ANNUAL REPORT 2016

electrica s.a.

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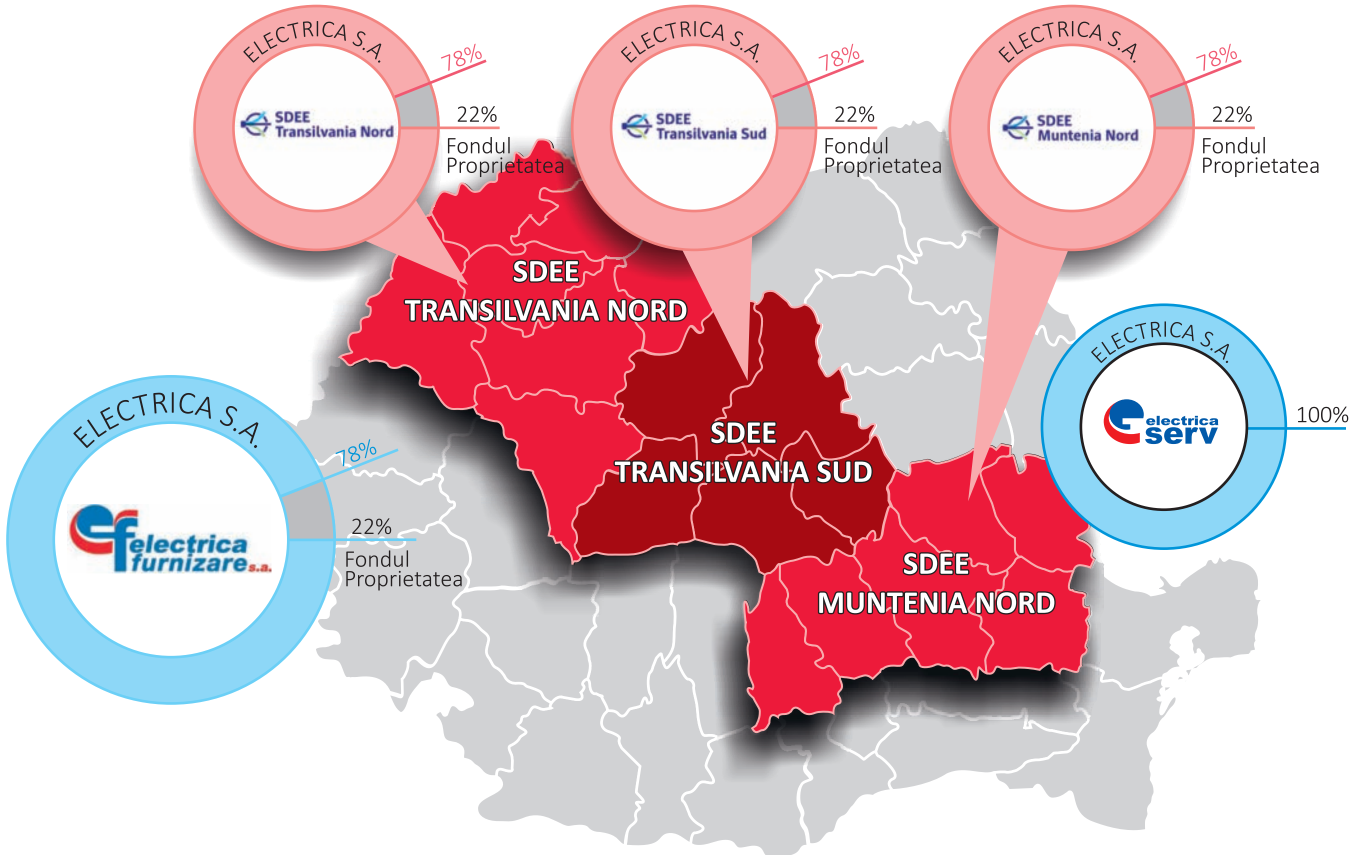
ELECTRICA GROUP

GROUP KEY FIGURES

Key Figures Electrica Group

Operational results	2014	2015	2016
Distributed energy (Twh)	16.3	17.1	17.5
Number of users (mil.)	3.62	3.65	3.67
Supplied energy on retail (Twh)	9.2	10.1	10.6
Number of customers (mil.)	3.59	3.61	3.6
Number of employees at period end	11,740	10,539	9,685
Financial results			
Revenues (mil. RON)	5.044	5.503	5.518
EBITDA (mil.RON)	869	922	960
EBIT (mil.RON)	511	569	586
Profit for the year attributable to the owners of the company (mil. RON)	297	363	357
Net cash from operating activities (mil. RON)	981	743	718
Capital expenditures (mil. RON)	465	551	569
EPS (RON)	1.07	1.07	1.05

Electrica Significant Subsidiaries and Key Figures



DISTRIBUTION ACTIVITY

SDEE Transilvania Nord

Societatea de Distributie a Energiei Electrice Transilvania Nord S.A
1.25 mil users
Market share 11.6%
Revenues: RON 857 mil
EBITDA: RON 269 mil
Distributed volume: 5.1 TWh

SDEE Transilvania Sud

Societatea de Distributie a Energiei Electrice Transilvania Sud S.A
1.12 mil users
Market share 13.3%
Revenues: RON 790 mil
EBITDA: RON 256 mil
Distributed Volume: 5.8 TWh

SDEE Muntenia Nord

Societatea de Distributie a Energiei Electrice Muntenia Nord S.A
1.30 mil users
Market share 15.4%
Revenues: RON 801 mil
EBITDA: RON 227 mil
Distributed Volume: 6.6 TWh

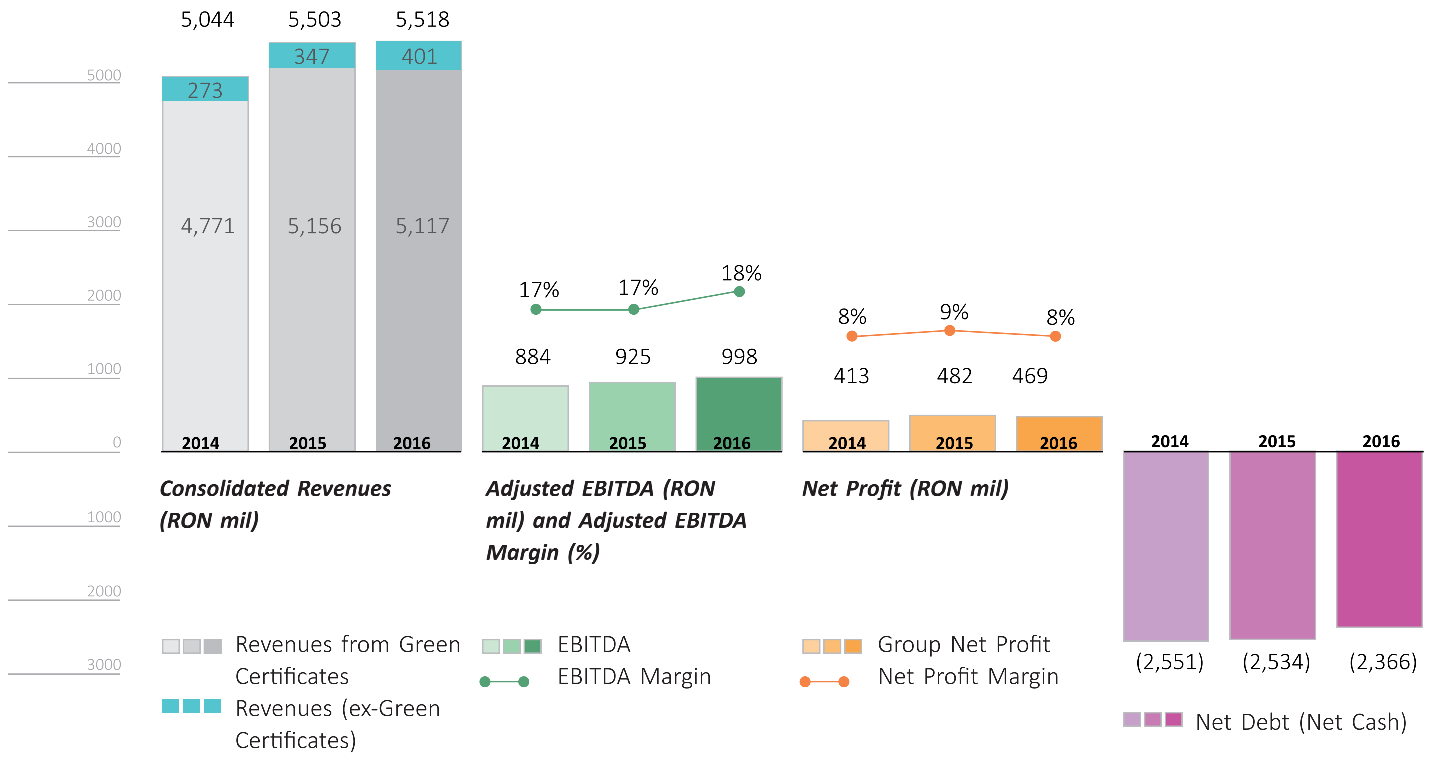
SUPPLY ACTIVITY

Electrica Furnizare (EF)
3.60 mil consumers
Market share 22.6%
Revenues: RON 4,432 mil
EBITDA: RON 185 mil
Supplied volume on retail market: 10.6 TWh

ENERGY SERVICES ACTIVITY

Electrica Serv (ES)
Revenues: RON 365 mil
EBITDA: RON 17 mil

Summary Consolidated Financials



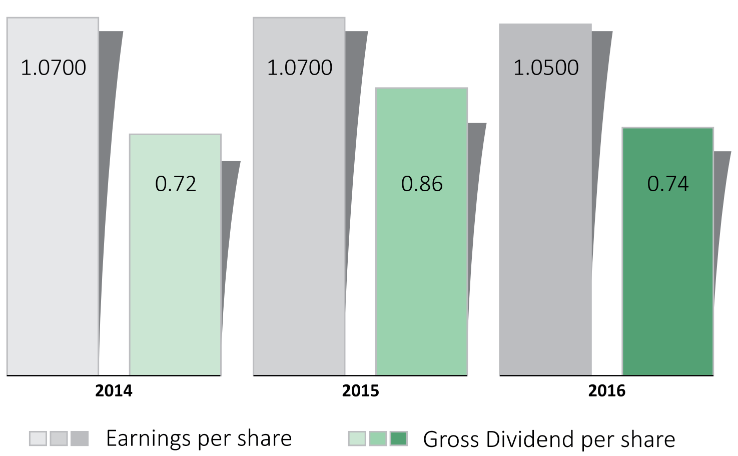
Consolidated Revenues (RON mil)

Adjusted EBITDA (RON mil) and Adjusted EBITDA Margin (%)

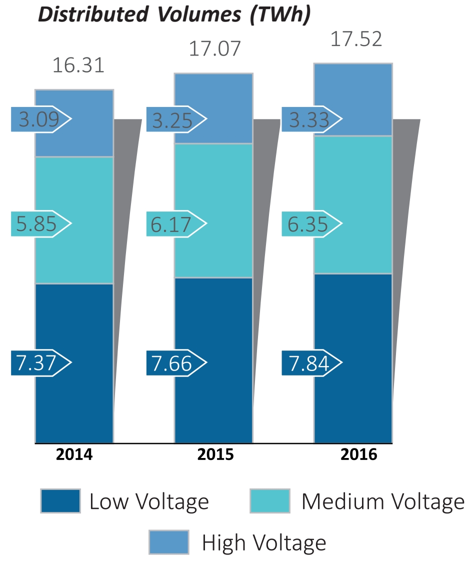
Net Profit (RON mil)

Capital Structure: Net Debt / (Net Cash) Position (RON mil)

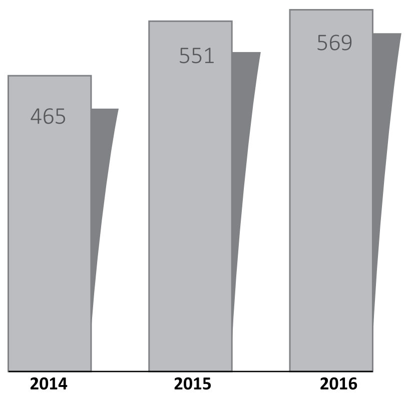
Earnings and gross dividends per share (RON)



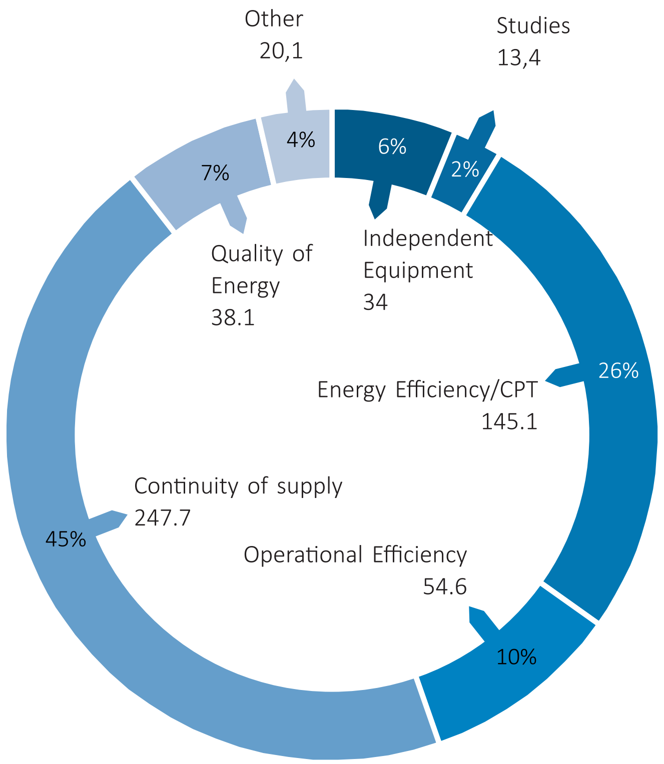
Distributed Volumes (TWh)



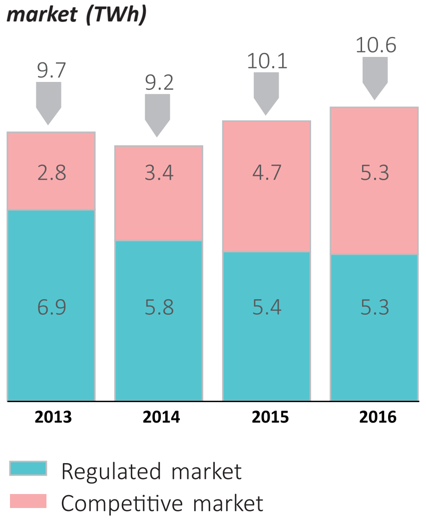
Capital expenditures 2014 – 2016 (RON mil)



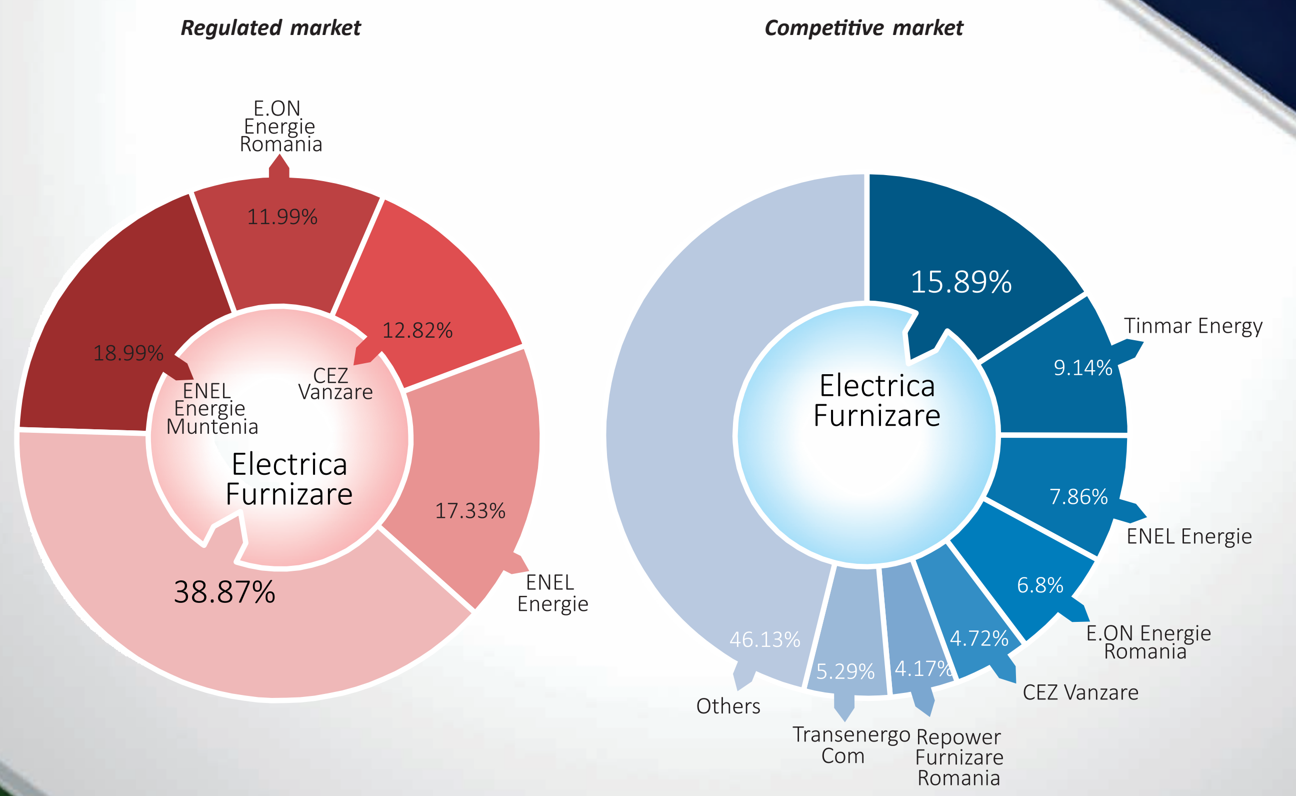
The structure of Electrica Group's investments in 2016



Volumes of electricity supplied on retail market (TWh)



Supply market share (22.55% overall) – September 2016



2016 was a challenging year for the entire energy market in Romania and elsewhere. Now, we can conclude that Electrica reacted very well to these challenges, the results recorded at Group level being noteworthy in this context, on certain segments, such as, for example, improvement of operational performance.

