>	<b>4,190,377</b>	<b>5,497,560</b>	<b>34,541,668</b>	<b>10,625,446</b>

Other liabilities include mainly guarantees and sundry creditors. Other non-current liabilities refer mainly to an instalment transaction for a liability representing late payment of the invoices for electricity supply.

## 27 PROVISIONS

	Litigations and other risks
<b>Balance at 1 January 2013</b>	<b>17,500,089</b>
Provisions raised	13,277,265
<b>Balance at 31 December 2013</b>	<b>30,777,354</b>
Provisions reversed	(30,777,354)
<b>Balance at 31 December 2014</b>	<b>-</b>

As at 31 December 2013, provisions refer mainly to litigations with the National Agency for Fiscal Administration (ANAF), referring to late payment penalties claimed by ANAF. Following the partial favourable solution for the Company, these provisions were reversed during year 2014.

## 28 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

### (A) ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

The following table shows the carrying amounts and it does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

31 December 2014	Note	Carrying amount			
		Loans and receivables	Held to maturity financial assets	Other financial liabilities	Total
<b>Financial assets not measured at fair value</b>					
Trade receivables	16	87,695,766	-	-	87,695,766
Other receivables	18	12,209,901	-	-	12,209,901
Deposits, treasury bills and government bonds	17	-	1,038,419,841	-	1,038,419,841
Cash and cash equivalents	19	1,075,619,774	-	-	1,075,619,774
<b>Total</b>		<b>1,175,525,441</b>	<b>1,038,419,841</b>	<b>-</b>	<b>2,213,945,282</b>
<b>Financial liabilities not measured at fair value</b>					
Trade payables	25	-	-	83,400,334	83,400,334
<b>Total</b>		<b>-</b>	<b>-</b>	<b>83,400,334</b>	<b>83,400,334</b>

31 December 2013	Note	Carrying amount		
		Loans and receivables	Other financial liabilities	Total
<b>Financial assets not measured at fair value</b>				
Trade receivables	16	95,660,486	-	95,660,486
Other receivables	18	11,995,000	-	11,995,000
Cash and cash equivalents	19	144,125,683	-	144,125,683
<b>Total</b>		<b>251,781,169</b>	<b>-</b>	<b>251,781,169</b>
<b>Financial liabilities not measured at fair value</b>				
Bank overdrafts		-	36,999,437	36,999,437
Trade payables	25	-	86,798,928	86,798,928
<b>Total</b>		<b>-</b>	<b>123,798,365</b>	<b>123,798,365</b>

1 January 2013	Note	Carrying amount		
		Loans and receivables	Other financial liabilities	Total
<b>Financial assets not measured at fair value</b>				
Trade receivables	16	86,841,490	-	86,841,490
Other receivables	18	23,702,977	-	23,702,977
Cash and cash equivalents	19	185,208,969	-	185,208,969
<b>Total</b>		<b>295,753,436</b>	<b>-</b>	<b>295,753,436</b>

**Financial liabilities not measured at fair value**

Bank loans		-	10,333,911	10,333,911
Bank overdrafts		-	55,732,038	55,732,038
Trade payables	26	-	94,529,169	94,529,169
<b>Total</b>		<b>-</b>	<b>160,595,118</b>	<b>160,595,118</b>

**(B) FINANCIAL RISK MANAGEMENT**

The Company has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk.

**(i) Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers, cash and cash equivalents, bank deposits and treasury bills and government bonds.

The Company has a high credit risk mainly from State-

owned companies. Until 2012, the Company had a concentration of credit risk with Oltchim SA, company that became insolvent (see Note 16). Currently, the Company consider that credit risk exposure has significantly diminished.

Cash, bank deposits, treasury bills and government bonds are placed in financial institutions, which are considered to have minimal risk of default.

The carrying amount of financial assets represents the maximum credit exposure..

**Trade receivable**

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables.

**Impairment**

The ageing of trade receivables was as follows:

	31 December 2014		31 December 2013		1 January 2013	
	Gross Value	Bad debt allowance	Gross Value	Bad debt allowance	Gross Value	Bad debt allowance
Neither past due nor impaired	83,382,090	-	92,780,614	-	65,782,210	-
Past due 1-90 days	743,587	-	77,738	-	8,002,656	-
Past due 90-180 days	498,036	-	773,759	-	-	-
Past due 180-360 days	3,072,053	-	2,028,375	-	37,655,377	(24,598,753)
Past due 1-2 years	3,804,652	(3,804,652)	32,264,483	(32,264,483)	245,781,874	(245,781,874)
Past due 2-3 years	34,542,103	(34,542,103)	229,020,902	(229,020,902)	254,096,454	(254,096,454)
Past due more than 3 years	632,051,499	(632,051,499)	406,643,388	(406,643,388)	143,130,026	(143,130,026)
<b>Total</b>	<b>758,094,020</b>	<b>(670,398,254)</b>	<b>763,589,259</b>	<b>(667,928,773)</b>	<b>754,448,597</b>	<b>(667,607,107)</b>

Bad debt allowance related to Oltchim SA.



	Net trade receivable		
	31 December 2014	31 December 2013	1 January 2013
Neither past due nor impaired	83,382,090	92,780,614	65,782,210
Past due 1-90 days	743,587	77,738	8,002,656
Past due 90-180 days	498,036	773,759	-
Past due 180-360 days	3,072,053	2,028,375	13,056,624
<b>Total</b>	<b>87,695,766</b>	<b>95,660,486</b>	<b>86,841,490</b>

### (ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due,

under both normal and stressed conditions, without incurring unacceptable losses.

The Company aims to maintain the level of its cash and cash equivalents at an amount in excess of expected cash outflows on financial liabilities. The Company also monitors the level of expected cash inflows on trade receivables together with expected cash outflows on trade and other payables.

### Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments.

Financial liabilities	Carrying amount	Contractual cash flows	
		Total	less than 1 year
<b>31 December 2014</b>			
Trade payables	83,400,334	83,400,334	83,400,334
<b>Total</b>	<b>83,400,334</b>	<b>83,400,334</b>	<b>83,400,334</b>
<b>31 December 2013</b>			
Bank overdraft	36,999,437	36,999,437	36,999,437
Trade payables	86,798,928	86,798,928	86,798,928
<b>Total</b>	<b>123,798,365</b>	<b>123,798,365</b>	<b>123,798,365</b>
<b>1 January 2013</b>			
Bank loans	10,333,911	10,333,911	10,333,911
Bank overdraft	55,732,038	55,732,038	55,732,038
Trade payables	94,529,169	94,529,169	94,529,169
<b>Total</b>	<b>160,595,118</b>	<b>160,595,118</b>	<b>160,595,118</b>

The bank loan existing in balance at 1 January 2013 represents a long-term loan from BCR (Banca Comerciala Romana – Romanian Commercial Bank), contracted in 15 October 2004, for investments on the basis of GD 702/2003. The interest rate was ROBOR 6M + 1%. Repayment of bank loan was made in 15 equal semestrial tranches, in the period 15 November 2006 – 15 November 2013.

### Current risk

The Company is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales, purchases and borrowings are denominated and the functional currency of the Company. The functional currency of the Company is the Romanian Leu (RON).

### (iii) Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates – will affect the Company's profit or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The currencies in which these transactions are primarily denominated are RON and EUR. Certain liabilities are denominated in foreign currency (EUR). The Company also has deposits and bank accounts denominated in foreign currency (EUR). The Company's policy is to use the local currency in its transactions as far as practically possible. The Company does not use derivative or hedging instruments.

### Exposure to currency risk

The summary quantitative data about the Company's exposure to currency risk is as follows:

In RON	31 December 2014	31 December 2013	1 January 2013
	EUR	EUR	EUR
Cash and cash equivalents	10,137,641	136,172,767	162,037,151
Deposits (deposits, treasury bills and government bonds)	136,704,050	-	-
<b>Net statement of financial position exposure</b>	<b>146,841,691</b>	<b>136,172,767</b>	<b>162,037,151</b>

The following significant exchange rates have been applied during the year:

RON	Average rate		Year-end spot rate		
	2014	2013	2013	2012	2011
1 EUR	4.4446	4.4190	4.4821	4.4847	4.4287

### Sensitivity analysis

A reasonably possible strengthening (weakening) of the EUR against RON at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and profit before tax and, respectively, equity by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

Effect	Profit before tax	
	Strengthening	Weakening
<b>31 December 2014</b>		
EUR (5% movement)	7,342,085	(7,342,085)
<b>31 December 2013</b>		
EUR (5% movement)	6,808,638	(6,808,638)
<b>1 January 2013</b>		
EUR (5% movement)	8,101,858	(8,101,858)

### Interest rate risk

The Company does not have significant long-term bank loans.

### Exposure to interest rate risk

The interest rate profile of the Company's interest-bearing financial instruments is as follows:

	31 December 2014	31 December 2013	1 January 2013
<b>Fixed-rate instruments</b>			
<b>Financial assets</b>			
Bank accounts (cash and cash equivalent)	874.243.283	140.619.441	162.318.391
Deposits, treasury bills and government bonds	1.038.419.841	-	-
	<b>1.912.663.124</b>	<b>140.619.441</b>	<b>162.318.391</b>
<b>Variable-rate instruments</b>			
<b>Financial liabilities</b>			
Overdrafts	-	(36,999,437)	(55,732,038)
Short term bank borrowings	-	-	(10,333,911)
	-	<b>(36,999,437)</b>	<b>(66,065,949)</b>

#### Fair value sensitivity analysis for fixed-rate instruments

The Company does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

#### Cash flow sensitivity analysis for variable-rate instruments

A reasonably possible change of 50 basis points in interest rates at the reporting date would have increased (decreased) profit before tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	Profit before tax	
	50 bp increase	50 bp increase
<b>31 December 2014</b>		
Variable-rate instruments	-	-
<b>31 December 2013</b>		
Variable-rate instruments	(184,997)	184,997
<b>31 December 2012</b>		
Variable-rate instruments	(330,330)	330,330

## 29 RELATED PARTIES

### (A) MAIN SHAREHOLDERS

As at 31 December 2014, Romanian State, represented by the Ministry of Energy, Small and Medium-sized Enterprises and Business Environment holds 48.78% of the Company's share capital. The next large shareholder is the European Bank for Reconstruction and Development with 8.66%.

### (B) MANAGEMENT AND ADMINISTRATORS' COMPENSATION

	2014	2013
<b>Management compensation</b>	<b>821,012</b>	<b>188,431</b>

Compensations granted to the members of the Board of Directors and representatives in the General Meeting of Shareholders were as follows:

	2014	2013
Members of Board of Directors	915,885	273,705
Representatives in the General Meeting of Shareholders	8,389	14,620
<b>Total</b>	<b>924,274</b>	<b>288,325</b>

No loans were granted to managers or administrators in 2014 and 2013.

### (C) TRANSACTIONS WITH ASSOCIATES

#### (i) Balances receivables and payables from/ to associates:

	Receivables balance			Payables Balance		
	31 December 2014	31 December 2013	1 January 2013	31 December 2014	31 December 2013	1 January 2013
Electrica Furnizare	14,177,389	52,286,762	27,520,714	1,624,698	1,885,180	1,696,840
Electrica Muntenia Nord Distributie	13,807,379	4,144,291	5,377,628	201,646	55,917	26,177
Electrica Transilvania Nord Distributie	7,428,076	8,038,921	8,305,074	940,609	-	19,334
Electrica Transilvania Sud Distributie	6,860,197	4,084,511	7,785,697	200,318	-	22,153
Electrica Serv	10,962,160	12,827,683	14,571,768	1,307,532	301,589	396,040
Servicii Energetice Muntenia	214,006	214,006	215,655	-	-	-
Servicii Energetice Moldova	147,305	147,305	153,984	-	-	-
Servicii Energetice Banat	105,426	105,426	107,030	-	-	-
Servicii Energetice Dobrogea	-	-	6,685	-	-	-
Servicii Energetice Oltenia	320,026	320,026	322,453	-	-	-
Electrica Soluziona*	n/a	-	-	n/a	371.628	326.339
<b>Total</b>	<b>54,021,962</b>	<b>82,168,931</b>	<b>64,366,688</b>	<b>4,274,803</b>	<b>2,614,314</b>	<b>2,486,883</b>

\*Transferred at (d) Transactions with other companies in which the State holds control or significant influence as a result of the disposal of this investment.