Investments made in our distribution networks, in improving the services provided, and intensification of cost optimization programs have allowed us, on the one hand, to meet our commitments to all stakeholders, and on the other to maintain a sound financial position.

Keeping these strategic lines, I am convinced that Electrica has great chances to perform as well in the coming years, being advantaged by the fact that it has a very important tradition in a vital business area for what the modern world means.

Moreover, Electrica has at least one other important asset, an outstanding investment availability. This is a great advantage and we will try to use these resources as well as possible. We know that expectations are high from shareholders, customers, employees, probably also from authorities, and therefore we have very ambitious plans.

First, as we have committed in the company's listing prospectus, we plan to finance our own investment projects and we have a plan providing for approximately EUR 55-60 mln each year, at least in the following two years, for each distribution company of the Group. It means around EUR 170-180 mln per year, an extremely ambitious target, which in turn comes with a number of challenges. For example, we are in full implementation of a project for the reorganization of the investment process, to be able to basically double investments from one year to the next.

At the same time, I assure you that we are carefully analyzing the opportunities we have in the market because, naturally, we are trying to get a better use of the existing resources.

All these options should be prioritized according to long-term added value they can bring, while respecting a certain financial discipline.

The terrible challenges in late 2016 and early 2017, in the energy market, meant lessons learned by both us, companies activating in this business area, and also authorities and even customers.

It is clear for everyone that, in the supply segment, competition has reached an unprecedented level. On the other hand, it is clear that this competition cannot go on forever solely on prices. We must expand our horizons. That's also because people want more, and we want to be able to provide customers with integrated solutions, clearly at a competitive price. This means developing a new business, investments in technology, by which to offer integrated services, not only electricity.

Another aspect that concerns us with priority is the operational and staff safety and, in this regard, we have taken measures to ensure the highest standards in health and safety at work, both for employees and for contractors.

Although I am convinced that 2017 will not be an easy year, we maintain our commitments to take all the necessary measures to bring added value, continuing to focus on what sustainable performance means.

Catalin Stancu
CEO Electrica SA

ELECTRICA GROUP

CONSOLIDATED DIRECTORS' REPORT FOR THE YEAR 2016

SUMMARY

GLOSSARY

ACER	Agency for the Cooperation of Energy Regulators
ANRE	Romanian Energy Regulatory Authority
BPS	Basis points
BoD	Board of Directors
BRP	Balancing Responsible Party
BSE	Bucharest Stock Exchange
CAPEX	Capital Expenditure
CCM	Component of the Competitive Market
CEE	Central-Eastern Europe
CGC	Corporate Governance Code
CIRED	International Conference on Electricity Distribution
CISO	Chief Information Security Officer
CMUS	Centralised Market for Universal Service
CNTEE	The National Transmission System Operator
COO	Chief Operating Officer
CSR	Corporate Social Responsibility
OTC	Own Technological Consumption
DSO	Distribution System Operator
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortization
EDB	Enel Distributie Banat
EDD	Enel Distributie Dobrogea
EDM	Enel Distributie Muntenia
SDMN	Societatea de Distributie Muntenia Nord
SDTN	Societatea de Distributie Transilvania Nord
SDTS	Societatea de Distributie Transilvania Sud
ELSA	Electrica S.A.
EGMS	Extraordinary General Meeting of Shareholders
EU	European Union
EUR	European monetary unit
FDEE	The distribution subsidiaries in the Electrica Group
GC	Green Certificates
GDP	Gross Domestic Product
GDR	Global Depositary Receipts
GMS	General Meeting of Shareholders
GWh	Giga Watt hour
G.D.	Government Decision
HV	High Voltage
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMS	Integrated Management System
IPO	Initial Public Offering
IR	Investor Relations
KPI	Key Performance Indicators
kV	KiloVolt
LSH	Labour safety and health
LV	Low Voltage
MV	Medium Voltage
MWh	MegaWatt hour
NAFA	National Agency for Fiscal Administration
NCI	Non-controlling Interests
NEN	National Electricity Network
NGO	Non-Governmental Organization
NRC	Nomination and Remuneration Committee
OGMS	Ordinary General Meeting of Shareholders
OPCOM	Romanian Gas and Electricity market operator
OTC	Own Technological Consumption
PCB	Polychlorinated Biphenylsor
RAB	Regulated Asset Base
REMIT	Regulation on Wholesale Energy Market Integrity and Transparency
ROA	Return on Assets
RON	Romanian monetary unit
RRR	Regulated Return Rate
SCADA	Supervisory Control And Data Acquisition
SDFEE	Societatea de Distributie si Furnizare a Energiei Electrice
SSC	Shared Service Center
TESA	Tehnical, Economic and Socio-Administrative
TWh	TeraWatt hour
UM	Unit of Measurement
USD	United States Dollar
VAT	Value Added Tax

Identification details of the issuer

Report date: March 9th, 2017
Name of the Issuer: Societatea Energetica Electrica S.A.
Headquarter: no. 9, Grigore Alexandrescu Street, 1st District, Bucharest, Romania
Telephone/fax number: +4021.208.5999; +4021.208.5998
Fiscal code: RO13267221
Trade Registry No: J40/7425/2000
Share capital: 3,459,399,290 RON subscribed and paid
Main characteristics 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 issues securities are traded: As at December 31st, 2016 the Company shares are listed on the Bucharest Stock Exchange and Global Depositary Receipts are listed on the London Stock Exchange

	Ordinary Shares	GDR
ISIN	ROELECACNOR5	US83367Y2072
Bloomberg Symbol	0QVZ	ELSA:LI
Currency	RON	USD
Nominal Value	10 RON	40 RON
Stock Market	Bursa de Valori Bucuresti REGS	London Stock Exchange MAINMARKET
Ticker	EL	ELSA

Source: Electrica

1 RESULTS OF ELECTRICA GROUP IN 2016

1.1 Key financial data

In 2016, the financial results of Electrica recorded a slight decrease compared to the previous year, mainly driven by lower profitability of distribution segment which was partially offset by a positive result of the supply segment and of the services segment relating to external distribution networks.

The Group's income in 2016 and 2015 amounted to RON 5,518 million and, respectively, RON 5,503 million. The increase in income by RON 15 million or 0.3% in 2016 as compared to 2015 resulted from gains after the deconsolidation of SE Moldova:

(RON mil.)	2016	2015	2014[1]
Income	5,518	5,503	5,044
Other income	243	211	177
Operational costs	(5,175)	(5,145)	(4,710)
Adjusted EBITDA[2]	**998**	**925**	**884**
EBIT	**586**	**569**	**511**
Profit before taxes	589	589	524
Net profit	**469**	**482**	**413**

Source: Electrica

As presented in the charts below, the adjusted EBITDA margin went up by 128 ppb in 2016 compared to 2015, while the net profit margin decreased with 3,0%.

On December 31st, 2016, the Company's equity structure presented a Net debt/(Cash) position[3] of minus RON 2,366 million, mainly influenced by the funds obtained from the Company's IPO on July 4th, 2014.

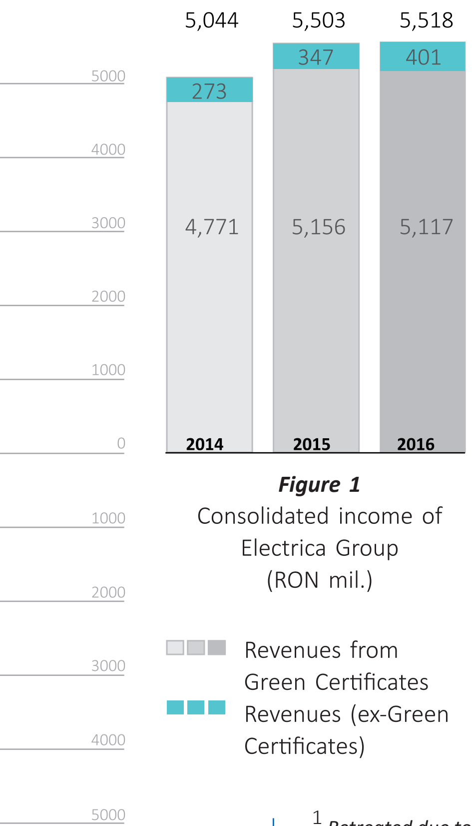


Figure 1
Consolidated income of Electrica Group (RON mil.)

Revenues from Green Certificates
Revenues (ex-Green Certificates)

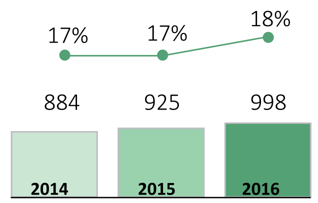


Figure 2
Adjusted EBITDA (RON mil.) and adjusted EBITDA margin (%)

EBITDA
EBITDA Margin

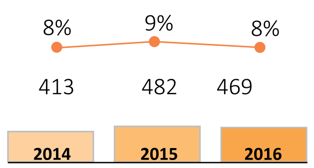
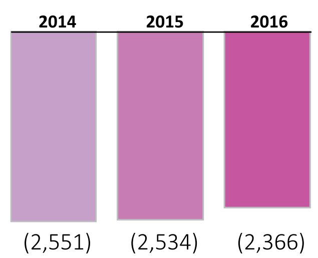


Figure 3
Net profit (RON mil.)

Group Net Profit
Net Profit Margin

Figure 4
Net debt/ (Cash) (RON mil.)



Net Debt (Net Cash)

Source: Electrica

[1] *Retreated due to the application of IFRIC 21 starting with 1 January 2015*

[2] *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.*

[3] *Net debt/(Cash) is defined as bank borrowings + bank overdrafts + financial leases + funding for concession agreements less cash and cash equivalents, bank deposits and treasury bills and government bonds.*

LIQUIDITY

Cash and cash equivalents include cash balances, demand deposits and deposits with maturity up to three months from the acquisition date, which have an insignificant exposure to the risk of change in fair value and are used by the Group for the management of short-term commitments.

(RON mil.)	December 31st 2016	December 31st 2015
Bank current accounts	148	123
Call deposits	740	679
Cash in hand	0.2	0.3
Treasury bills and government bonds with original maturity less than 3 months	-	91
Total cash and cash equivalents in the consolidated statement of financial position	889	893
Overdrafts used for cash management purposes	(143)	(66)
Total cash and cash equivalents in the consolidated statement of cash flows	**746**	**828**
Deposits, treasury bills and government bonds	**1,875**	**1,988**

Source: Electrica

Deposits, treasury bills and government bonds include treasury bills and government bonds amounting to RON 1,758 mil, denominated in RON, with original maturity of more than three months and average interest rate of 0.63% (2015: 0.93%), as well as deposits with a maturity of more than three months, amounting to RON 117 mil within the following banks: Citibank Europe PLC Dublin, Raiffeisen Bank, BRD-GSG, Marfin Bank, ING Bank.

The decrease in value of deposits, treasury certificates and government bonds by 6% compared to 2015 is mainly determined by setting a collateral deposit of RON 134 million to guarantee loans contracted by distribution subsidiaries.

- Deposit, treasury bills and government bonds have been presented as investments held until maturity.
- The Company strategy was to place IPO proceeds in risk-free securities and short-term deposits.

1.2 Key events in 2016

THE MAIN EVENTS IN 2016:

CORPORATE GOVERNANCE RELATED:

- Starting July 4^{th}, 2014 the Company's shares are listed on Bucharest Stock Exchange, and the GDRs are listed on London Stock Exchange. Following the admission to trading on the regulated markets in Bucharest and London, Electrica has made major steps towards aligning to the 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.
- The most important decisions of the General Meetings of Electrica's Shareholders in 2016 (31^{st} March 2016, 27^{th} April 2016, 21^{st} October 2016) refer to:
  - Approval of the budgets for Electrica and its subsidiaries and of the consolidated investment plan at the level of the Electrica group (CAPEX plan) for the financial year 2016;
  - Approval of the financial statements and profit distribution for Electrica and its subsidiaries for 2015;
  - Approval of the remuneration policy of the members of the Board of Directors of Electrica, valid for the entire period of their mandates;
  - Approval of the framework management agreement to be concluded by Electrica with the BoD members;
  - Amendment of the Company name from "Societatea de Distributie si Furnizare a Energiei Electrice – "Electrica" S.A." to "Societatea Energetica Electrica S.A.";
  - Re-appointment of KPMG Audit SRL as auditor for 2016 and 2017 financial years;
  - Rejection of the sale of the automatic meter reading system (AMR System) by Electrica SA to its distribution subsidiaries;
  - Appointment of Mr. Willem Jan Antoon Henri Schoeber as an independent member of the Board of Directors following the vacancy of a position in the Board of Directors of Electrica, with mandate valid until December 14^{th}, 2019;
  - Approval of the consolidated annual investment plan at Electrica group level (CAPEX plan) corresponding to the 2016 financial exercise supplemented up to RON 844,619 thousands;
  - Approval of the proposals for amendment of the Articles of Association of Societatea Energetica Electrica S.A.

ELECTRICA'S NON-EXECUTIVE AND EXECUTIVE MANAGEMENT RELATED:

- On January 13^{th}, 2016 Electrica's Board appointed Mr. Cristian Busu as Chairman with a one-year mandate and established three consultative committees: Audit and Risk Committee, Nomination and Remuneration Committee and Strategy and Corporate Governance Committee.
- On February 10^{th} 2016 Mr. Michael Boersma renounced to his position of member of the Board of Directors starting with May 1^{st} 2016. Following Mr. Michael Boersma resignation, on April 26^{th} 2016 the Board appointed Mr. Willem Schoeber as temporary member of the Board of Directors, starting with May 1^{st} 2016. He was confirmed as an independent member of the Board of Directors by the General Meeting of Shareholders held on October 21^{st}, 2016.
- On February 26^{th}, 2016 the Board of Directors and Mr. Ioan Rosca reached a mutual agreement to terminate his mandate as CEO of Electrica no later than June 2016. On March 11^{th}, 2016 the Board of Directors revoked Mr. Ioan Rosca from the CEO position and appointed Ms. Iuliana Andronache, current CFO, as interim CEO of Electrica SA.
- On September 19^{th}, 2016, the Board of Directors of Electrica SA appointed Mr. Dan Catalin Stancu as CEO of Electrica SA for a mandate of four years starting with October 24^{th} 2016.
- On October 4^{th}, 2016 the Board revoked Ms. Gabriela Marin from the position of executive manager coordinating the Human Resources Division of Electrica starting as of October 5^{th}, 2016.

AMENDMENT OF ARTICLES OF ASSOCIATION:

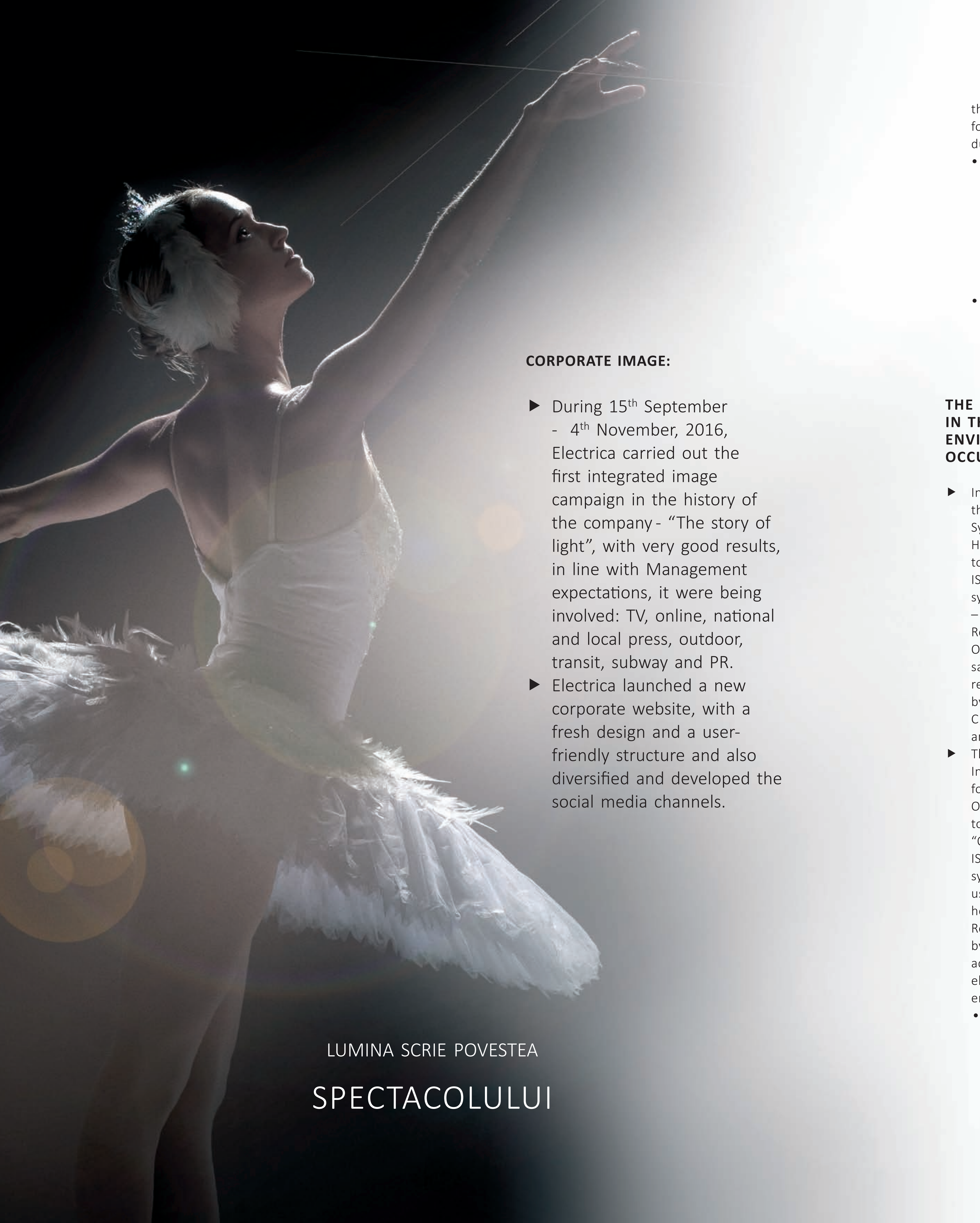
- Changing the name of the Company from "Societatea de Distributie si Furnizare a Energiei Electrice – "Electrica S.A." to "Societatea Energetica Electrica S.A.", mentioned in the Trade Registry under no. 198016 from 28 April 2016. The name changing was achieved following the request ANRE to remove from the name "Distribution and Supply Energy Company Electrica SA" the words "distribution and supply" do not create any confusion between the activity of Electrica SA subsidiaries distribution on their separate identities and the operator that provides service delivery.
- Regarding the subsidiaries of Electrica Group, on December 2016 were held the Extraordinary General Meetings of Shareholders, which amended the Articles of Association of these Companies; moreover, were held Ordinary General Meeting of Shareholders, which amended the structure of BoD. For the supply and distribution subsidiaries, the minority shareholder challenged in court the above mentioned resolutions decided in the General Meeting of Shareholders.