Receivables and payables from/to electricity distribution and supply companies mainly include, receivables/ payables from electricity supply, mainly from disbursements on balancing market.

Receivables from Electrica Serv are mainly represented by loans granted by the company to Electrica Serv, being at maturity and which were not received. The Company estimates that in the following period this amounts will be received, taking into account the improvement of Electrica Serv financial position.

#### (ii) Transactions with other affiliates

	Sales in 2014	Sales in 2013	Purchases in 2014	Purchases in 2013
Electrica Furnizare	71,166,230	132,577,209	21,029,810	17,346,013
Electrica Muntenia Nord Distributie	28,736,574	15,335,807	1,916,777	953,547
Electrica Transilvania Nord Distributie	20,380,439	15,011,090	1,062,056	10,200
Electrica Transilvania Sud Distributie	15,177,388	15,058,599	1,738,183	5,400
Electrica Serv	3,928,571	6,428	2,970,456	2,365,754
Electrica Soluziona*	n/a	-	n/a	299,700
<b>Total</b>	<b>139,389,203</b>	<b>177,989,133</b>	<b>28,717,283</b>	<b>20,980,614</b>

\*Transferred at (d) Transactions with other companies in which the State holds control or significant influence as a result of the disposal of this investment.

#### (D) TRANSACTIONS WITH COMPANIES IN WHICH THE STATE HAS CONTROL OR SIGNIFICANT INFLUENCE

In 2014 the Company had sale and purchase transactions mainly with the following companies:

	Net Receivables balance at 31 December 2014	Payables balance at 31 December 2014	Sales 2014	Purchase 2014
Transelectrica	669,015	18.900.021	12.530.551	162.058.079
OPCOM	-	12.524	117.127	30.650
Complexul Energetic Oltenia	-	5.802.674	-	-
Electrocentrale Oradea	-	-	552.615	617.797
CET Govora	382,917	28.742	911.047	1.006.441
<b>TOTAL</b>	<b>1,051.932</b>	<b>24.743.961</b>	<b>14.111.340</b>	<b>163.712.967</b>

In 2013 the Company had sale and purchase transactions mainly with the following companies controlled by state:

	Net Receivables balance at 31 December 2013	Payables balance at 31 December 2013	Sales 2013	Purchase 2013
Transelectrica	2,038,175	59,863,273	17,120,958	141,270,942
OPCOM	2,356	-	4,748,531	40,369,180
Complexul Energetic Oltenia	-	11,300,234	-	-
Electrocentrale Oradea	681,872	85,156	1,121,436	708,896
CET Govora	-	-	184,351	496,576
<b>TOTAL</b>	<b>2,722,403</b>	<b>71,248,663</b>	<b>23,175,276</b>	<b>182,845,594</b>

At 1 January 2013, the main balances with the companies in which the state has control or significant influence are as the following:

	Net Receivables balance at 1 January 2013	Payables balance at 1 January 2013
Transelectrica	1,039,126	49,311,741
OPCOM	-	1,194,930
Complexul Energetic Oltenia	-	17,915,272
Electrocentrale Oradea	1,305,617	135,302
CET Govora	774,113	502,866
<b>TOTAL</b>	<b>3,118,856</b>	<b>69,060,111</b>

Transactions refer mainly to purchase and sales on the balancing market as well as on the Day Ahead Market.

## 30 CONDITIONALITIES

### (A) LITIGATION AND CLAIMS

The Company is involved in various litigations; the most significant are the followings:

- The Group was sued by Orange Media, claiming the payment of RON 17,008,850 RON representing late payment penalties requested by the claimant as a result of the cancelation of a public acquisition contract by the Company. By sentence no. 4890/13.06.2013 issued by Bucharest Court, Orange Media's claim was dismissed. By sentence no. 573/24.02.2014 the Bucharest Court of Appeal upheld the appeal, voided the sentence and referred the case back to Bucharest Court. By sentence no. 5200/30.10.2014 issued by Bucharest Court, the claim was dismissed. An appeal against this sentence can be made. The Company expects a favourable outcome for this case and in consequence, no provisions were registered.
- The Company was sued by Termoelectrica, claiming the payment of RON 25,047,353 representing penalties related to certain invoices, for the period 1 April 2007 – 31 March 2008. In the first sentence the claim was dismissed. The Company expects a favourable outcome for this case and in consequence, no provisions were registered.
- The activity of the company was subject to many controls performed by ANAF. As at the date of the financial statements, the company is in litigation with ANAF for late payment penalties claimed by ANAF in amount of 30,777,354 RON.

**(B) FISCAL ENVIRONMENT**

Tax audits are frequent in Romania, consisting of detailed verifications of the accounting records of tax payers. Such audits sometimes take place after months, even years, from the date liabilities are established. Consequently, companies may be found liable for significant taxes and fines. Moreover, tax legislation is subject to frequent changes and the authorities demonstrate inconsistency in interpretation of the law. Income tax returns may be subject to revision and corrections by tax authorities, generally for a five year period after they are completed.

The management of the company believes that adequate provisions were recorded for all significant tax obligations.

**(C) TRANSFER PRICES**

According to the fiscal legislation, the fiscal assessment for a transaction with affiliates is based on the market price concept for that transaction. Based on this concept, the transfer prices must be adjusted in order to reflect the market prices established between the entities having no affiliation relation and which act independently, based on "normal market conditions".

Likely, verifications of the transfer prices may be done in the future by the fiscal authorities, in order to establish if these prices are respecting the principle of the "normal market conditions" and that the tax base for Romanian taxpayer is not distorted.

**31 COMMITMENTS****GUARANTEES AND PLEDGES**

At 31 December 2014 the company has an outstanding bank letter of guarantee as it follows:

Bank	Beneficiary	Amount	Currency	Issue Date	Expiry Date
ING B.V.	Transelectrica	20,000,000	RON	10.10.2013	09.10.2015

**CONTRACTUAL COMMITMENTS**

The Group has the following contractual commitments as at 31 December 2014:

	Amount
Purchase of property, plant and equipment and intangible assets	8,034,000

**32 FOUNDATION OF ACCOUNTING RESTATEMENTS****BASE OF PREPARATION**

These financial statements have been prepared in accordance with OMFP 1268/2012 as it is mentioned in note 2.

The accounting policies presented in note 6 were applied for the preparation of the financial statements for the year ended at 31 December 2014, for the comparative information presented in these financial statements for the financial year ended at 31 December 2013 and for the preparation of the

opening of the For the preparation of the opening IFRS statement of financial position, the company adjusted the previous reported amounts from the financial statements prepared according to OMFP 3055/2009. An explanation of the IFRS restatement method, as well as accounting errors corrections affected the financial position of the company and the financial performance is presented in the following tables and the corresponding notes.



## (i) Reconciliation of financial position of the Company

Note	OMFP 3055/2009 – 1 January 2013	The adjustments impact for the transition to IFRS – 1 January 2013	The impact of accounting errors related to prior periods -1 January 2013	IFRS – 1 January 2013	OMFP 3055/2009 – 31 December 2013	The adjustments impact for the transition to IFRS -31 December 2013	The impact of accounting errors related to prior periods – 31 December 2013	IFRS -31 December 2013
<b>ASSETS</b>								
<b>Non-current assets</b>								
Property, plant and equipment	265,509,512	(858,365)	(7,263,955)	257,387,192	322,961,270	(858,365)	(19,729,486)	302,373,419
Intangible assets	318,000	-	-	318,000	797,803	-	-	797,803
Investments in subsidiaries	b,f 1,527,855,544	209,895,099	(284,162,656)	1,453,587,987	1,494,219,179	231,740,044	(320,769,486)	1,405,189,737
Investments in associates	b 431,410,493	75,855,659	-	507,266,152	431,410,493	(431,410,493)	-	-
Deferred tax assets	d -	15,156,826	-	15,156,826	-	13,932,473	-	13,932,473
<b>Total non-current assets</b>	<b>2,225,093,549</b>	<b>300,049,219</b>	<b>(291,426,611)</b>	<b>2,233,716,157</b>	<b>2,249,388,745</b>	<b>(186,596,341)</b>	<b>(340,498,972)</b>	<b>1,722,293,432</b>
<b>Current assets</b>								
Cash and cash equivalents	185,208,969	-	-	185,208,969	144,125,683	-	-	144,125,683
Trade receivables	e 483,838,569	(3,612,794)	(393,384,285)	86,841,490	417,949,814	(3,612,794)	(318,676,534)	95,660,486
Other receivables	74,682,812	(36,017,041)	-	38,665,771	94,017,710	(61,517,275)	-	32,500,435
Inventories	217,965	-	-	217,965	134,502	-	-	134,502
Prepayments	443,126	-	-	443,126	328,120	-	-	328,120
Income tax receivable	5,878,858	-	-	5,878,858	22,794,808	-	-	22,794,808
Assets held for distribution	b -	-	-	-	-	507,266,152	-	507,266,152
<b>Total current assets</b>	<b>750,270,299</b>	<b>(39,629,835)</b>	<b>(393,384,285)</b>	<b>317,256,179</b>	<b>679,350,637</b>	<b>442,136,083</b>	<b>(318,676,534)</b>	<b>802,810,186</b>
<b>Total assets</b>	<b>2,975,363,848</b>	<b>260,419,384</b>	<b>(684,810,896)</b>	<b>2,550,972,336</b>	<b>2,928,739,382</b>	<b>255,539,742</b>	<b>(659,175,506)</b>	<b>2,525,103,618</b>

Note	OMFP 3055/2009 – 1 January 2013	The adjustments impact for the transition to IFRS – 1 January 2013	The impact of accounting errors related to prior periods -1 January 2013	IFRS – 1 January 2013	OMFP 3055/2009 – 31 December 2013	The adjustments impact for the transition to IFRS -31 December 2013	The impact of accounting errors related to prior periods – 31 December 2013	IFRS -31 December 2013	
<b>EQUITY AND LIABILITIES</b>									
<b>Equity</b>									
Share capital, of which:	a	2,062,290,440	430,907,062	-	2,493,197,502	2,078,399,040	430,907,062	-	2,509,306,102
<i>Subscribed share capital</i>		2,062,290,440	-	-	2,062,290,440	2,078,399,040	-	-	2,078,399,040
<i>Inflation adjustment of share capital</i>	a	-	430,907,062	-	430,907,062	-	430,907,062	-	430,907,062
Contributions of shareholders in nature		54,481,291	-	-	54,481,291	47,492,961	-	-	47,492,961
Revaluation reserve	c	27,100,218	(27,100,218)	-	-	27,046,818	(27,046,818)	-	-
Legal reserves		114,093,070	-	-	114,093,070	114,093,070	-	-	114,093,070
Retained earnings	a,b,c, d,e,f	478,577,149	(134,843,037)	(684,810,896)	(341,076,784)	483,508,335	(141,581,392)	(659,175,506)	(317,248,563)
<b>Total equity</b>		<b>2,736,542,168</b>	<b>268,963,807</b>	<b>(684,810,896)</b>	<b>2,320,695,079</b>	<b>2,750,540,224</b>	<b>262,278,852</b>	<b>(659,175,506)</b>	<b>2,353,643,570</b>
<b>Liabilities</b>									
<b>Total non-current liabilities</b>									
Employee benefits		3,257,741	(429,432)	-	2,828,309	2,927,909	(169,156)	-	2,758,753
Other payables		13,500,000	(2,874,554)	-	10,625,446	6,000,000	(502,440)	-	5,497,560
<b>Total non-current liabilities</b>		<b>16,757,741</b>	<b>(3,303,986)</b>	<b>-</b>	<b>13,453,755</b>	<b>8,927,909</b>	<b>(671,596)</b>	<b>-</b>	<b>8,256,313</b>
<b>Current liabilities</b>									
Short term bank borrowings		10,333,911	-	-	10,333,911	-	-	-	-
Bank overdrafts		55,732,038	-	-	55,732,038	36,999,437	-	-	36,999,437
Trade payables		93,239,343	1,289,826	-	94,529,169	86,996,438	(197,510)	-	86,798,928
Other payables		41,862,702	(7,321,034)	-	34,541,668	10,229,537	(6,039,160)	-	4,190,377
Income in advance		-	361,339	-	361,339	410,264	-	-	410,264
Employee benefits		2,295,856	1,529,432	-	3,825,288	2,643,336	1,384,039	-	4,027,375
Provisions		18,600,089	(1,100,000)	-	17,500,089	31,992,237	(1,214,883)	-	30,777,354
<b>Total current liabilities</b>		<b>222,063,939</b>	<b>(5,240,437)</b>	<b>-</b>	<b>216,823,502</b>	<b>169,271,249</b>	<b>(6,067,514)</b>	<b>-</b>	<b>163,203,735</b>
<b>Total liabilities</b>		<b>238,821,680</b>	<b>(8,544,423)</b>	<b>-</b>	<b>230,277,257</b>	<b>178,199,158</b>	<b>(6,739,110)</b>	<b>-</b>	<b>171,460,048</b>
<b>Total equity and liabilities</b>		<b>2,975,363,848</b>	<b>260,419,384</b>	<b>(684,810,896)</b>	<b>2,550,972,336</b>	<b>2,928,739,382</b>	<b>255,539,742</b>	<b>(659,175,506)</b>	<b>2,525,103,618</b>