DISTRIBUTION ACTIVITY:

- In the second half of the year 2016, the Group developed the process of rebranding of the distribution operators within the group, according to the timetable agreed with the regulatory authority, for the purpose of compliance with the regulations in force (Law No. 123/2012, the ANRE's order No. 5/2015, Directive 2009/72/EC). In this context, there were adopted new visual identity elements by the distribution companies within the Group and were made arrangements for their registration at OSIM.
- Changing the names of distribution subsidiaries within the Electrica Group as follows: "Societatea de Distributie a Energiei Electrice Muntenia Nord", "Societatea de Distributie a Energiei Electrice Transilvania Nord" and "Societatea de Distributie a Energiei Electrice Transilvania Sud".
- Specific tariffs for electricity distribution for the year 2017 were approved by ANRE Orders No. 112, 113 and 114/14.12.2016, smaller ones than those from the year 2016. Lowering the average tariff for distribution in 2016 and 2017 it is 3.44% to SDEE Transilvania Sud, 5.63% to SDEE Transilvania Nord and 7.54% to SDEE Muntenia Nord.
- The regulatory authority has issued orders that request from the distribution operators further efforts with a view to compliance with the new requirements: Order No. 8/23.03.2016 "procedure for elaboration and approval of investment programs of economic operators of the concessionaire electricity distribution", Order No. 11/30.03.2016 "Performance Standard for electricity distribution", Order No. 26/22.06.2016 "Rule for determining the energy consumption technique proper technological networks of public interest".
- There have been prepared investment plans for 2017 for the three distribution operators, according to the Prospectus Offer and with the new requirements stipulated by the regulatory authority in the ANRE Order No. 8/2016 "procedure for elaboration and approval of investment programs of economic operators of the concessionaire electricity distribution"). The total value of investment plans accepted by the National Regulatory Authority in the field of energy ("ANRE") for the current period (2014-2018) is 3.2 billion lei (in nominal terms, amount adjustable with inflation).

ETHICS AND QUALITY:

- Adopting policies regarding zero tolerance of corruption, fraud and money laundering and combating and avoidance of conflicts of interest, gifts, protocol expenses and prohibition of facilitation payments, transparency and stakeholder engagement, in accordance with



CORPORATE IMAGE:

- During 15th September - 4th November, 2016, Electrica carried out the first integrated image campaign in the history of the company - "The story of light", with very good results, in line with Management expectations, it were being involved: TV, online, national and local press, outdoor, transit, subway and PR.
- Electrica launched a new corporate website, with a fresh design and a user-friendly structure and also diversified and developed the social media channels.

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SPECTACOLULUI

the Code of Ethics and Professional Conduct in force at the Electrica level and its subsidiaries, during 2016, as follows:

- Electrica S.A., Electrica Serv S.A, Societatea de Distributie a Energiei Electrice Transilvania Sud S.A. in January, Electrica Furnizare S.A., Societatea de Distributie a Energiei Electrice Muntenia Nord S.A. Societatea de Distributie a Energiei Electrice Transilvania Nord S.A. in February, by decisions of the BoD;
- Societatea Servicii Energetice Oltenia S.A. in November, respectively Societatea Servicii Energetice Muntenia S.A. in December, by special administrator decision.

THE COMPLIANCE WITH STANDARDS IN THE FIELD OF QUALITY-ENVIRONMENTAL-HEALTH AND OCCUPATIONAL SAFETY:

- In September 2016 at SE Electrica SA occurred the certification of Integrated Management System (IMS) for Quality-Environmental-Health and Occupational Safety according to requirements of international standards ISO 9001:2015 – "Quality management systems. Requirements." ISO 14001:2015 – "Environmental management systems - Requirements with guidance for use" and OHSAS 18001:2007 – "Occupational health and safety management systems. Requirements" respectively; the certification was made by the certification organization DEKRA CERTIFICATION, top global provider for audit and certification services.
- The subsidiaries implemented their own Integrated Management System (IMS) for Quality-Environmental-Health and Occupational Safety requirements according to international standards ISO 9001:2008 – "Quality management systems. Requirements", ISO 14001:2004 – "Environmental management systems - Requirements with guidance for use" and OHSAS 18001:2007 – "Occupational health and safety management systems. Requirements". The certification was made by SC SRAC CERT SRL, considering the core activity of each subsidiary (distribution of electric energy, electric energy supply and energy maintenance services).
  - *Continued operation and continuous improvement of Integrated Management System effectiveness of SE Electrica SA and subsidiaries was one of the main objectives of the year 2016.* In this regard, every subsidiary elaborated/updated documents (manuals, operational system procedures, core operational system procedures as well as work instructions) and records specific to Integrated Management System, according to its own organizational structure.
  - The management, by Policy Statement in the fields of Quality, Environmental, Health and Occupational Safety, considers that the Integrated Management System is a top priority and a key factor for maintaining SE Electrica SA and its subsidiaries as leaders in their respective domains of activity, in sustainable development and in establishing policies, strategies, programs and practices for the management of processes and activities in a manner of respect for quality, environment, health and occupational safety.

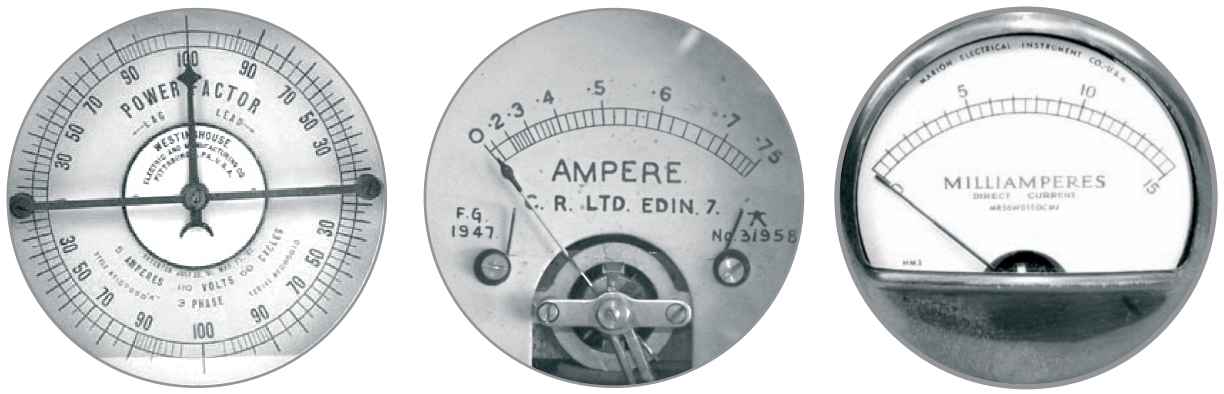
SUPPLY ACTIVITY:

- During 2016 Electrica Furnizare started, and partially completed, a range of projects to streamline the systems and internal processes in order to increase the company competitiveness, therefore preparing for the energy market that will be completely liberalized.
- The price liberalization calendar continued in 2016, the percentages of electricity purchased on the competitive market for domestic customers who have not used eligibility, were as follows: 60% from 1st of January, 2016 and 70% from July 1st, 2016.
- On 1st of March 2016 came into force the single model of electricity bill, approved by ANRE Order no. 88/2015, which applies only to the domestic and non-domestic customers of the Suppliers of Last Resort.
- On 7th of April 2016 entered into force the 2nd phase of data collection of wholesale energy market transactions by Agency for the Cooperation of Energy Regulators (ACER), according to the timetable for implementing the Regulation (EU) No 1227/2011 on wholesale energy market integrity and transparency (REMIT).
- In the second half of 2016, electricity regulated tariffs applied by Suppliers of last Resort to domestic customers that have not exercised their eligibility, were maintained at the values in the first half of 2016, while the competitive market component tariffs (CPC), decreased on average by 2.5% compared to period April to June 2016, as approved by ANRE Notice 25/22.06.2016.

- Transmission and system service tariffs were reduced on average by 10.8% and 6.3% respectively, compared to the first semester of 2016, the ANRE Order 27/2016.
- The contribution for high efficiency cogeneration, was reduced by 12.7% compared to the first semester of 2016, the ANRE order 24/2016.
- On December 17th, 2014, European Commission adopted the Regulation (EU) no. 1348/2014 regarding data reporting for the enforcement of article 8th, paragraphs (2) and (6) of the Regulation (EU) no. 1227/2011 of the European Parliament and Council regarding the integrity and transparency of energy wholesale market. The regulation implies additional obligations for the market players, among which the obligation to report the details on wholesale energy products sold on regulated markets, including standard contracts and trading orders, correlated and uncorrelated by ACER. The obligation to report the trading data admitted on specialized platforms of regulated markets came into force starting October 7th, 2015, while the obligation to report non-standardized contracts on wholesale energy market will come into force starting with April 7th, 2016.
- Changes in primary legislation (adjustments to Law no. 220/2008 through Law no. 122/2015) and in secondary legislation (ANRE Order no. 101/2015) regarding the promotion of electricity production from renewable energy sources and the state aid scheme regarding the exemption of some categories of final consumers from the application of Law no. 220/2008.
- Retail sales of Electrica Furnizare decreased in 2016 by 2.2% compared to 2015.
- Electrica's market share on the retail market for January - September 2016 was 22.55%, compared to 21.40% during the same period of 2015.
- The launch of the Centralized Market for Universal Service ("CMUS"): starting with 1st of April 2015, the electricity volumes necessary for final clients eligible for universal service were acquired based on the contracts concluded following simultaneous auctions with decreasing bid on the Centralized Market for Universal Service.
- B.R.P. Electrica client portfolio increase with 18% compared with the average number of clients of 2015 as well as portfolio diversification with suppliers, producers and distributors.

EXPANDING BUSINESS PORTFOLIO:

- In October 2016, the first stop for fast loading electric vehicles was put into operation, mounted in a fuel distribution plant from Romania (Bucharest - OMV Aerogarii), part of a pilot project in the field of electro-mobility initiated by Electrica and OMV Petrom, on the basis of a Memorandum. In November it was requested a funding from the Environmental Fund Administration regarding the carry out of the project "Infrastructure growing demands" which involves installing the 6 fastchargers outside of Bucharest.



1.3 Key data by business

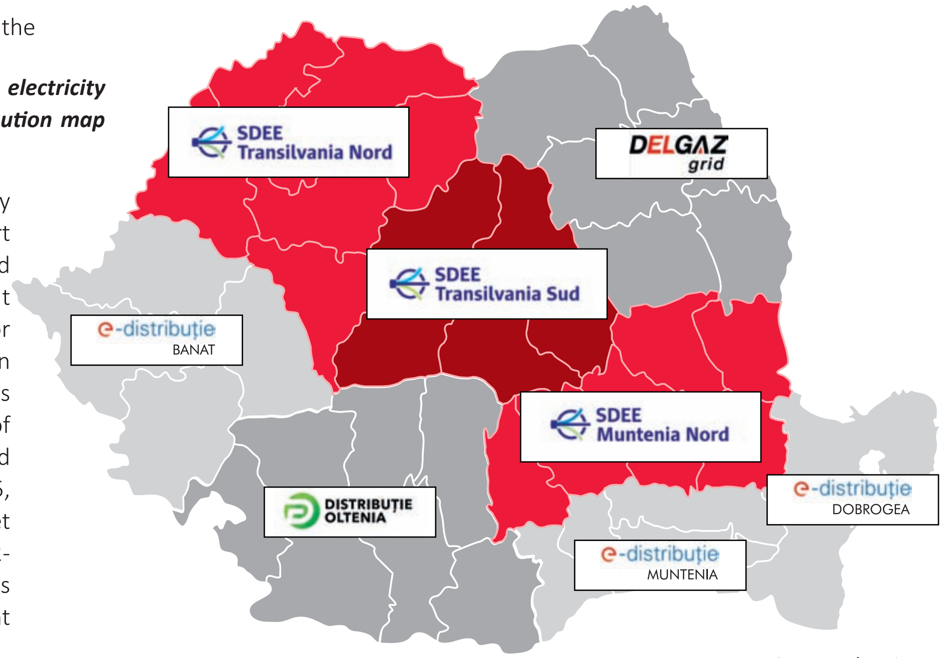
DISTRIBUTION SEGMENT

Essential information

- Electricity distribution in Romania is controlled currently by eight authorized electricity distribution system operators ("DSOs").
- Each company is responsible for the exclusive distribution of electricity in the region for which it is authorized, under a concession agreement with the Romanian state through the Ministry of Energy.
- Electrica and Enel each own three distribution companies, while CEZ and Delgaz Grid (former E.ON) own the remaining two.
- Electrica is a key player in the electricity distribution sector, both in terms of areas covered and number of users served.
- The Regulated Assets Base (RAB) in 2016 was RON 4,524 million.
- 195,760 km of electric lines - 7,574 km for High Voltage ("HV"), 45,061 km for Medium Voltage ("MV") and 143,126 km for Low Voltage ("LV").
- Total area covered: 97,196 km², 40.7% of Romania's territory.
- 3.67 million users in 2016 for the distribution activity.
- 17.5 TWh of electricity distributed in 2016, an increase of 2.6% as compared to 2015.
- 40.3% market share for the distribution of electricity to final users in 2015 (based on distributed quantities according to ANRE annual report of 2015).

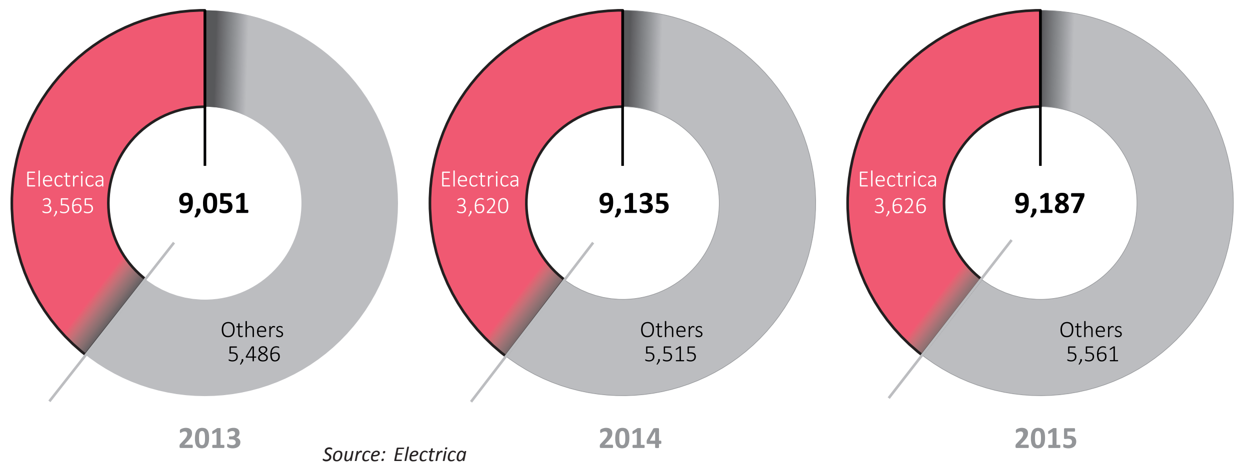
Figure 5: Romanian electricity distribution map

The three electricity distribution companies, part of Electrica Group, delivered electricity in 2016 to about 3.67 million customers (or a volume of more than 17 TWh). Electrica's DSOs distributed about 40.3% of the total electricity distributed on a national level in 2015, maintaining an average market share of 39.5% during 2012-2015, market share which is expected to remain constant in the following period.