## ii) Reconciliation of profit or loss account

	Note	OMFP 3055/2009 -2013	The adjustments impact for the transition to IFRS -2013	The impact of accounting errors related to prior periods - 2013	IFRS - 2013
Revenues		283,256,214	(268,075)	-	282,988,139
Other income		15,088,609	268,076	-	15,356,685
Electricity purchased		(227,938,870)	-	-	(227,938,870)
Employee benefits		(21,925,367)	(811,749)	-	(22,737,116)
Depreciation and amortization		(9,377,572)	-	-	(9,377,572)
Impairment of property, plant and equipment, net		-	-	(12,465,531)	(12,465,531)
Value adjustments on investments in subsidiaries	f	-	(11,791,420)	(36,606,830)	(48,398,250)
Resumption of impairment of trade and other receivables, net	e	(75,029,417)	-	91,623,701	16,594,284
Other operating expenses , net movement in provisions		(33,732,081)	685,891	(16,915,950)	(49,962,140)
<b>Profit / (loss) from operating</b>		<b>(69,658,484)</b>	<b>(11,917,277)</b>	<b>25,635,390</b>	<b>(55,940,371)</b>
Finance income		104,936,477	(8,949,713)	-	95,986,764
Finance costs		(9,915,552)	7,871,188	-	(2,044,364)
<b>Income / (Expenses) Net financial</b>		<b>95,020,925</b>	<b>(1,078,525)</b>	<b>-</b>	<b>93,942,400</b>
<b>Profit before tax</b>		<b>25,362,441</b>	<b>(12,995,802)</b>	<b>25,635,390</b>	<b>38,002,029</b>
Income tax expense		-	(1,182,446)	-	(1,182,446)
<b>Profit for the year</b>		<b>25,362,441</b>	<b>(14,178,248)</b>	<b>25,635,390</b>	<b>36,819,583</b>

### a) Restatement of share capital under IAS 29

Romanian economy was a hyperinflationary economy until December 31, 2003, According to IAS 29 "Financial Reporting in Hyperinflationary Economies", components of equity, except retained earnings and revaluation

reserves are restated by applying a general price index of the dates the components were contributed, Thus the Company's share capital was adjusted with the effects of hyperinflation period up to 31,12,2003

The modification impact resulting from the application of IAS 29 is summarized as follows:

	1 January 2013	31 December 2013
<b>Statement of financial position</b>		
Adjustments of share capital	430,907,062	430,907,062
The effect on retained earnings due to the adoption of IAS 29 for the first time (loss)	(430,907,062)	(430,907,062)

### b) Restatement of investments in subsidiaries and associates under IAS 29 Investments in Associates and classification of assets held for distribution in accordance with IFRS 5

Investments in subsidiaries and other companies have been restated with the inflation effect until 31 December 2003 (the date of which the Romanian

economy stop to be hyperinflationary), the differences in restatement is recorded in retained earnings.

The impact of the changes resulting from the application of IAS 29 is summarized as follows:

	1 January 2013	31 December 2013
<b>Statement of financial position</b>		
Investments in subsidiaries	184,440,554	172,649,135
Investments in associates entities	75,855,659	75,855,659
The effect on retained earnings due to the adoption of IAS 29 for the first time (profit / credit)	260,296,213	258,761,358

On 31 December 2013, the Company has reclassified investments in associates division of the project approved

in March 20, 2014 (see Note 23) and presented them as assets held for distribution in accordance with IFRS 5.

### c) Application of deemed cost exception

The Company applies the revaluation tangible model, the Company chose the date of transition to IFRS to apply the exception of deemed cost under IFRS 1 as the difference revaluation registered until January 1,

2013 was transferred to retained earnings, After the transition date of revaluation reserves arising from revaluation are recognized as such in the financial statements,

The impact of the exception deemed cost is summarized as follows:

	1 December 2013	31 December 2013
<b>Statement of financial position</b>		
Revaluation reserve	(27,100,218)	(27,046,818)
Retained earnings (credit)	27,100,218	27,046,818

### d) Deferred tax

Deferred tax concept is not adopted as OMPF 3055/2009, As a result of applying IAS 12 "Income Taxes", the Company recorded deferred tax for taxable

and deductible temporary differences in the levels of its assets and liabilities during the translation subject to IFRS.

Impact of deferred tax application is summarized as follows:

	1 January 2013	31 December 2013
<b>Statement of financial position</b>		
Deferred tax assets	15,156,826	13,932,473
Retained earnings (credit)	15,156,826	13,932,473
Deferred income tax liability recognized in equity	83,154	41,907
<b>Profit and loss account</b>		<b>2013</b>
Income tax income		1,182,446

### e) Value adjustments related to customer Oltchim

Receivables from Oltchim insolvent company were evaluated in OMPF 3055/2009 financial statements net of 318, 676, 535 RON to 31 December 2013 (393, 384, 285 RON to 31 December 2012), In January 30, 2013 was granted the application filed by the debtor Oltchim general opening insolvency proceedings,

The Company recorded impairment adjustments in the IFRS financial statements for the entire debt of Oltchim, as error correction for the year 2012. Accordingly, the Company cancelled subsequent adjustments made in profit or loss on the value of the receivables Oltchim.

Impact correction value adjustments for Oltchim is summarized as follows:

	1 January 2013	31 December 2013
<b>Statement of financial position</b>		
Trade receivables	(393,384,285)	(318,676,534)
Retained earnings (loss)	(393,384,285)	(318,676,534)
<b>Profit and loss account</b>		<b>2013</b>
Impairment of trade receivables and other receivables, net		(74,707,751)

#### f) Value adjustments relating to investments in subsidiaries

Adjustment relates to the carrying amount of the shares held by Electrica SA in Servicii Energetice Banat, Servicii Energetice Dobrogea, Servicii Energetice Moldova, Servicii Energetice Oltenia and Electrica Serv, adjusted retrospectively as indicators of impairment value existed since the end of 2012: the energy services companies entered in 2013 into liquidation / insolvency and adjusted net assets or net assets of these companies are negative, Regarding Electrica Serv, its net assets, corrected flow results in relation with the Servicii Energetice Banat, Servicii Energetice Dobrogea, Servicii Energetice Moldova and Servicii Energetice Oltenia whose recoverability is unlikely, is significantly lower

than the carrying value of shares held by Electrica in Electrica Serv.

In the OMPF 3055/2009 financial statements were not recorded value adjustments relating to the recoverability of investments in these subsidiaries,

In IFRS Electrica financial statements retrospectively adjusted entirely investments in Servicii Energetice Banat, Servicii Energetice Dobrogea, Servicii Energetice Moldova (since 2012) and Servicii Energetice Oltenia (in 2013), and hired an independent assessor to perform valuation of investments in Electrica Serv to 31 December 2014, 2013 and 2012, These results were recorded in the IFRS financial statements as correction of errors related to previous years.

*Impact correction value adjustments to investments in subsidiaries is summarized as follows:*

	1 January 2013	31 December 2013
<b>Statement of financial position</b>		
Investments in subsidiaries	(284,162,656)	(320,769,486)
Retained earnings (loss)	(284,162,656)	(320,769,486)
<b>Profit and loss account</b>		<b>2013</b>
Value adjustments on the equity interests in subsidiaries		36,606,830



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### Independent Auditors' Report (free translation<sup>1</sup>)

To the shareholders of  
 Electrica S.A.

#### Report on the Individual Financial Statements

- 1 We have audited the accompanying individual financial statements of Electrica S.A. ("the Company"), which comprise the individual statement of financial position as at 31 December 2014, the individual statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Individual Financial Statements*

- 2 Management is responsible for the preparation and fair presentation of these individual financial statements in accordance with the Order of the Minister of Public Finance no. 1286/2012 and related amendments for the approval of accounting regulations conforming to International Financial Reporting Standards applicable to companies whose securities are traded on a regulated market, and for such internal control as management determines is necessary to enable the preparation of individual financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

- 3 Our responsibility is to express an opinion on these individual financial statements based on our audit. We conducted our audit in accordance with the standards on auditing as adopted by the Romanian Chamber of Financial Auditors. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the individual financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the individual financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the individual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the individual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the individual financial statements.

<sup>1</sup> TRANSLATOR'S EXPLANATORY NOTE: This translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version.



- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

- 6 In our opinion, the individual financial statements give a true and fair view of the individual financial position of the Company as at 31 December 2014, and of its individual financial performance and its individual cash flows for the year then ended in accordance with the Order of the Minister of Public Finance no. 1286/2012 and related amendments for the approval of accounting regulations conforming to International Financial Reporting Standards applicable to companies whose securities are traded on a regulated market.

*Other Matters*

- 7 This independent auditors' report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for the report on the individual financial statements and the report on conformity, or for the opinion we have formed.
- 8 As disclosed in Note 2 to the accompanying individual financial statements, in accordance with the Order of Minister of Public Finance no. 881/2012, starting with 2014 the Company has the obligation to apply International Financial Reporting Standards in the preparation of the individual financial statements. Therefore, this is the first set of individual financial statements prepared in accordance with the Order of the Minister of Public Finance no. 1286/2012 and related amendments for the approval of accounting regulations conforming to International Financial Reporting Standards applicable to companies whose securities are traded on a regulated market, and we have not expressed an opinion or issued a separate audit report on the individual statements of financial position as of 31 December 2013 and 1 January 2013, and on the individual statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year ended 31 December 2013, or any of the related notes included in the accompanying individual financial statements.

**Report on conformity of the Administrators' Report with the individual financial statements**

In accordance with the Order of the Minister of Public Finance no. 1286/2012 and related amendments, article no. 16 point 1 of accounting regulations in accordance with International Financial Reporting Standards applicable to companies whose securities are traded on a regulated market, we have read the Administrators' Report attached to the individual financial statements. The Administrators' Report is not a part of the individual financial statements. In the Administrators' Report we have not identified any financial information which is not in accordance, in all material respects, with the information presented in the accompanying individual financial statements.