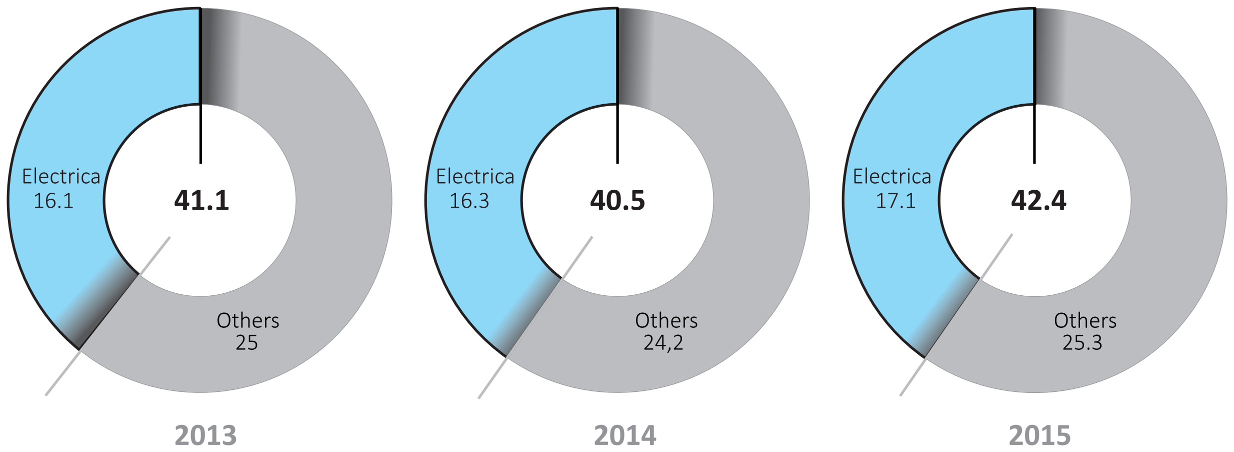
Source: Electrica

Figure 6: Evolution in number of customers (thousands)



Source: Electrica

Figure 7: Quantity distributed (TWh)



Source: Electrica

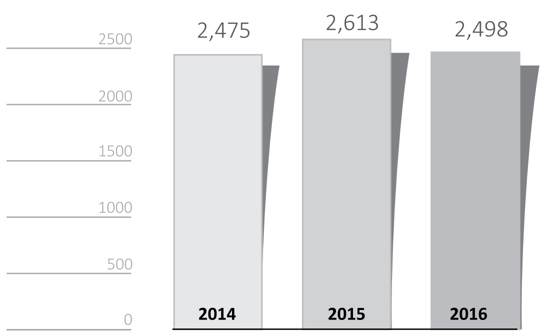
KEY FINANCIAL INDICATORS

Revenues from the distribution segment decreased by RON 115 million, or 4.4%, to RON 2,498 million in 2016, compared to RON 2,613 million in 2015. This was a direct consequence of decrease of the regulated distribution tariffs, in terms of an increase in the distributed quantity with 2.6%.

The reduction of revenues and the increase of costs of energy acquired to cover network losses, have all led to a decrease of RON 49 million or 6.1% of EBITDA for the distribution segment.

The EBITDA margin decreased by 54 bps in 2016, from 30.96% in 2015 to 30.42% in 2016.

Figure 8: Revenues from distribution (RON mil.)



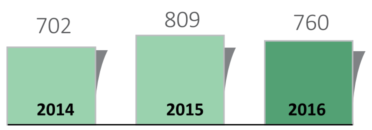
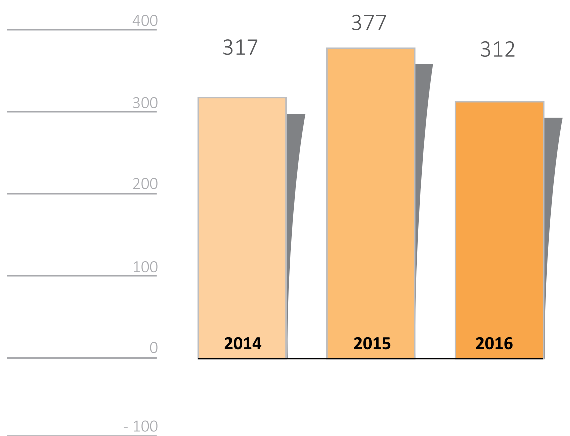


Figure 9: EBITDA – distribution segment (RON mil.)

Figure 10: Net Profit – distribution segment (RON mil.)



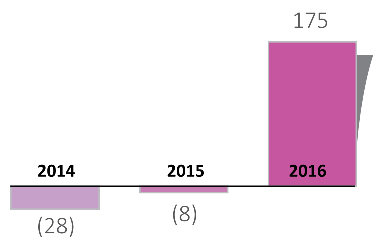


Figure 11: Net debt/(Cash) – distribution segment (RON mil.)

Source: Electrica

SUPPLY SEGMENT

Essential market data (ANRE Report - September 2016)

- The supply market is composed of the regulated market and the competitive market.
- There are five last resort suppliers on the regulated market.
- The competitive market includes 108 suppliers (including the last resort suppliers active on the competitive segment of the retail market) of which 101 are relatively small (<4% market share).

Electrica Furnizare is the market leader in both the regulated and competitive market, with a market share of 38.87% and, respectively, 15.89% in 2016 (ANRE report, September 2016). As a comparison, in 2015, Electrica Furnizare had a regulated market share of 38.09% and competitive market share of 14.72% (ANRE report in December 2015). In 2016, the total electricity supplied by Electrica increased by approximately 5.4% compared to 2015.

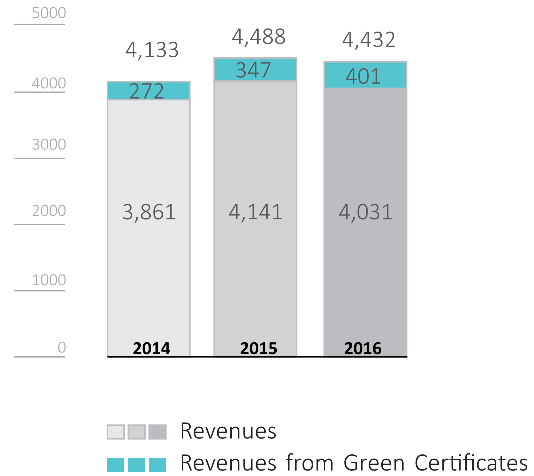
The company experienced a 13.4% increase in the quantity of electricity sold on the competitive market, as an effect of attracting new customers through advantageous price offers and in line with market conditions regarding customers switching from the regulated to the competitive market.

The net revenues (excluding revenues from Green Certificates) from the supply activity decreased by RON 110 million or 2.7% to 4,031 million RON in 2016, from RON 4,141 million in 2015. This was caused by a deacrease of 4.7% in the supply tariffs for 2016 due to increased competition on the electricity supply market, given that the supplied quantity went up by 5.7%.

From a financial point of view, Electrica presented an EBITA increase of 12.1% and a growth in cash of RON 127 milion in 2016 compared to 2015. This evolution is explained by an increased profitability, resulting mainly from the acquisition of electricity at a lower price during the year (decrease of 3% in average acquisition price of 2016 compared to 2015).

The supply segment has a strong financial position, namely a cash position of RON 465 million, influenced by strong financial results in 2016.

Figure 12
Revenues for the supply segment (mil. RON)



Source: Electrica

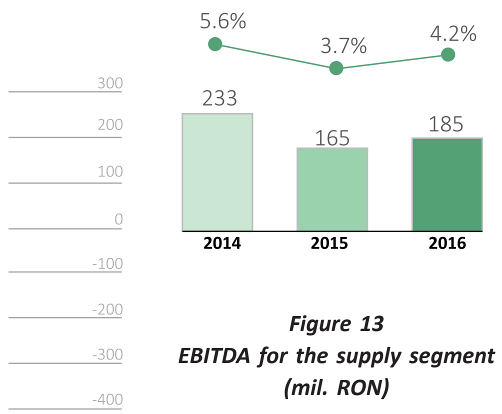


Figure 13
EBITDA for the supply segment (mil. RON)

EBITDA
EBITDA Margin

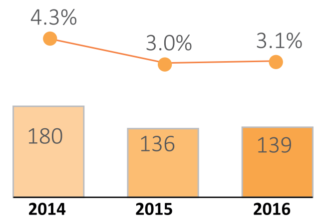
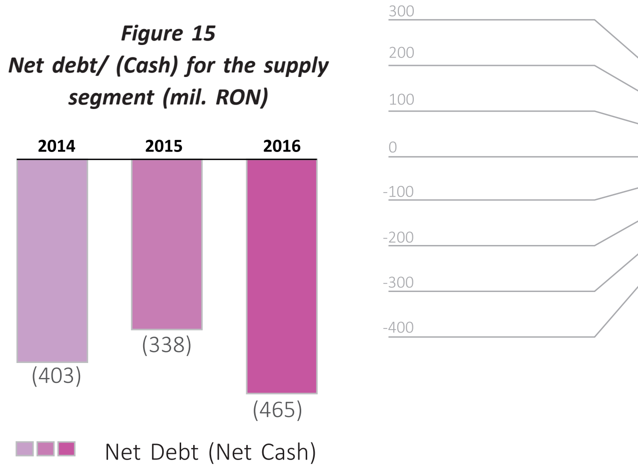


Figure 14
Net profit of the supply segment (mil. RON)

Group Net Profit
Net Profit Margin

Figure 15
Net debt/ (Cash) for the supply segment (mil. RON)



Source: Electrica

2 ELECTRICA GROUP OVERVIEW

2.1 General overview

Societatea Energetica Electrica S.A. ("Electrica S.A." or "The Company") is the majority shareholder in Societatea de Distributie a Energiei Electrice Transilvania Nord S.A. ("SDTN"), Societatea de Distributie a Energiei Electrice Transilvania Sud S.A. ("SDTS"), Societatea de Distributie a Energiei Electrice Muntenia Nord S.A. ("SDMN"), Electrica Furnizare S.A. ("Electrica Furnizare"), Electrica Serv S.A. ("Electrica Serv"), Servicii Energetice Oltenia S.A. ("SE Oltenia"), Servicii Energetice Muntenia S.A. ("SE Muntenia"), together representing "the Group" or "Electrica Group".

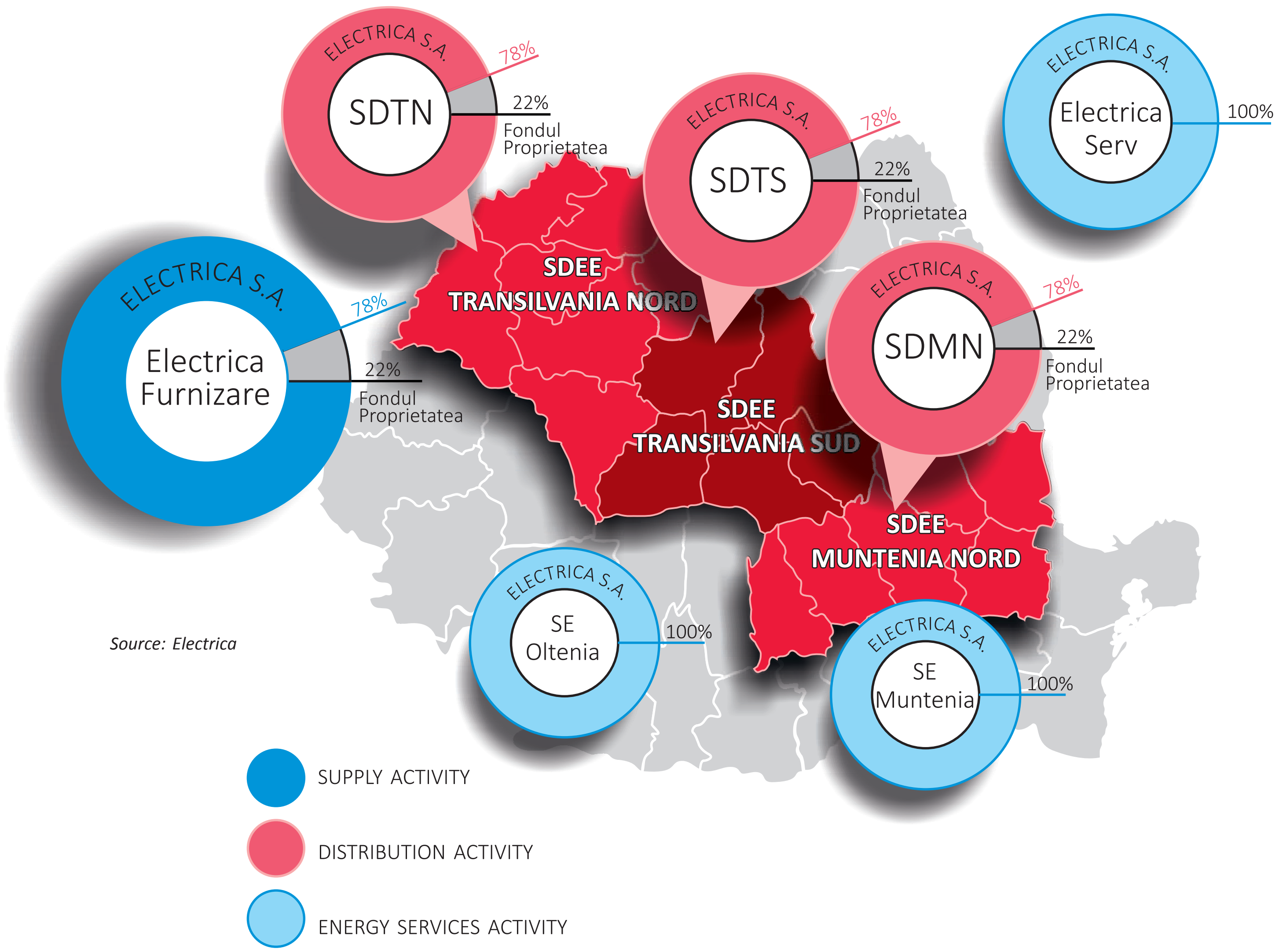
On December 31st, 2015, the Company held all the shares in Servicii Energetice Moldova ("SE Moldova"), but starting with January 2016 it has lost the control over SE Moldova, as a result of the company entering bankruptcy proceedings and consequently, the company was not consolidated in the financial statements.

The registered office of the Company is 9 Grigore Alexandrescu Street, District 1, Bucharest, Romania. The Company has the unique registration number 13267221 and the Trade Register registration number J40/7425/2000.

In accordance with the Order no. 627/2000, the Romanian Government approved the establishment of Societatea Energetica Electrica S.A.

As at December 31st, 2016, the biggest shareholder of Electrica S.A. is the Romanian State, represented by the Ministry of Energy (48.78%), after its ownership was diluted following the initial public offer in 2014. The second shareholder, based on the share of ownership, is EBRD with 8.66%.

Figure 16: The Group's subsidiaries at 31st December, 2016



Source: Electrica

The Group's subsidiaries are presented below:

Subsidiary	Activity	Registration code	Headquarters	% stake as of December 31st, 2016
Societatea de Distributie a Energiei Electrice Muntenia Nord S.A.	Electricity distribution in North Muntenia geographical area	14506181	Ploiesti	78.0000021%
Societatea de Distributie a Energiei Electrice Transilvania Nord S.A.	Electricity distribution in Northern Transylvania geographical area	14476722	Cluj-Napoca	77.999999%
Societatea de Distributie a Energiei Electrice Transilvania Sud S.A.	Electricity distribution in Southern Transylvania geographical area	14493260	Brasov	78.0000019%
Electrica Furnizare S.A.	Electricity supply	28909028	Bucharest	77.9999700%
Electrica Serv S.A.	Services in the energy sector (maintenance, repair, construction)	17329505	Bucharest	100%
Servicii Energetice Muntenia S.A. (in restructuring)	Services in the energy sector (maintenance, repair, construction)	29384120	Bucharest	100%
Servicii Energetice Oltenia S.A. (in restructuring)	Services in the energy sector (maintenance, repair, construction)	29389861	Craiova	100%
Servicii Energetice Moldova S.A. (in bankruptcy)	Services in the energy sector (maintenance, repair, construction)	29386768	Bacau	n/a
Servicii Energetice Dobrogea S.A.* (in bankruptcy)	Services in the energy sector (maintenance, repair, construction)	29388378	Constanta	n/a

**) Electrica S.A. has lost control over Servicii Energetice Dobrogea S.A. starting with January 2015, and over Servicii Energetice Moldova S.A. starting with January 2016, due to the commencement of bankruptcy proceedings of the subsidiaries.*

Source: Electrica

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 North Transylvania (Cluj, Maramures, Satu Mare, Salaj, Bihor and Bistrita-Nasaud counties), South Transylvania (Brasov, Alba, Sibiu, Mures, Harghita and Covasna counties) and North Muntenia (Prahova, Buzau, Dambovita, Braila, Galati and Vrancea counties), operating with transformation stations and power lines ranging from 0.4 kV to 110 kV.

The Company's distribution subsidiaries (SDTN, SDTS and SDMN) invoice the electricity distribution service to electricity suppliers (mainly to Electrica Furnizare subsidiary, the main electricity supplier in North Muntenia, North Transylvania and South Transylvania), which further invoice the electricity consumption to final consumers.

Electrica Furnizare is the supplier of last resort ("FUI" defined as supplier designated by the regulatory authority to deliver the universal service of electricity supply under specific regulated conditions) in North Muntenia, North Transylvania and South Transylvania areas.

According to the regulations issued by ANRE, suppliers of last resort have the obligation to ensure the electricity supply to the final customers which have not exercised their eligibility right (the right to choose their electricity supplier).

The electricity supply for universal service and last resort customers is done based on regulated contracts, with ANRE regulated prices, based on regulated tariff for the last resort customers and a "component of the competitive market" (CCM) substantiated by the last resort suppliers and endorsed by ANRE.

2.2 Mission, vision, values

To continue succeeding over the long-term horizon, the Group has set its Vision, Mission and Values, which represent the foundation for formulating and implementing its corporate goals, objectives and business strategy.

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. The Group established these values as guiding lines in achieving its strategic objectives and communicating them to both internal and external interested parties. They reflect the Group's commitment to create an internal environment where integrity and ethics represent the corporate culture's fundamentals and are based on an open and transparent communication approach.

Figure 17: Electrica Group Corporate Values

Source: Electrica

2.3 Key elements of the 2015 – 2018 Strategic Plan

The Strategic Plan for the period 2015-2018, reflecting the Board's vision concerning managing the activities in the stakeholders' best interest at the time, both on a long-term and a short-term basis, had been formulated following an analysis of the following areas:

- The external environment, to determine the main environmental factors affecting this industry and the key drivers that can shape the future of the electricity market;
- Industry analysis, in order to identify future trends in the energy market, assess the market attractiveness and determine the critical success factors for competing and surviving in this market;
- Internal analysis of the Group, to assess its past and current performance (relative to other market players).

Based on the above analysis, the Board has formulated the corporate and business strategies of Electrica with respect to the Group, and has set out the strategic objectives and the action plan with measures that the Board intends to undertake.