**For and on behalf of KPMG Audit SRL:**

**Mikael Olsson**

registered with the Chamber of Financial  
Auditors of Romania under no 662/2001

Bucharest, 26 March 2015



**KPMG Audit SRL**

registered with the Chamber of Financial  
Auditors of Romania under no 9/2001



Principle/ Recommendation	Question	YES	NO	If NOT, please explain	
P19	Is the Company managed under a dualist system?		X	According to the Articles of Incorporation, the Company is managed under a one-tier system.	
P1	R1	Has the Company drawn up the By-laws/Corporate Governance Rules to describe the main aspects of corporate governance?	X		
		The By-laws/Corporate Governance Rules are posted on the Company's website, indicating the date of the last update?	X	<a href="http://www.electrica.ro/en/wp-content/uploads/2015/03/ELSA_EN_Corporate_Governance_Code_Feb2015.pdf">http://www.electrica.ro/en/wp-content/uploads/2015/03/ELSA_EN_Corporate_Governance_Code_Feb2015.pdf</a> On 2 February 2015 the Board of Directors of the Company has approved the Corporate Governance Code, which has not undergone any changes.	
	R2	Are there in the By-laws/Corporate Governance Rules definitions of corporate governance structures, positions, competencies and responsibilities of the Board of Directors and of the executive management?	X		Funcțiile și competențele Consiliului de Administrație sunt prevăzute în Actul Constitutiv (postat pe website-ul Societății) și în regulamentul Consiliului de Administrație, ambele fiind anexate Codului de guvernanta corporativă al Societății ( <a href="http://www.electrica.ro/wp-content/uploads/2015/03/ELSA_RO_Corporate_Governance_Code_Feb2015.pdf">http://www.electrica.ro/wp-content/uploads/2015/03/ELSA_RO_Corporate_Governance_Code_Feb2015.pdf</a> )
	R3	Does the Company's Annual Report provide for a chapter on corporate governance describing all relevant events related to corporate governance recorded during the previous financial year?	X		
		Does the Company post on its own website the information regarding the following aspects on its corporate governance policy:			
		a) description of its corporate governance structures?	X		<a href="http://www.electrica.ro/en/wp-content/uploads/2015/03/ELSA_EN_Corporate_Governance_Code_Feb2015.pdf">http://www.electrica.ro/en/wp-content/uploads/2015/03/ELSA_EN_Corporate_Governance_Code_Feb2015.pdf</a>
		b) the updated articles of incorporation?	X		<a href="http://www.electrica.ro/en/wp-content/uploads/2014/07/EN_Electrica-Articles-of-Incorporation-updated-18-December-2014.pdf">http://www.electrica.ro/en/wp-content/uploads/2014/07/EN_Electrica-Articles-of-Incorporation-updated-18-December-2014.pdf</a>
		c) internal functioning rules/its essential aspects for each speciality commission/committee?	X		<a href="http://www.electrica.ro/en/wp-content/uploads/2015/03/ELSA_EN_Corporate_Governance_Code_Feb2015.pdf">http://www.electrica.ro/en/wp-content/uploads/2015/03/ELSA_EN_Corporate_Governance_Code_Feb2015.pdf</a>
d) "Comply or Explain" statement?		X			
	e) list with the members of Board of Directors mentioning the independent and/or non-executive members, the members of the executive management and the members of the speciality commissions/committees?	X		<a href="http://www.electrica.ro/en/electrica-s-a-administration/">http://www.electrica.ro/en/electrica-s-a-administration/</a>	
	f) a brief description of the CV for each member of the Board of Directors and each member of the executive management?		X	The information relating to the biographies of the Board members and of the executive management may be accessed in the documents presented to the General Meeting of Shareholders dated 22 September 2014. Nevertheless, there is no section dedicated to this requirement yet. The Company's website is constantly being updated, and the Company will endeavour to fulfil this requirement.	
P2	Does the Company abide by the rights of financial instruments holders, providing them with equal treatment and submitting to approval any modification of the rights in the special meetings of such holders?	X		The Company has not issued several classes of shares nor bonds.	

Principle/ Recommendation	Question	YES	NO	If NOT, please explain
P3	R4			
	a) the General Meeting of Shareholders convening notice?	X		<a href="http://www.electrica.ro/en/investor-relations/general-meeting-of-shareholders/">http://www.electrica.ro/en/investor-relations/general-meeting-of-shareholders/</a>
	b) materials/documents related to the agenda, as well as any information on the agenda?	X		<a href="http://www.electrica.ro/en/investor-relations/general-meeting-of-shareholders/">http://www.electrica.ro/en/investor-relations/general-meeting-of-shareholders/</a>
	c) special power of attorney forms?	X		<a href="http://www.electrica.ro/en/investor-relations/general-meeting-of-shareholders/">http://www.electrica.ro/en/investor-relations/general-meeting-of-shareholders/</a>
R6	Has the Company prepared and proposed to the General Meeting of Shareholders procedures for a proper and efficient performance of the General Meeting of Shareholders meetings without any damage to the right of any shareholder to express its free opinion on the debated topics?		X	Although the Company has yet to prepare procedures for the proper and efficient performance of the General Meeting of Shareholders meetings, they are performed in accordance with the applicable laws, the Articles of Incorporation and the provisions of the convening notice, granting to any shareholder the right to express its free opinion on the debated topics.
R8	Does the Company publish on its website details of the shareholders' rights as well as rules and procedures for attendance at the General Meeting of Shareholders?		X	The shareholders' rights are provided both by the law and by the Articles of Incorporation published on the Company's website separately and attached to the Corporate Governance Code. Nevertheless, the Company's website does not have a separate section dedicated to the shareholders' rights.
	Does the Company inform in due time (immediately after the General Meeting of Shareholders meetings) all shareholders by means of the special section of its own website:			Although the Company has yet to prepare procedures and rules for attendance at the General Meeting of Shareholders, the shareholders' attendance is made in accordance with the applicable legal provisions, the Articles of Incorporation and the provisions of the convening notice, observing the shareholders' rights.
	a) on the resolutions made within the General Meeting of Shareholders?	X		
	b) on the detailed result of the vote?	X		
	Does the Company publish in a special section of its own website, that is easy identifiable and accessible:			
	a) current reports/announcements?	X		<a href="http://www.electrica.ro/en/investor-relations/press-releases/">http://www.electrica.ro/en/investor-relations/press-releases/</a>
	b) the financial calendar, annual reports, half year and quarter reports?	X		<a href="http://www.electrica.ro/en/investor-relations/press-releases/">http://www.electrica.ro/en/investor-relations/press-releases/</a> <a href="http://www.electrica.ro/en/investor-relations/financial-calendar/">http://www.electrica.ro/en/investor-relations/financial-calendar/</a>
R9	Is there within the Company a special department/person dedicated to investor relations?	X		<a href="http://www.electrica.ro/en/investor-relations/investor-relations-contact/">http://www.electrica.ro/en/investor-relations/investor-relations-contact/</a>