Electrica's corporate strategic directions with respect to the Group are the following:

- Preserve and enlarge the distribution and supply segments in Romania.
- Explore potential opportunities to expand the distribution and supply segments in the region.
- Enlarge the portfolio of the business, by developing "value-added services" related to distribution and supply activities, which can be offered to customers.
- Divest the unprofitable business segments and activities.

Electrica Group`s business strategy addresses three key success factors in its implementation:

- Operational excellence for efficiency and quality.
- Ensuring a committed and qualified workforce.
- The highest standards in corporate governance.

The strategic action plans defined by the Electrica Board:

- Overall financial performance of the Group.
- Excellence in financial processes management.
- Overall operational performance of the Group.
- Quality of services provided.
- Employees' productivity and support of their development.
- Implementation by the subsidiaries of the distribution segment investment programme.
- Corporate Governance and enhancement of our sustainability profile.

Under the action plan, Electrica strives to:

- Restructure its activities in all Group companies with a view to address all seven strategic objectives
- Support and ensure implementation by the subsidiaries of the distribution investment plan.
- Increase transparency and communication with all stakeholders.
- Identify and implement measures aimed to reduce headcount to achieve peers' performance.
- Train the personnel and capitalise on their potential, expertise and capabilities to increase labor productivity
- Reinforce the Group's management capablities by training, coaching and selective recruitment of new managers, also from outside the Group.
- Continue the implementation of the Corporate Governance Action Plan agreed with EBRD.

2.4 Outlook

The energy 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' RRR was reduced to 7.7% from 8.52%. Also, ANRE Order no. 165/2015 has modified art. 105 para. 1 from the Methodology of establishing the electricity distribution tariffs, eliminating the cap regarding the maximum percentages by which the distribution tariffs could be lowered, keeping however the limits concerning the maximum percentage increase in these tariffs.

ANRE's changes of the distribution tariff setting methodology, including the change in remuneration (i.e., the RRR) 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.

Other significant Romanian legislation changes, relevant for the supply activity, refer to:

- Organising a centralized market for the universal service – according to ANRE Order no. 65/2014, which, beginning with the second quarter of 2015 aimed to implement a transparent and competitive mechanism for electricity acquisition by the suppliers of last resort for covering the consumption invoiced using the CPC tariff in the case of the universal service beneficiaries.
- Approval of the methodology for establishing the tariffs applied by the last resort suppliers to final customers – ANRE Order no. 92/2015, which, starting with the second semester of 2015, set out the calculation stages and principles of these tariffs.

Although these changes had the overall aim of converging the Romanian legislation towards EU legislation, the process has not been yet 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.

The Framework Strategy for a European Energy Union, adopted on 25 February 2015 will highly influence the energy markets in all countries. The Energy Union is based on the three long-established objectives of EU energy policy and focuses on five mutually supportive dimensions: energy security, solidarity and trust; a fully integrated internal energy market; energy efficiency as a contribution to the moderation of energy demand; decarburization of the economy; research, innovation and competitiveness.

Considering the EU energy policies which have been developed, the following trends are expected to characterize the Romanian electricity market:

- Through the completion of the liberalisation timetable, competition will increase at national level amongst electricity suppliers. Regulated electricity tariffs will continue to be relevant for households until January 2018 in Romania when they will be eliminated completely and the Universal Service will be available for vulnerable consumers.
- A trend in electricity distribution activity is remuneration of the operator which also takes into consideration the quality of their service, together with the operational costs and efficiencies.
- To sustain the green energy production and the objectives due to be met after 2020, further investments for upgrading the networks are necessary (transmission and distribution networks) for integrating the green energy production.
- Future development of technologies will support energy efficiency policies such as:
  - Development of transmission and distribution networks, including smart grid and smart metering.
  - End-use energy efficiency (thermal integrity of buildings, lighting, electric appliances, motor drives, heat pumps, etc.).
- Full electric vehicles, light commercial vehicles and electrification of railways are expected to increase the consumption of electricity in the transport sector.
- Development of the transmission and distribution infrastructure and long-distance interconnection will become a necessity. The Electricity Market Target Model, which implies the development of Europe's internal electricity market, will continue to evolve and be in line with future trends and challenges in the energy industry.
- Distributed generation technologies will force the distribution operators to adapt their practices and to offer solutions to independent producers, considering the new prosumers, which are active participants in the energy market.
- Future development of smart meters will expose consumers to time-of-use pricing, which will lead to greater flexibility and reduce peak demand. Therefore, citizens will be more informed and engaged in the decision-making process as active participants.

The following table presents key drivers of changes in 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 regulations	The regulatory framework has experienced major changes aiming to align Romanian legislation that of the EU. Although important steps have been taken, other major changes are expected to occur in the next decade, particularly following the new Framework Strategy for a European Energy Union which highlights the need for integration and cooperation amongst member states. Also, changes of the methodology during the regulatory period, indicate a lack of predictability and stability of regulatory environment, with a negative impact on the distribution operators' operational and financial performance.	Electricity prices
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 more efficient use of information.	Electricity prices and consumption
Increase in environmental awareness	Romania has adopted the EU 20-20-20 targets, aiming to reduce greenhouse gas emissions, improve energy efficiency and raise the share of renewable energy. Moreover, the 2030 Framework increases these targets and therefore more efforts are needed from governments and market players to achieve them.	Electricity prices and consumption, regulatory framework

Source: Electrica

Moreover, the energy industry is currently analyzing ways in which distributors will accomodate changes in their business model as a result of the advent of the prosumer, namely distribution customers connected to the grid that also own small descentralized electricity production capacities. The negative impact of the prosumer on distribution operators returns, as the energy revenues of the prosumer will partially (or even entirely) grid costs invoiced by distributors, will have to be mitigated by appropriate regulatory measures, such as fixed grid access fees.

For elaborating its Strategic Plan for 2015 – 2018, Electrica considered the above mentioned factors when formulating its corporate goals, objectives and strategy. The most important assumptions which Electrica considered are as follows:

- Romanian GDP will have a positive trend in the future and consequently the electricity consumption will increase at a moderate pace.
- The legal framework will not change significantly and the liberalization timetable will continue to be implemented in its current form.
- Romania will maintain its commitment towards achieving the 20-20-20 strategy for climate change and implement the new Framework for the period 2020-2030.
- The remuneration mechanism for distribution companies will not change significantly. However, the tariff type and regulated rate of return could be subject to changes.
- There will be no major geopolitical turbulences which will significantly affect the Romanian electricity market.
- Financial markets will remain stable and the availability of finance sources will support companies' investment programs.

Please note that other factors not presented above and not considered by the Group may occur and may have a significant impact on the implementation and evolution of the Group's strategy. If these assumptions change, Electrica S.A. may update its strategy to reflect these changes.

3 OPERATING ACTIVITY

3.1 Operating segments

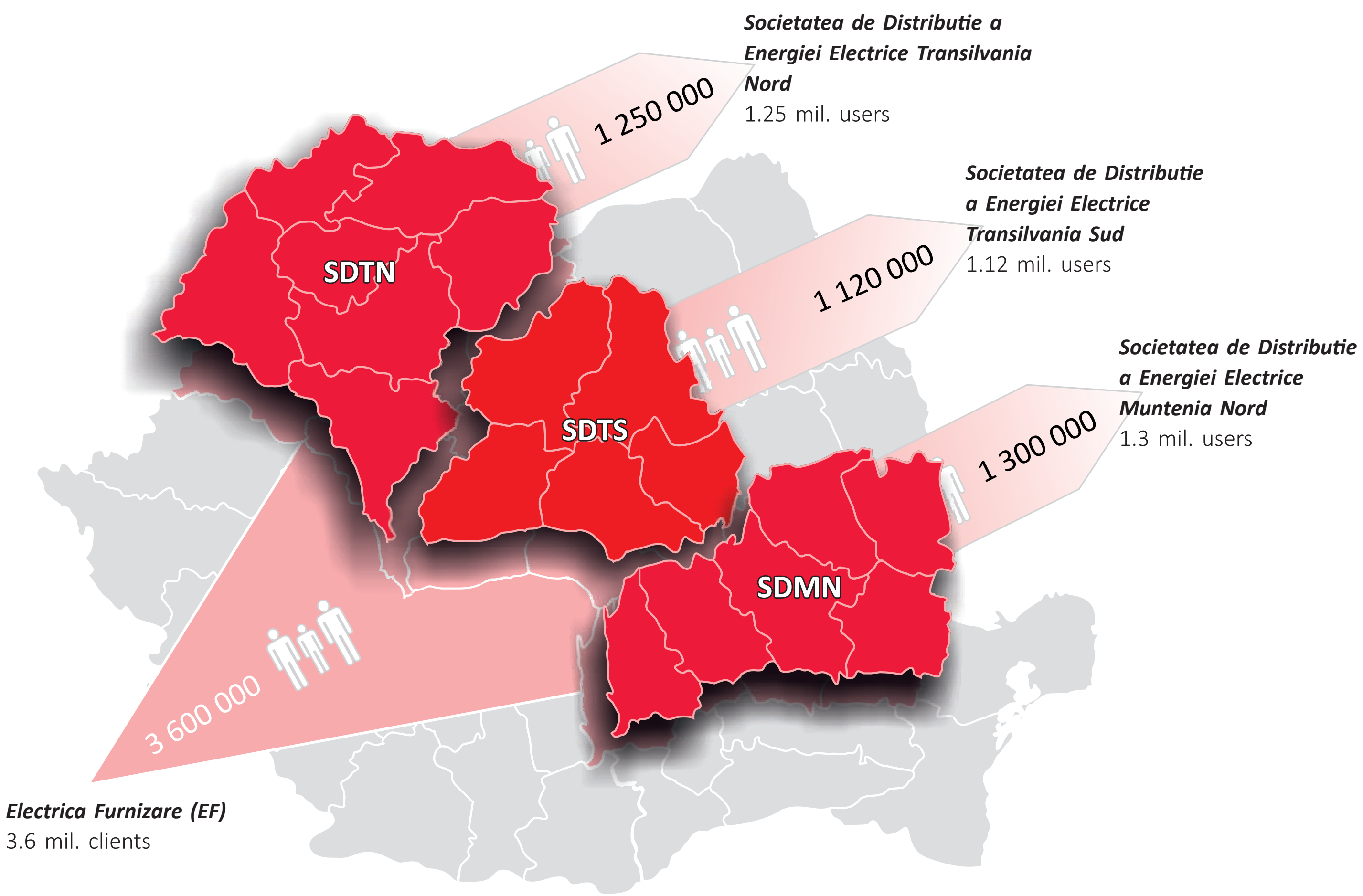
The operations of each reportable segment are summarized below.

Segments	Operations
Electricity supply	Purchasing electricity and supplying electricity to final consumers (includes Electrica Furnizare and the trading and representation activity on the Balancing Market as Balance Responsible Party – BRP Electrica)
Electricity distribution	Electricity distribution service (includes SDTN, SDTS, SDMN, Electrica Serv and the investments in the distribution activity done by Electrica)
External electricity network services	Repairs, maintenance and other services for electricity networks owned by other distributors (includes SE Oltenia and SE Muntenia)
Headquarters	Includes corporate services at parent level

Source: Electrica

The figure below shows the areas covered by the Group subsidiaries and the number of clients they serve.

Figure 18: The geographical coverage of the companies in the Electrica Group



Note: The diagram relates to the number of company's clients on December 31st, 2016.
Source: Electrica

DISTRIBUTION SEGMENT

Electrica's distribution segment operates through its subsidiaries SDMN, SDTN, SDTS and Electrica Serv, the latter aimed at maintenance and repair of distribution networks.

The distribution segment is limited geographically and by the services provided. Thus, Electrica is the operator of electricity distribution in Transilvania Nord (Cluj, Maramures, Satu Mare, Salaj, Bihor, Bistrita-Nasaud counties), Transilvania Sud (Brasov, Alba Sibiu, Mures, Harghita and Covasna counties) and Muntenia Nord region (Prahova, Buzau, Dambovita, Braila, Galati and Vrancea counties), operating transformer stations and transmission lines with voltages of 0.4 kV and 110 kV.

The Group has exclusive distribution licenses for these regions valid for the next 11 years with extension clause. Within its distribution business, Electrica provides equipment maintenance services, repair and other services for its network and to a smaller extent for third parties.

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 based on a "tariff basket ceiling'' 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), amended and completed by ANRE Order no. 146/2014, Order no.112/2014 and Order no.165/2015.

The "tariff basket ceiling" methodology 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.

The tariffs are annually adjusted considering the operating performance reached, including the volumes of distributed electricity, amounts and acquisition price of electricity to cover the own technological cost ("OTC"), uncontrollable costs, change of revenues from reactive energy compared to the forecasted ones, depreciation and forecasted capital expenses, change of forecasted gross profit from other activities, as well as the difference between the return on assets determined by RRR cut down from 8.52% to 7.7%, with effect since January 1st, 2015.

ANRE Order no. 165/2015 modified Art.105 para.1 of the Methodology of tariffs set up for electricity distribution service, in the sense of eliminating the maximum percentages by which the distribution tariffs could have been reduced, while keeping the percentage limits in case of distribution tariffs increase.

The current regulatory period ("the third regulatory period") within which the Group is operating has started on January 1st, 2014 and will end on December 31st, 2018. Both the current regulatory framework, and the rules related to RAB determination and to distribution tariffs are expected to remain unchanged, at least until the end of 2018. ANRE sets up the annual level of distribution tariffs in RON per MWh for each distribution company and for each voltage level (high, medium and low). The tariffs invoiced to clients are cumulated depending on their related voltage level (i.e. the tariff for medium voltage also includes the tariff for high voltage, and the tariff for low voltage also includes the tariff for high and medium voltages).

ANRE sets up the annual regulated income levels required for each year during the regulatory period, based on projections submitted by the distribution operators, in line with the methodology requirements, at the beginning of the regulated period.

Starting January 1st, 2017, electricity distribution tariffs approved by ANRE are as follows (RON/MWh):

Tariff (RON/MWh)	ANRE Order no.	High voltage	Medium voltage	Low voltage
SDTN	113/December 14th, 2016	19.05	41.93	96.73
SDTS	114/December 14th, 2016	20.63	41.01	103.73
SDMN	112/December 14th, 2016	14.79	33.67	109.35

Source: ANRE

SUPPLY SEGMENT

The electricity supply segment operates through Electrica Furnizare subsidiary, both on the regulated electricity market (in geographical regions where the Group distribution segment is operating), and on the competitive market at national level. The Group has two supply licenses covering the whole of Romania's territory valid until 2021 and 2022, respectively, and extendable afterwards.

The electricity market is divided in regulated market and competitive market. On both markets, electricity can be sold and/or purchased wholesale or retail.

Regulated market

The liberalization of the electricity market in Romania started on January 1st, 2007, after the implementation of the Second Energy Package of the EU. The tariffs of electricity supply to non-households consumers have been fully liberalized and only the tariffs of electricity supply to households are still partially regulated by ANRE. The households are free to change their electricity supplier, still having access to regulated tariffs of electricity supply until this market will be fully liberalized in 2018. Starting January 1st, 2014, the tariffs of electricity supply to non-households consumers are determined by the market and freely negotiated. It is possible that increasing competition on this market segment which is no longer under regulated tariffs will determine consumers to switch their electricity suppliers and may result in an increased consumer's migration to the Group's competitors.

The electricity supply market in Romania could also record migration within the segment of household consumers, as the liberalization process is progressing. However, considering the insignificant savings that could be obtained by household consumers from changing their electricity supplier, the Management expects a relatively small liberalization effect over the household segment. When the households segment will be completely liberalized, Electrica should be able to offer packages of tariffs and competitive and innovating services to household consumers.

Currently, Electrica Furnizare is "supplier of last resort" for approximately 3.6 million consumers. A supplier of last resort is, under Energy Law, a supplier designated by the regulatory authority to provide the universal service of electricity supply under specific regulated conditions.

Until 2018, when the liberalization of the household segment is planned to be completed, tariffs for households must be approved each year by ANRE based on the reported cost categories as well as on regulated profit margin. Tariffs are calculated in order to cover the cost of electricity (including transmision costs, network services, distribution costs and a regulated profit margin).

Electrica Furnizare records supply costs including costs of contracting, billing, bill collection, database management and costs of IT and telecommunications infrastructure.

The methodology (ANRE Order no. 92/2015) provides for a percentage of the profit from supply worth 1.5% of the total cost of electricity supply activity (which includes acquisition, transmission, distribution, system services, and market operation and supply costs) and an operation supply cost in amount of 4.7 RON/client/month in 2016. According to the new methodology, ANRE can increase the supply activity cost by the quota of the occasional costs recorded by Electrica Furnizare as a result of special circumstances (such as re-contracting based on ANRE Order no. 88/2015, adjustment of IT systems to comply with the latest regulations, losses from receivables, etc.).

In 2016, the households were billed, according to the calendar of regulated tariffs elimination, at a tariff that consists of a mix of regulated tariff component and a "component of the competitive market" (CCM). Non-household clients, beneficiaries of the Universal Service, were invoiced at CCM tariffs, while those which did not benefit from the Universal Service were invoiced at tariffs of last resort for 100% of their achieved consumption.

The electricity supplied at regulated tariffs is acquired by means of regulated contracts, with amounts and prices set up by ANRE.

The electricity supplied at CCM tariffs is acquired by means of bilateral contracts concluded as a result of tenders conducted on CMUS (centralized market for universal services), respectively, by means of bilateral contracts concluded on the competitive market for electricity supply at last resort tariffs.

Any difference between the achieved revenues and the costs plus profit from the supply at regulated/CCM/LR tariffs for the periods before the regulated tariffs elimination will be corrected during the next period of tariffs substantiation applied to the clients on regulated market.

The cost categories of the supplier of last resort, which contribute to the tariffs applied to the final clients up to the level regarded as admissible by ANRE, are:

- Acquisition costs of electricity.
- Costs associated to electricity transmission service.
- Costs related to the system technological and functional services.
- Costs related to services provided by the operator of the centralized electricity market.
- Costs related to electricity distribution services.
- Costs related to electricity supply to final consumers who have not used their eligibility right.
- Occasional costs incurred by force majeure (if applicable).

Competitive market

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

BRP Electrica - Balancing Responsible Party

Representation activity in the Balancing Market as Balance Responsible Party ("BRP Electrica") was performed by Electrica S.A. since 2005, and is based on electricity supply license no. 1091/2012. This activity is compliant with market mechanisms detailed in the Commercial Energy Wholesale Code.

In Electrica Group, Electrica S.A. is the only company that carries this type of activity and in terms of size, it provides balance for over 28% of the total consumption in NES.

Balancing Market, a component of the wholesale energy market, is mandatory and each license holder must delegate its responsibility for balancing to a BRP.

By delegating the responsibility to a Balance Responsible Party there is an advantage of the aggregation of the imbalances, in order to reduce costs on Balancing Market compared to when the producer / supplier / distributor would be in its own name as Balance Responsible Party.

SDMN, SDTS, SDTN and Electrica Furnizare delegated their balancing responsibility to BRP Electrica, thus establishing strategic partnerships within the Group.

By establishing relationships with over 150 license holders in all areas of the wholesale market, BRP Electrica is group binder helping to establish beneficial partnerships and brand promotion of Electrica in the electricity market.

ENERGY SERVICES SEGMENT

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

In 2016, the energy services segment consists of SE Oltenia, SE Muntenia, and until the end of January it also included SE Moldova which went bankrupt.

3.2 Procurement

Electrica S.A. will continue its process of centralizing procurement within the Group, a process which will delegate the centralized procurement to Electrica S.A. The objective is to reduce costs, optimize procurement and ensure a uniform policy within the Group. This process of centralizing procurement will enable standardization of assets procurement and, equally, will increase the integrity level.

3.3 Sales activity

The main factors influencing Electrica's revenues are represented by the distribution and supply segments. In 2016, the contribution, on one hand, of SDMN, SDTS, SDTN and Electrica Serv, and, on the other hand, of Electrica Furnizare to Electrica's total revenues were 38% and 56%, respectively. In comparison, in 2015, the contribution of the electricity distribution segment and electricity supply segment to total revenues was 40% and 55%, respectively.

The Group's distribution operators are natural monopolies in their respective markets and as such, they hold 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 share (based on the amounts of distributed electricity) held by the Group's subsidiaries in the electricity distribution segment, according to the most recent ANRE report available.

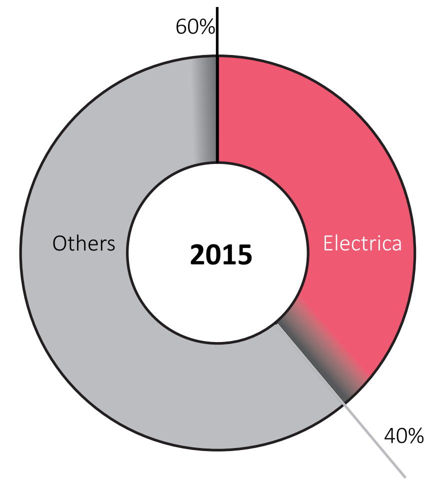


Figure 19: Market share of distribution segment in 2015

Source: ANRE

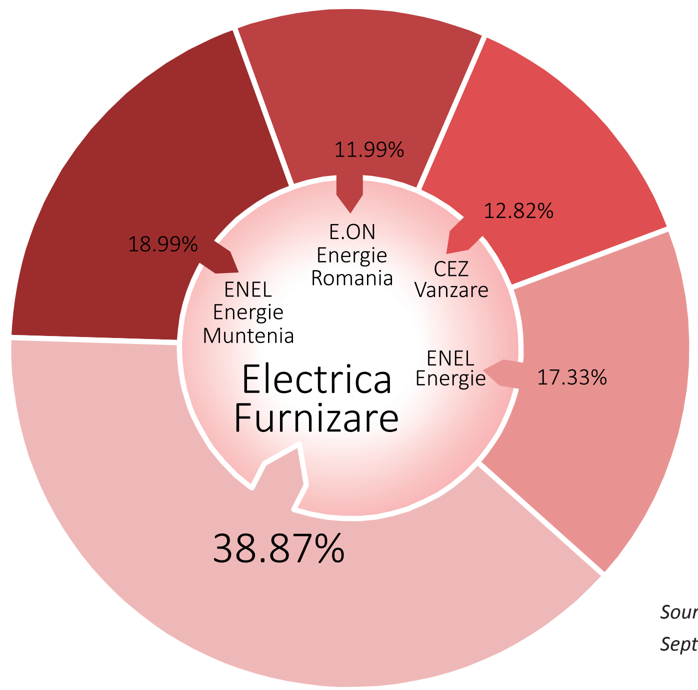
Although it holds a strong position on the electricity supply market, Electrica Furnizare is facing growing competition on its market.

The supply market consists of the regulated and competitive segments:

- The regulated segment comprises five supply companies, each being part of a group comprising also the corresponding distribution operators.
- The competitive segment comprises 108 suppliers (including the last resort ones operating on the competitive segment of retail market), of which 101 are relatively small (<4% market share).

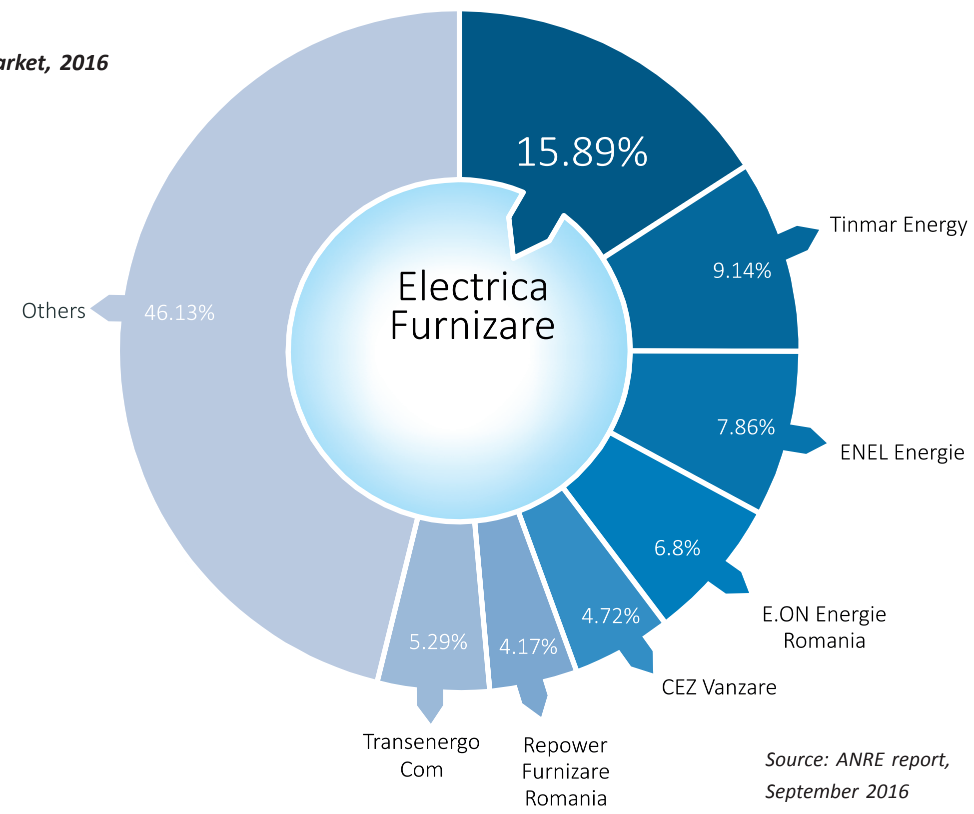
The figure below shows the market shares of Electrica's supply business on September 30th, 2016 (based on the supplied quantities):

Figure 20:
Regulated Market, 2016



Source: ANRE report, September 2016

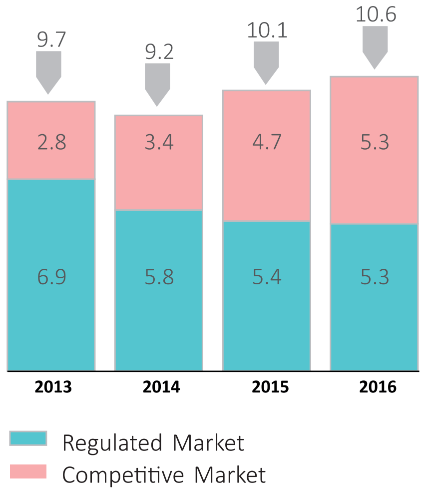
Figure 21:
Competitive Market, 2016



Source: ANRE report, September 2016

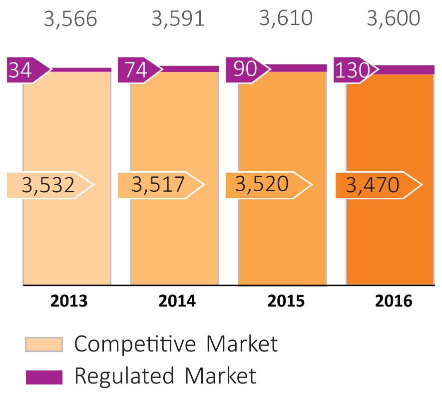
The total number of consumers supplied by Electrica Furnizare was 3.60 million in 2016, with 149 points of sale.

Figure 22: Volume of electricity supplied on retail market (TWh)



Source: Electrica

Figure 23: Evolution in number of consumers (thousand)



Source: Electrica

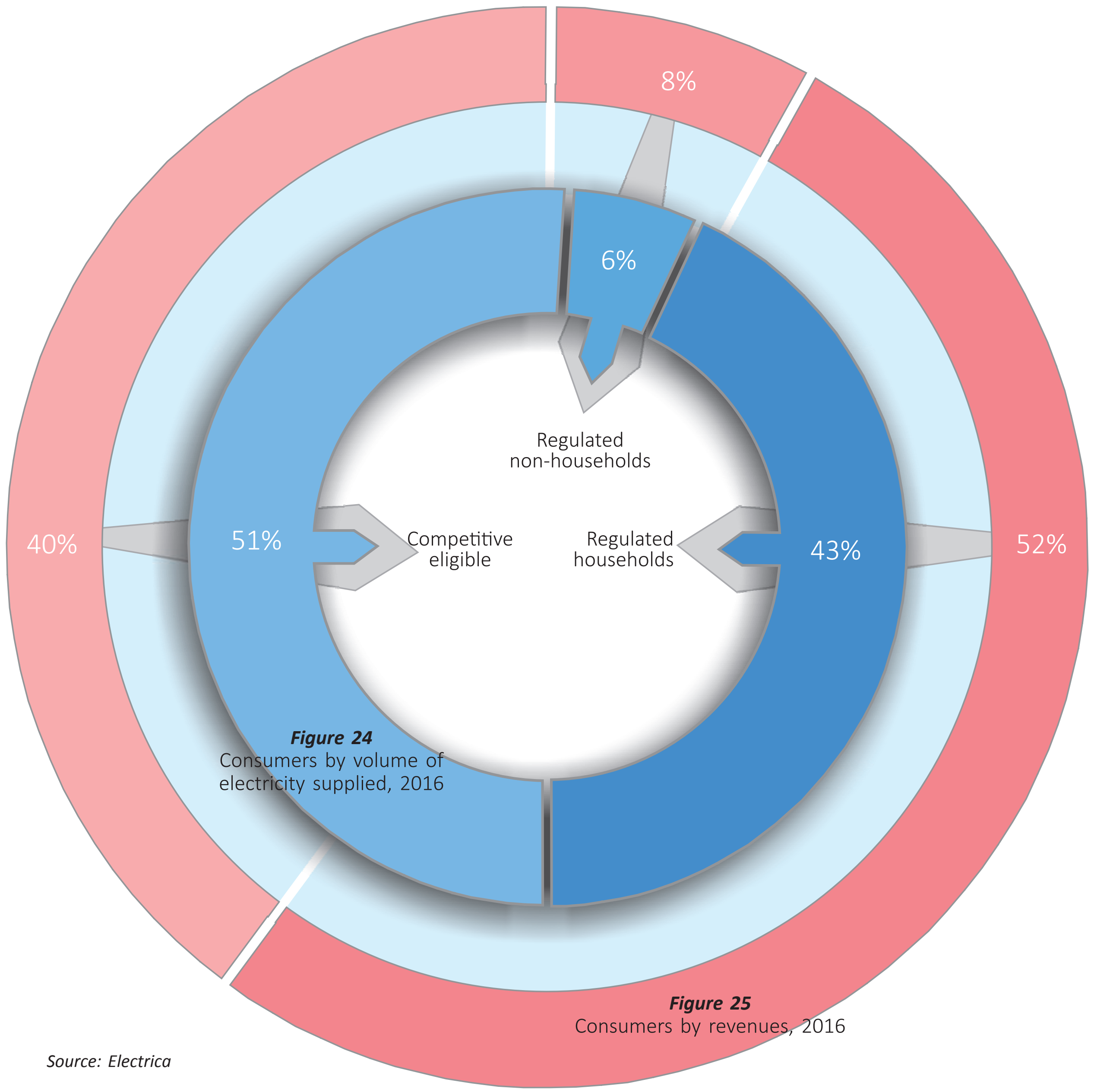


Figure 24
Consumers by volume of electricity supplied, 2016

Figure 25
Consumers by revenues, 2016

Source: Electrica

Major client exposure

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

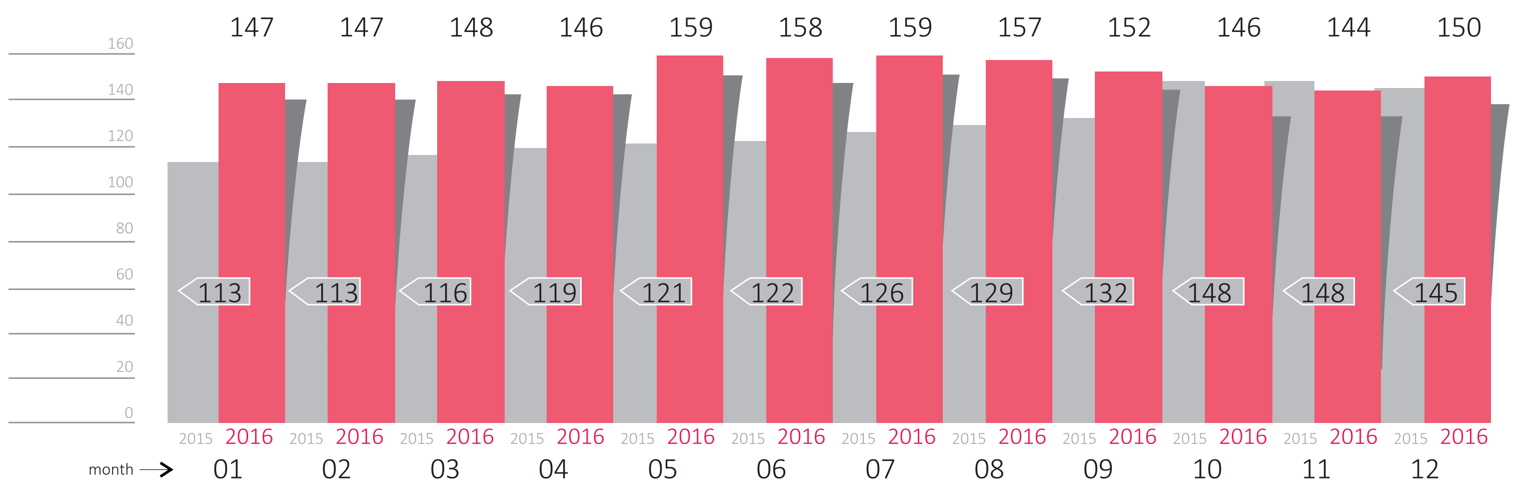
However, under Romanian legislation, certain electricity consumers, such as hospitals, ambulance stations, schools, nursing homes, air or naval traffic services are deemed of special importance, and cannot be disconnected by the electricity supplier. Moreover, the clients subject to the insolvency law, can benefit from protection against creditors and, perhaps, against electricity suppliers. Thus, the electricity must be supplied by Electrica Furnizare, even if they are in payment default.

BRP Electrica - Balancing Responsible Party

In 2016, 108 Balance Responsible Parties were set up with Transelectrica S.A., with a total of 1100 licensed participants.

At the end of 2016, 150 licensed participants (19 suppliers, 124 producers and 7 distributors) delegated their responsibility to BRP Electrica, as compared to 2015, when 145 licensed participants were registered with BRP Electrica.

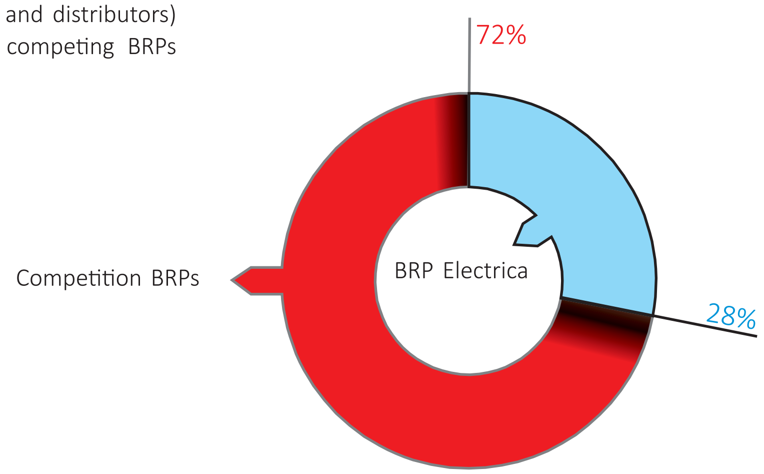
Figure 26: Number of BRP Electrica members



Source: BRP Electrica

The number of members increased as a result of promoting BRP Electrica high quality services, aimed at attracting new clients (producers and distributors) and clients from the portfolios of competing BRPs (suppliers and producers).