Principle/ Recommendation	Question	YES	NO	If NOT, please explain
P4, P5	R10			As per the Articles of Incorporation the Board of Directors meets at "Electrica's" headquarters once a month or whenever required, upon being convened by the president of the board of directors, by at least two members of the Board of Directors or by the General Manager.
	R12		X	The Company's Corporate Governance Code contains a set of general rules referring to the obligations to report transactions and also referring to the restrictions relating the regime of privileged information.  The Company will take the necessary measures to implement a set of specific rules for this type of transactions.
			X	The Company's website is constantly being updated, and the Company will endeavour to fulfil this requirement.
P6		X		All members of the Board of Directors are non-executive.
P7		X		As per Article 17(1) of the Articles of Incorporation: <i>"Electrica" is managed by a board of directors having 5 directors elected by the General Meeting of Shareholders of the Company out of which at least 3 directors need to be independent and non-executive. [...]</i>
P8	R15	X		<a href="http://www.electrica.ro/en/wp-content/uploads/2015/03/ELSA_EN_Corporate_Governance_Code_Feb2015.pdf">http://www.electrica.ro/en/wp-content/uploads/2015/03/ELSA_EN_Corporate_Governance_Code_Feb2015.pdf</a>
		X		As per the Charter of each committee.
	R16	X		Members of the Board of Directors have been appointed as per the independence requirements provided by the Articles of Incorporation transposing Recommendation 16 of the Corporate Governance Code of the BSE.
	R17	X		As per Article 3 of the Charter of the Board of Directors.
P9		X		Members of the Board of Directors have been appointed in accordance with the requirements of the Articles of Incorporation which imposes a transparent procedure and eligibility criteria.
P10		X		



Principle/ Recommendation	Question	YES	NO	If NOT, please explain	
P11	R21	Does the Board of Directors review at least once a year the need to set up a Remuneration/Remuneration Policy Committee for the directors and for the members of the executive management?		X	There already exists a Nomination and Remuneration Committee incorporated under the Company's Articles of Incorporation (Article 18 item C of the Articles of Incorporation).
		Is the remuneration policy approved by the General Meeting of Shareholders?		X	The nomination and remuneration policies are approved by the Board of Directors at the suggestion of the Nomination and Remuneration Committee however the remuneration of the Board of Directors is established by the General Meeting of Shareholders.
	R22	Does the Remuneration Committee consist exclusively of non-executive directors?	X		
	R24	Is the company remuneration policy provided in the By-laws /Corporate Governance Rules?		X	Electrica is currently preparing the nomination and remuneration policy and this policy will be included in the Corporate Governance Code immediately after being completed.
P12, P13	R25	Does the Company supply information, in the English language, which are provided by the reporting requirements as:			
		a) periodic information (periodical information supply)?	X		
		b) continuous information (continuous information supply)?	X		
		Does the Company prepare and provide financial reporting according to IFRS as well?	X		
	R26	Does the Company facilitate, at least once a year, meetings with financial analysts, brokers, rating agents and other market specialists, with the view of presenting financial elements that are relevant for making investment decisions?	X		The Company organizes quarterly presentations for financial analysts, brokers, rating agencies and other market specialists, with the view of presenting the financial elements relevant for making investment decisions.
	R27	Is there an Audit Committee within the Company?	X		
	R28	Does the Board of Directors or the Audit Committee, as the case may be, investigate on a regular basis the efficiency of the financial reporting, internal control and risk management system as adopted by the Company?	X		
	R29	Does the Audit Committee comprise strictly non-executive directors and is there a sufficient number of independent directors?	X		All directors of the Company are non-executive and the majority of the members of the Board of Directors are independent.
	R30	Does the Audit Committee meet at least twice a year; are these meetings dedicated to drafting and providing to the shareholders and to the public the half-year and annual results?		X	It was not the case so far but these meetings will to take place in 2015.
R32	Does the Audit Committee make recommendations on the selection, appointment, re-appointment and replacement of the financial auditor, as well as on its remuneration terms and conditions?		X	It was not the case so far; external financial auditor was appointed by the Board of Directors for a period of two years in the first meeting of the Board of Directors of 14 October 2014 in which it was established the Audit Committee as well.	

Principle/ Recommendation	Question	YES	NO	If NOT, please explain
P14	Has the Board of Directors adopted a procedure with the view of identifying and proper settlement of the conflicts of interest?	X		<a href="http://www.electrica.ro/en/code-of-ethics-and-professional-conduct/">http://www.electrica.ro/en/code-of-ethics-and-professional-conduct/</a>
P15	R33 Do the directors inform the Board of Directors on the conflicts of interest as they occur and do they refrain from the debates and the vote on those matters, according to the relevant legal provisions?	X		<a href="http://www.electrica.ro/en/code-of-ethics-and-professional-conduct/">http://www.electrica.ro/en/code-of-ethics-and-professional-conduct/</a>
P16	R34/ R35 Has the Board of Directors adopted the specific procedures in order to secure fair procedures (criteria for identifying material transactions, transparency criteria, objectivity criteria, non-competition criteria etc.) for the scope of identifying related parties transactions?		X	At the level of the Company there are general principles with respect to approving certain transactions, however at the present time no such specific set of procedures has been prepared. The Company will take the required measures in order to implement a set of specific procedures in view of the above.
P17	R36 Has the Board of Directors adopted a procedure on the internal flow and disclosure to third parties of information related to the Company, with emphasis on information that can influence the market price of the securities issued by it?	X		There are two sets of guidelines referring to the flow of information and documents (one set is concerned with the regime of privileged information and abuse on the market and the procedure regarding integrity) both attached to the Corporate Governance Code ( <a href="http://www.electrica.ro/en/wp-content/uploads/2015/03/ELSA_EN_Corporate_Governance_Code_Feb2015.pdf">http://www.electrica.ro/en/wp-content/uploads/2015/03/ELSA_EN_Corporate_Governance_Code_Feb2015.pdf</a> ).
P18	R37/ R38 Does the Company perform activities related to Social and Environment Responsibility?	X		

Since the Company's website is constantly being updated, some of the links listed above may become inoperable in the near future. Also the Company does not assume any obligation to update this statement following the changes to the website.

## DECLARATION OF THE MANAGEMENT

We confirm to the best of our knowledge that the consolidated financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the financial position of the Group, its financial performance and cash flows for the year ended December 31, 2014, and that the Directors' report gives a true and fair view of the development and performance of the business of the Group, together with a description of the main risks and uncertainties associated with the expected development of the Group.

**VICTOR CIONGA**

non-executive director,  
Chairman of the Board of Directors

**MICHAEL BOERSMA**

non-executive director

**ARIELLE MALARD DE ROTHSCHILD**

non-executive director

**CRISTIAN BUSU**

non-executive director

**VICTOR VLAD GRIGORESCU**

non-executive director

**IOAN ROSCA**

General Manager