Figure 27: BRP Electrica share with regards to electricity consumption in 2016



Source: BRP Electrica

3.4 Reorganization and disposal of assets

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

In 2013, the Company approved the liquidation procedure for three subsidiaries: SE Banat, SE Dobrogea and SE Moldova.

- SE Moldova – entered bankruptcy in January 2016, and consequently, the Company has derecognized this subsidiary from the consolidation, given that it no longer had control over it, and tenders have been organised by the liquidator to capitalize the assets;
- SE Dobrogea – entered bankruptcy in January 2015 and during 2016 there have been organised tenders by the liquidator to capitalize the assets;
- SE Banat - entered bankruptcy in August 2014 and during 2016 there have been organised tenders by the liquidator to capitalize the assets;
- SE Oltenia – insolvency with reorganization since May 2014. The reorganization plan was approved by the Creditors' Assembly in May 2015, confirmed by the court in June 2015 and extended by one year in December 2016 by the Creditor's Assembly; SE Oltenia had 215 employees at the end of 2016;
- SE Muntenia – insolvency with reorganization since November 2014. The reorganization plan was approved by the Creditors' Meeting in November 2015, and confirmed by the court in November 2015; SE Muntenia had 309 employees at the end of 2016.

3.5 Personnel

On December 31st, 2016, the Group counted 9,685 employees.

The table below provides an overview of employment in the Group, by business segments, on the specified dates.

	2014	2015	2016
Electricity distribution	**9,386**	**8,767**	**7,978**
SDMN	2,156	1,949	1,872
SDTN	2,011	1,880	1,817
SDTS	1,874	1,795	1,720
Electrica Serv	3,345	3,143	2,569
Supply segment	**1,217**	**1,110**	**1,041**
Electrica Furnizare	1,217	1,110	1,041
Services related to other DSOs	988	526	524
SE	988	526	524
Headquarters	**149**	**136**	**142**
Electrica	149	136	142
Total	**11,740**	**10,539**	**9,685**

Source: Electrica

The reduction in the number of Group employees during 2016 was due to the voluntary leave program, plus retirements at age limit, disability and termination of individual labour agreements due to other causes (resignation, mutual agreement), as well as reduction in the number of employees of subsidiaries in insolvency and deconsolidation of former subsidiaries went bankrupt.

On December 31st, 2016, about 55% of the Group's employees were directly productive personnel and 45% were indirectly productive personnel, including technical, economic, social and administrative personnel.

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

	December 31st, 2015	December 31st, 2016
Below 18 years old	0%	0%
18-30	5.96%	5.96%
31-40	19.47%	19.34%
41-50	40.98%	42.90%
51-60	29.49%	29.26%
over 60 years old	4.10%	2.54%
Total	**100%**	**100%**

Source: Electrica

On December 31st, 2016, about 98% of the Group's employees were members of trade unions and their employment conditions were governed by a Collective Labor Agreement, which was extended for a period of maximum 12 months starting 1st of January 2017 and submitted to the relevant labor authorities in Romania. The Electrica Group did not face strikes or other forms of labor conflicts that might have interfered with the Group's business.

In 2016, the mutual voluntary leave program with compensatory payments has been continued at Group level and it is valid until the end of 2017.

The Company and its subsidiaries prepared internal regulations related to: employment, 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 employees' professional appraisal and final provisions.

Electrica's training programmes conducted at Electrica level took into account the constant professional upgrading and skills improvement for the Group's employees.

The management supports the principle of development trough continuous training and actively takes part in involving the employees within these programs and supporting them to efficiently approach professional challenges.

HEALTH AND SAFETY AT WORK

Health and safety at work within the Electrica Group is considered part of the organization and conduct of work processes and includes all actions and measures aimed to accidents prevention, occupational illness and improving work conditions.

A particular focus in achieving this safety status is training of workers according to the requirements of legislation and aware of dangers, in order to eliminate the risk of injury or occupational disease, identified by assessing the level of risk in all workplaces. A total of 408,422 hours were allocated in 2016 to training employees in health and safety at work, fire emergency exercises (including additional training, special courses and first aid training). Professional training performing in safe conditions is added.

The analysis and unitary development of the Regulation of endowment and key technical specifications for individual protection equipment in relation to the risks identified was a priority in 2016. This resulted in the call for procurement in order to equip electricians with individual protection devices.

Health and safety at work, in the Electrica Group, is developed under the OHSAS 18001/2009 standard of the integrated management system for quality, environment, occupational health and safety, which was externally audited in 2016, without resulting in nonconformities. This provides a unified compliance with legislation requirements through procedures implemented at the level of the companies, and also a continuous improvement of the integrated management system.

Work accidents across the Electrica Group

At the level of the Group, following last year's event a policy of "zero tolerance to accidents" was implemented. Nevertheless, in the course of 2016 there were seven accidents, two on the route accidents, of which one ended with an unfortunate death, and five injuries due to involuntary causes causing temporary disability (aggression, car crash and careless walking or fall to the same level). Compared with 2015 both the number of accidents ended with death and those causing temporary disability decreased. Also, the period of recovery from injury dropped to a total of 99 days of inability to work, plus a period of 103 days for recovery for an accident recorded in 2015.

Prevention actions in the field of health and safety at work

Following accidents produced in 2015, the top management required an objective analysis materialized in an audit of health and safety at work by an independent consultant for the entire Electrica Group. The main goal was to define actions needed to improve health and safety at work management system on short and medium term, based on the results of the risk analysis performed on a sample of causes of accidents within the last 10 years and compliance with the specific legislation on health and safety.

The audit was performed in the three distribution companies and the energy services subsidiary. Additionally, an internal analysis was performed to identify key risk factors and key specific indicators compared to the national level, European and other companies in the energy sector, focusing on accidents in the past 6 years. The conclusions of these analyses have identified the need to develop a strategic plan for the medium and long term on the awareness of employees about the risks and dangers, with the participation of authorized experts in the field of safety and health at work, with the role of counselling and in stages of management personnel and the entire staff.

Causes and favouring factors were analysed for each accident recorded by the legally established commissions, and the files were overviewed by the Labour Inspection. It is worth mentioning that the electrical risk was not the leading cause of accidents at the workplace, but there have been events in which contracted staff died and this signalized a direction of prevention for the safety at work policy so that in the future such unfortunate events would be eliminated. Accidents at work happen because of a conjunction of causes to which subjective aspects specific to each individual are added, such as attitude towards risk, reduced attention and omissions in supervision of workers.

As in previous years, more unfortunate events occurred in own electrical installations, due to unauthorized acces without awareness of the electrical risk and exposure to accidents, despite the risk being properly marked with warning and prohibition notices.

Throughout the year, inspections and internal controls were conducted on compliance with legal requirements and internal regulations with regards to safety and health at work, fire protection. All these materialized by offering assistance and identifying deficiencies that required immediate implementation of measures but also preventive/corrective measures requiring long-term action. A total of 3,382 inspections of safety and health at work were carried out in 2016.

Other action for information and awareness included organizing a presentation on work equipment and hight safety systems; briefings on legislative changes in order to ensure compliance; additional information and materials for training employees; participation in presenting the program.

Prevention actions in the area of fire safety

The prevention program in the area of defence against fire and emergencies situations, in 2016, included: control by own authorized staff of compliance with specific rules; periodic training for all staff in accordance with the approved annual periodic programs; conducting exercises for intervention and evacuation in emergency situations; inspection and maintenance by authorized companies of fire protection installations, respectively the firefighting devices at each location; keeping clear all way of access and evacuation; hot and cold season specific measures for fire prevention. All events of fire in electrical installations were reported and technically analysed in order to prevent similar events. For 6 incidents (5 EDTS and 1 EDTN) the Inspectorate for Emergency Situations intervened with firefighting teams, and in other cases the group's employees intervened in accordance with the training and competence, to eliminate outbreaks of fire.

Analysis regarding the health on employees in 2016

Within the Electrica Group there were no occupational illnesses registered. Nevertheless, there are some work-related diseases identified in employee health surveillance carried out both by Electriva Serv physicians, and by foreign medical services employed by the group as well.

In analyzing the health of employees, key indicators are represented by the conditiionalities for work, i.e. medical and psychological chronic conditions that limited work capacity (physical effort, working at hight, working under voltage), and total days of temporary incapacity of work (sick leave due to acute and / or chronic medical conditions).

Thus, conditional aptitude indicator for 2016 amounts to 11.45% of the total number of employees. Calendar days of sick leave for common diseases totalled less than 2.8% of working time in the year 2016, i.e. less than 7 days (6.2 days) of leave per employee, representing the national average.

The main causes of temporary incapacity in granting medical leave in 2016 were injuries outside the workplace (sprains, fractures, and contusions), cardiovascular disorders (hypertension, ischemic heart disease, and chronic venous insufficiency) malignancies, muscle disease (arthrosis), respiratory diseases, pregnancy and confinement, digestive disorders, psychiatric disorders.

Health at work prevention was done through medical examinations by doctors of occupational medicine; psychological examinations; laboratory tests; flu jab; training employees in occupational health problems and first aid; checking and maintaining hygienic conditions.

3.6 Environmental considerations

The Group promotes environmentally friendly policies part of its activity and implementation of business strategy.
SE Electrica SA and its subsidiaries have implemented an Integrated Quality, Environmental, Occupational Health&Safety Management System, which effectively manages environmental aspects associated with its processes, to prevent pollution and increase environmental performance.

Management commitment, guidelines and general objectives of environmental protection are undertaken in the Statement on Integrated Quality, Environmental, Occupational Health & Safety Management System Policy.

Annual capex budgets of the Group's subsidiaries include environmental expenditure. In 2016 the environmental expenditure at Group level amounted to RON 5.195 thousand, 7% up from 2015.

In 2016 main environmental concerns were:

- Minimization of environmental impact by modernization of equipment and adoption of smart grid; energy equipment with polychlorinated biphenyl impregnated dielectric represent the main environmental aspect; according to legal requirements, plans have been prepared for their elimination and 148 equipments were withdrawn from service;
- Improvement of waste management by responsible and safe disposal of generated waste including hazardous ones; waste management indicator increasing from 93.5 % in 2015 to 97.3% in 2016;
- Conservation of biodiversity and resources.

In accordance with specific legal requirements, Electrica Serv has all necessary environmental permits, respectively 26; for electricity distribution and supply there are no environmental permits required.
No pollution incidents complaints exceeding the allowed specific limits were reported. No environmental grievances were reported.

3.7 Research and development activities

In accordance with the "Elements of the S.E. Electrica's Board Strategic Plan for the period 2015-2018 Electrica Group currently carries **Pilot Project "Green Highway"**. In March 2016 S.E. Electrica signed with OMV Petrom a *Memorandum of Understanding to initiate a partnership in electromobility domain* (MoU) for placement in four public filling stations of high commercial interest (OMV Aerogarii, OMV Maniu, OMV Titan Grigorescu, OMV Coposu), of fast charging stations, one at the headquarters of Petrom City and one at S.E. Electrica headquarter.

At the end of 2016, the first fast charger standard type of 50kW was put into operation in fuel station OMV Aerogarii, and in January 12, 2017 S.E. Electrica and OMV Petrom inaugurated it.

By participating to these research, development and innovation projects with financing / co-financing the grants, Electrica has the following benefits:

- Making access to cutting-edge technologies in the field of optimizing the operating modes of the electricity distribution network (EDN) in terms of network connection of renewable electricity production (distributed or concentrated);
- Improving the safety and reliability of isolated electrical systems, power quality provided through the provision of rapid, low-cost reserves through flexible task;
- The possibility of identifying criteria in working to promote smart grids - smart grids and smart metering solutions in terms of new measuring code requirements on data protection and encryption methods;
- Use the opportunities to develop self-financing business portfolio of Electrica;
- Developing new skills through transfer of know-how;
- Compliance with the best practices of similar companies in Europe by winning image;
- Creating new opportunities for future participation of S.E. ELECTRICA S.A. projects funded by the European Commission

Another important endeavour of S.E. Electrica S.A. in promoting technological innovation is to disseminate the solutions for updating its electric grid using a smart grids concept in the international conferences/symposia that S.E.Electrica S.A. holds every year in November and which propose as an alternative topic the smart grids and smart metering solutions. We mention that S.E. Electrica S.A. has supervised the organization of the international symposium called "Smart Grids 2016".

We emphasize the participation in the WEC conferences with presentations concerning technological innovation and promotion of new technologies that improve operational efficiency. Thus, in June 2016, Electrica SA participated with three papers accepted to FOREN 2016.

3.8 Risk management

To implement the risk management system as well as an internal control/management system at group level, the following provisions were considered:

- Order of the Ministry of Public Finance no. 946/2005 regarding the development of an internal control/management system, with subsequent amendments and completions.
- Government Order no. 119/1999 regarding internal control and preventive financial control, with subsequent amendments and completions.
- Internal procedures adopted with this purpose.
- International Standards on Risk Management Systems.
- Best practices and methodologies applied in listed and non-listed companies.

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

In 2016, both within Electrica S.A. and its subsidiaries, was conducted the risks identification process. Thus, after identifying risks, were proposed adequate control measures, aiming to avoid or mitigate such risks in the future.

For 2017, the Company considers the development of risk management system according to the provisions of the international standard SR ISO 31000:2010 "Risk Management – Principles and Guidelines" and its integration within Electrica S.A. and its subsidiaries.

The risks related to the activity and the sector in which Electrica operates in, for the year 2016, can be presented as follows:

- Group's supply segment may be exposed to increasing competition due to the market liberalization and it could lose the last resort supplier status;
- The Supply Segment may face increased volatility of markets in which it operates, both in terms of volume and in terms of market price;
- Group's financial performance may be negatively influenced by changing tariffs on the regulated market and by the energy acquisition prices.
- 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 economic, political and climate-changing factors;
- 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;
- 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;
- Not conforming to legislation regarding public purchases by members of the Group could lead to fines and annulment of contracts;
- Ownership title over certain real estate properties owned by members of the Group may be deemed uncertain;
- The Company may face additional claims from tax authorities for budgetary debts due for previous periods;
- The Romanian taxation system is subject to change and may issue inconsistent interpretations of tax legislation;
- After the Offering, the State will continue to have significant influence over the Company;
- After the Offering, the State will continue to have significant influence over the Company;
- Components of the Group's distribution network are subject to deterioration over time.
- The distribution subsidiaries' activity may be negative impacted by natural disasters or unauthorized human interventions;
- The existence of companies involved in the electricity distribution and network construction in the area where the Group's distribution subsidiaries performed their activity;
- Regulation risk generated by frequently changes and without appropriate consulting sessions with the electricity distribution operators negatively influence the budget planning capabilities;
- The risk generated by the regulations in the field of PRE activity.

FINANCIAL RISK MANAGEMENT

The Group is exposed to the following risks resulting from the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

Credit risk

The 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 mainly 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 with financial institutions, which are regarded as having a high creditworthiness.

The accounting value of financial assets represents the maximum exposure to the credit risk.

Trade receivables

The Group's credit risk related to receivables is concentrated on the state-controlled companies. The Group registers a depreciation allowance which is the best estimation of losses recorded as related to trade receivables.

The ageing statement of trade receivables was as follows:

	December 31st, 2016		December 31st, 2015	
RON thousand	**Gross value**	**Bad debt allowance**	**Gross value**	**Bad debt allowance**
Not past due	603,467	-	654,679	-
Past due 1-90 days	209,205	(46,494)	189,243	(15,916)
Past due 90-180 days	16,616	(11,673)	12,525	(3,605)
Past due 180-360 days	14,087	(11,514)	9,864	(9,008)
Past due 1-2 years	30,872	(26,577)	33,561	(33,561)
Past due 2-3 years	21,618	(21,618)	19,388	(19,388)
Past due more than 3 years	1,010,228	(1,010,228)	1,043,639	(1,043,639)
Total	**1,906,093**	**(1,128,104)**	**1,962,899**	**(1,125,117)**

Source: Electrica

	Net trade receivables	
RON thousand	**December 31st,2016**	**December 31st,2015**
Not past due	603,467	654,679
Past due 1-90 days	162,711	173,327
Past due 90-180 days	4,943	8,920
Past due 180-360 days	2,573	856
Past due 1-2 years	4,295	-
Total	**777,989**	**837,782**

Source: Electrica

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. Also, stariting with 2016, some subsidiaries have closed long-term loan agreements in order to improve the financial position.

Exposure to liquidity risk

The following table shows the remaining contractual maturities of financial liabilities on the reporting date. The gross amounts are undiscounted, and include estimated interest costs.

(RON thousand)	Contractual cash flows					
Financial liabilities	**Book value**	**Total**	**less than 1 year**	**1-2 years**	**2-5 years**	**more than 5 years**
December 31st, 2016						
Bank overdrafts	142,626	142,626	142,626	-	-	-
Financing for network construction related to concession agreements	127,130	130,452	86,636	39,720	4,096	-
Long term bank borrowings	127,733	140,508	2,555	2,555	2,555	132,843
Trade payables	722,830	722,830	722,830	-	-	-
Total	**1,120,319**	**1,136,416**	**954,647**	**42,275**	**6,651**	**132,843**
December 31st, 2015						
Bank overdrafts	65,963	65,963	65,963	-	-	-
Financing for network construction related to concession agreements	221,641	228,332	100,248	97,002	31,082	-
Finance lease	59,821	59,821	59,821	-	-	-
Trade payables	656,410	656,410	656,410	-	-	-
Total	**1,003,835**	**1,010,526**	**882,442**	**97,002**	**31,082**	**-**

Source: Electrica

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, USD). 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 of quantitative data about the Group's exposure to currency risk is as follows:

In thousand RON	**December 31st, 2016 EUR**	**December 31st, 2016 USD**	**December 31st, 2015 EUR**
Cash and cash equivalents	2,533	4,699	10,241
Deposits (deposits, treasury bills and government bonds)	-	-	139,581
Financing for network construction related to concession agreements	(127,130)	-	(221,641)
Net exposure of financial position statement	**(124,597)**	**4,699**	**(71,819)**

Source: Electrica

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

	Average rate		**Year-end spot rate**	
	2016	**2015**	**2016**	**2015**
EUR/ RON	4.4908	4.4450	4.5411	4.5245
USD/ RON	4.0569	4.0057	4.3033	4,1477

Source: Electrica

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.

A reasonably possible strengthening/ weakening of the USD against RON at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and profit before tax, and affected equity, respectively, by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignore any impact of forecasted sales and purchases.

Thousand RON	**Profit before tax**	
Effect	**Appreciation**	**Depreciation**
December 31st, 2016		
EUR (change by 5%)	(6,230)	6,230
USD (change by 5%)	233	(233)
December 31st, 2015		
EUR (change by 5%)	(3,591)	3,591
USD (change by 5%)	-	-

Source: Electrica

Interest rate risk

The Group does not have significant long-term bank loans. The loans contracted in 2016 by the DSOs have been entirely guaranteed with cash collateral by the holding company. Interest rate risk on the newly contracted loans is minimal as the interest on these loans is fixed.

Exposure to interest rate risk

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

Thousand RON	**December 31st, 2016**	**December 31st, 2015**
Fixed-rate instruments		
Financial assets		
Bank accounts (cash and cash equivalent)	740,487	678,612
Treasury bills and government bonds (cash and cash equivalent)	-	90,865
Deposits, treasury bills and government bonds	1,875,054	1,987,881
Financial liabilities		
Financing for network construction	(127.130)	(221.641)
related to concession agreements	(127,130)	(221,641)
Finance lease	**(127,733)**	**-**
Total	**2,360,678**	**2,535,717**
Variable-rate instruments		
Financial liabilities (thousand RON)		
Short-term borrowings	-	(59,821)
Overdrafts	(142,626)	(65,963)
Total	**(142,626)**	**(125,784)**

Source: Electrica

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	
Thousand RON	**50 bps increase**	**50 bps decrease**
December 31st, 2016		
Variable-rate instruments	(713)	713
December 31st, 2015		
Variable-rate instruments	(629)	629

Source: Electrica

4 FIXED ASSETS

The number of users and volume of installations at December 31st, 2016 at the level of the three distribution subsidiaries (SDTN, SDTS and SDMN) and at Electrica's overall level are quantified as follows:

	UM	TN	MN	TS	Total
Geographical coverage	**km²**	**34,162**	**28,962**	**34,072**	**97,196**
Number of users, of which:	**-**	**1,245,989**	**1,305,139**	**1,123,012**	**3,674,140**
110 kV	-	34	39	42	115
medium voltage (MV)	-	4,042	3,453	2,905	10,400
low voltage (LV)	-	1,241,913	1,301,647	1,120,065	3,663,625
Overhead power lines length, of which:	**km**	**52,432**	**58,712**	**45,567**	**156,711**
110 kV	km	2,179	2,146	3,166	7,491
medium voltage (MV)	km	11,759	12,527	10,411	34,697
low voltage (LV)	km	38,495	44,040	31,990	114,525
Of which connections	km	18,033	23,845	17,260	59,137
Underground power lines length, of which:	**km**	**15,761**	**11,780**	**11,507**	**39,048**
110 kV	km	27	15	41	83
medium voltage (MV)	km	3,658	3,345	3,361	10,364
low voltage (LV)	km	12,076	8,420	8,105	28,601
Of which connections	km	6,959	2,138	2,512	11,608
Cumulative power of transformers/ power AT	**MVA**	**6,008**	**8,554**	**6,683**	**21,245**
in power stations					
(110 kV/MT + MT/MT)	MVA	3,660	5,544	4,145	13,349
in power stations 110 kV/MT	MVA	3,617	5,191	4,135	12,943
in power stations MT/MT	MVA	43	353	10	406
Switching stations/Transformer stations	pcs	2,348	3,009	2,538	7,895
No. of substations, of which:	**pcs**	**121**	**212**	**106**	**439**
power stations 110 kV/MT	-	92	124	101	317
power stations MT/MT	-	29	88	5	122
Number of switching stations and transformer stations	**pcs**	**8,736**	**10,188**	**8,867**	**27,791**

Source: Electrica

The vast majority of the distribution equipment currently in the patrimony of electricity distribution subsidiaries within Electrica were built in the last 60 years, following the successive development phases of the National Electricity System. This led to a great variety of equipment currently in use. The vast majority of installations were produced by the Romanian industry during 1960-1990, in which case a high rate of wear and tear is noticed. A relatively small group, accounting for approx. 20% of total equipment, is represented by new installations, put into force after 1990 and which meet current requirements.

Depending on voltage level, categories of installations, year of commissioning and specific operating conditions, wear of installations can be assessed as follows:

		SDTN	SDMN	SDTS
High voltage power lines (110 kV)	Underground power lines	25%	45%	50%
	Overhead power lines	75%	80%	75%
Medium voltage power lines	Underground power lines	48%	80%	65%
	Overhead power lines	60%	75%	60%
Low voltage power lines	Underground power lines	52%	75%	75%
	Overhead power lines	58%	75%	68%
Substations		75%	75%	60%
Transformers	Pole - Amount	45%	70%	50%
	Concrete enclosure	51%	75%	75%
	Pad-Mount	69%	85%	20%
	Underground	16%	95%	85%

Source: Electrica

INVESTMENTS

Investments at Electrica Group level were promoted considering especially the wear of assets of Distribution Companies, in order to increase the efficiency, the improvement of the distribution service quality and of the operating safety.

The Group will continue to modernize and to develop the distribution network into a concept of smart network by installing smart network infrastructure systems, such as SCADA, SAD, energy measurement systems, etc., in order to improve operational efficiency, to reduce losses in the network, improvement of network flexibility, distribution service quality, stability and reliability of the network.

Within the implementation of the investment program, Electrica ensures the compliance with the Group's Strategy and especially, with the following criteria:

- Inclusion in RAB of regulated investments;
- Non-regulated investments of the Group should provide an IRR higher than weighted average cost of capital.
- The investment program will follow the Group financial strategy to maintain a solid capital structure.

Based on these criteria and in the context of Electrica Group's commitment to improve the operational performance and quality of the electricity distribution service, as stated in the Prospectus, the proceeds from IPO obtained by Electrica Group will be used to improve the existing grid infrastructure, to develop the network for connecting new users and for investments in smart grid and smart metering.

According to the Strategy of Investment in Electrica's Power Grids, it is aimed to promote those categories of capital expenditure contributing to the development of a profitable distribution activity and to the creation of conditions of access to the electricity distribution network to energy consumers and producers, in line with market requirements, especially based on:

- Automation of distribution by integrating the installation in SCADA, SAD etc.
- Modernizing the equipment in transformer stations and in the medium voltage network.
- Introducing equipment with reduced own losses, with higher operating efficiencies, environmentally-friendly.
- The expending of modern energy measurement systems, transmission of power consumption
- Modernizing low voltage distribution network and connections.

At the same time, the Group plans important investments in the improvement and modernization of the IT infrastructure, IT systems, as well as investments in cyber-security and business continuity, aiming the improving data protection and implicitly the quality of provided services.

The following table presents the investment program approved by ANRE on Distribution Subsidiaries within Electrica Group:

Commissioning program approved by ANRE for the period 2014 - 2018 (RON mil.)

	2014	2015	2016	2017	2018	Total
SDTS	117.00	180.00	219.60	250.00	287.50	1,054.10
SDTN	126.00	184.00	223.20	259.20	288.00	1,080.40
SDMN	113.81	171.33	205.04	252.41	287.09	1,029.68
Total	356,81	535,33	647,84	761,61	862,59	3.164,18

Source: ANRE

Based on IPO proceeds, Electrica Group has decided to increase the volume of investments in the distribution network in the third regulatory period compared to the volume approved by ANRE at the end of 2013.

The consolidated investment plan, at Group level, for 2016, was RON 844.619 RON mil.

In 2016, the companies within Electrica Group made the following investments compared to those approved by the General Meeting of Shareholders in March 2016:

Subsidiary Electrica Group (RON mil.)	Planned 2016	Achieved
SDTN	269.0	230.899
SDTS	265.0	161.774
SDMN	253.0	160.369
Electrica Furnizare	17.153	11.706
Electrica Serv	14.509	1.512
Electrica S.A.	25.957	3.167
Total	**844.619**	**569.427**

Source: Electrica

At the Electrica Group level, the plan was achieved at a rate of 67.4%, with the mention that for distribution subsidiaries a rate of 70.3% was recorded, compared to the plan approved by the EGM.

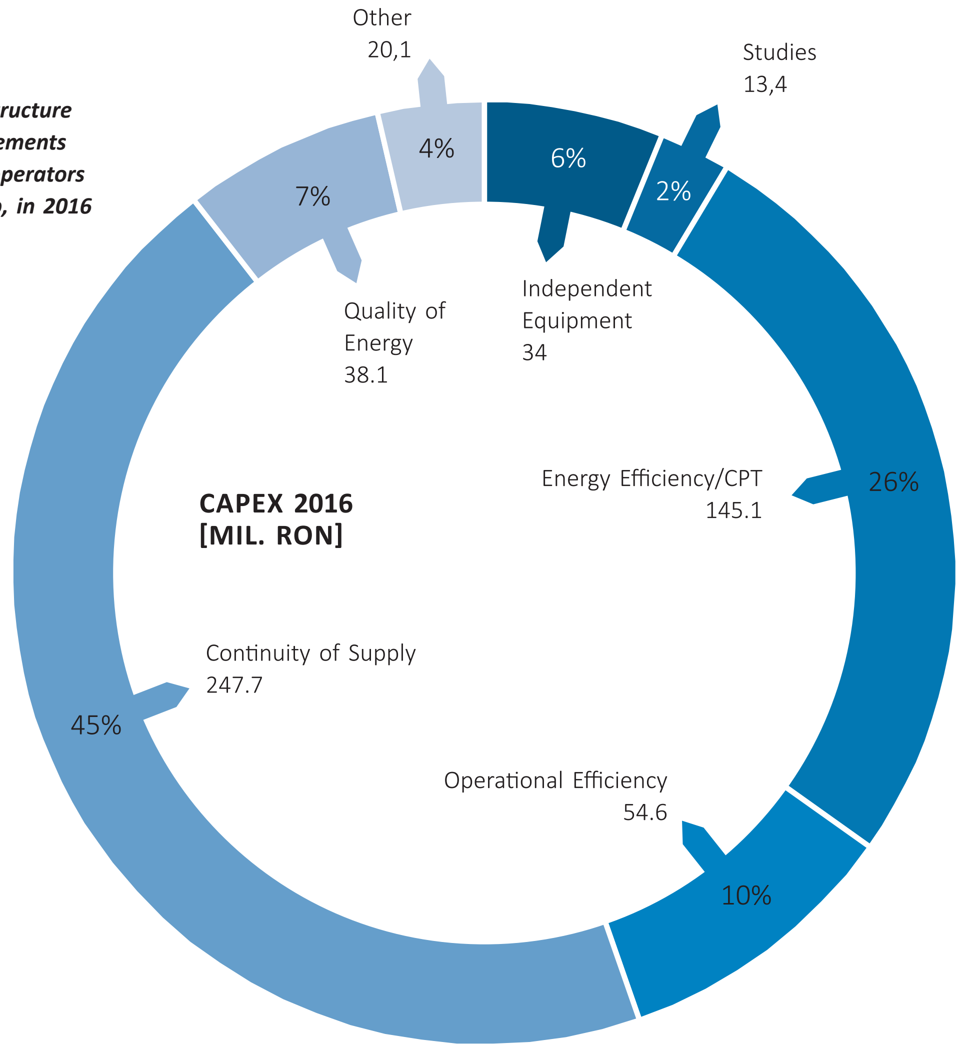
The synthetic structure of the investments achieved by distribution subsidiaries in 2016 is presented in the table below (for details of the most important investments see Appendix 2).

Category of works (RON mil.)	Total
Efficiency of which:	**199.7**
Energy efficiency/CPT	145.1
Operational efficiency	54.6
Quality of service of which:	**285.8**
Continuity of supply	247.7
Quality of energy	38.1
Other categories	**20.1**
Independent equipment	**34**
Studies and projects for the coming years	**13.4**
Total	**553**

Source: Electrica

The main investments of Electrica Group were focused in 2016 on increasing the quality and efficiency of the distribution service.

Figure 28: The structure of CAPEX achievements for distribution operators within the Group, in 2016



Source: Electrica

The commissioning plan for 2016, approved by ANRE, was achieved at a rate of 82.5%.

Electrica Group (RON mil. in nominal terms)	Planned	Achieved	%
SDTN	234,084	236,826	101.2
SDTS	230,309	165,166	71.2
SDMN	215,037	158,419	73.7
Total	**679,430**	**560,411**	**82.5**

Source: Electrica

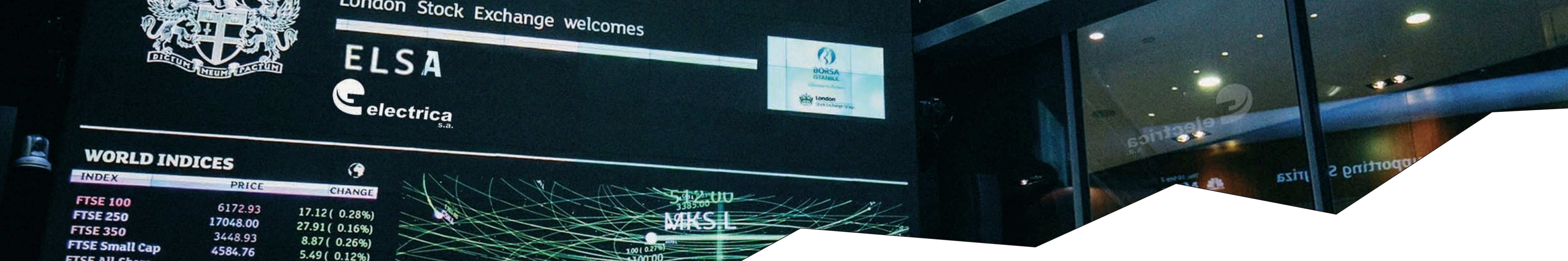
As a result of investments made during 2013-2016, the structure of the Regulatory Assets Base of the three distribution operators in the portfolio of Electrica Group is presented in the table below:

RAB (RON mil.)	2013	2014	2015	2016*)
SDTN	1,292	1,335	1,423	1,528
SDTS	1,332	1,352	1,391	1,413
SDMN	1,434	1,490	1,561	1,583
Total	**4,058**	**4,177**	**4,375**	**4,524**

Source: Electrica

**) The values in 2016 may suffer corrections following ANRE's analysis process.*

During 2013 - 2016 RAB evolution has been increasing for all the three distribution companies in the Group's portfolio, which is reflected in increased profitability across the Group.



5 CAPITAL MARKET

Starting with July 4th, 2014, the Company's shares are listed on Bucharest Stock Exchange (BSE) under the ticker symbol EL, while the GDRs (Global Depositary Receipts) are listed on London Stock Exchange (LSE) under the ticker symbol ELSA.

No.	Date	Event description
1	4-January-16	External storm erased 12.2% from BET cap in the first two weeks of 2016, while Electrica's shares fell by 5.5%
2	13-January-16	Chairman of Board of Directors appointment and consultative committees establishment
3	18-January-16	Legal actions for annulment/suspension of certain ANRE orders Tariffs for 2016 approved through ANRE orders for the distribution operators in Electrica Group
4	10-February-16	Decision of Mr. Michael A M Boersma to resign, starting with May 1st, 2016 from his position of member of the Board of Directors of Electrica SA
5	15-February-16	Publication of preliminary standalone 2015 results
6	26-February-16	Mutual agreement on Mr. Ioan Rosca's mandate termination as CEO of Electrica SA (until June 2016)
7	28-March-16	Electrica and FP didn't reach a price agreement for a potential acquisition of minority stakes owned by FP in the three distribution subsidiaries of Electrica SA and in the supply subsidiary
8	31-March-16	GMS approved the Income and Expenses Budgets for 2016 for Electrica (consolidated and individual) and its subsidiaries and the Remuneration Policy for BOD' members
9	27-April-16	GMS approved Financial Statements and profit distribution (dividends) for the Group, Electrica SA and its subsidiaries. The Board named Willem Schoeber as interim director and chairman of the SRGC Committee
10	16-May-2016	Electrica published the Consolidated Financial Statements for Q1 2016
11	24-June-16	First day after Brexit vote
12	7-July-2016	Two days before ex-date (share price: RON 13.40)
13	8-July-2016	One day before ex-date (share price: RON 13.22)
14	16-August-16	Electrica published the Consolidated Financial Statements and Director's Report for H1 2016
15	2-September-16	Electrica convenes GMS on 21 Oct 2016 for appointing a new independent member of the Board of Directors and approval 2016 CAPEX Plan supplemented up to RON 844.6 mn
16	7-September-16	Highest closing price on BSE since IPO - RON 13.90 – no major event
17	20-September-16	Electrica announced the new CEO
18	4-October-16	Electrica announced the revocation of the HR Manager by the BoD
19	19-October-16	Electrica signed with BRD three block account pledge agreements related to the credits granted to its distribution subsidiaries
20	21-October-16	GMS approved the appointing of Mr. Willem Schoeber as a member of the BoD, the amendment of the Articles of Association and a new CAPEX level supplemented up the value of RON 844.6 mn
21	15-November-16	Electrica published the Consolidated Financial Statements and a financial report for Q3 2016 (followed by results presentation webcast on 21 November 2016)
22	11-December-16	Parliamentary elections results
23	30-December-16	President Iohannis accepted the proposal for prime-minister
24	4-January-17	Appointment of the Grindeanu Cabinet
25	31-January-17	Re-appointment of the Chairman of the BoD and of the members of the BoD's Committees, revocation of the Sales Manager, appointment of the Chief Distribution Officer
26	24-February-17	Highest closing price on BSE since IPO - RON 14.24 – no major event

Source: BSE, LSE, Electrica

Figure 29: Share price history on BSE, together with the most important events occurred from the beginning of 2016 until February 28th, 2017 (RON)

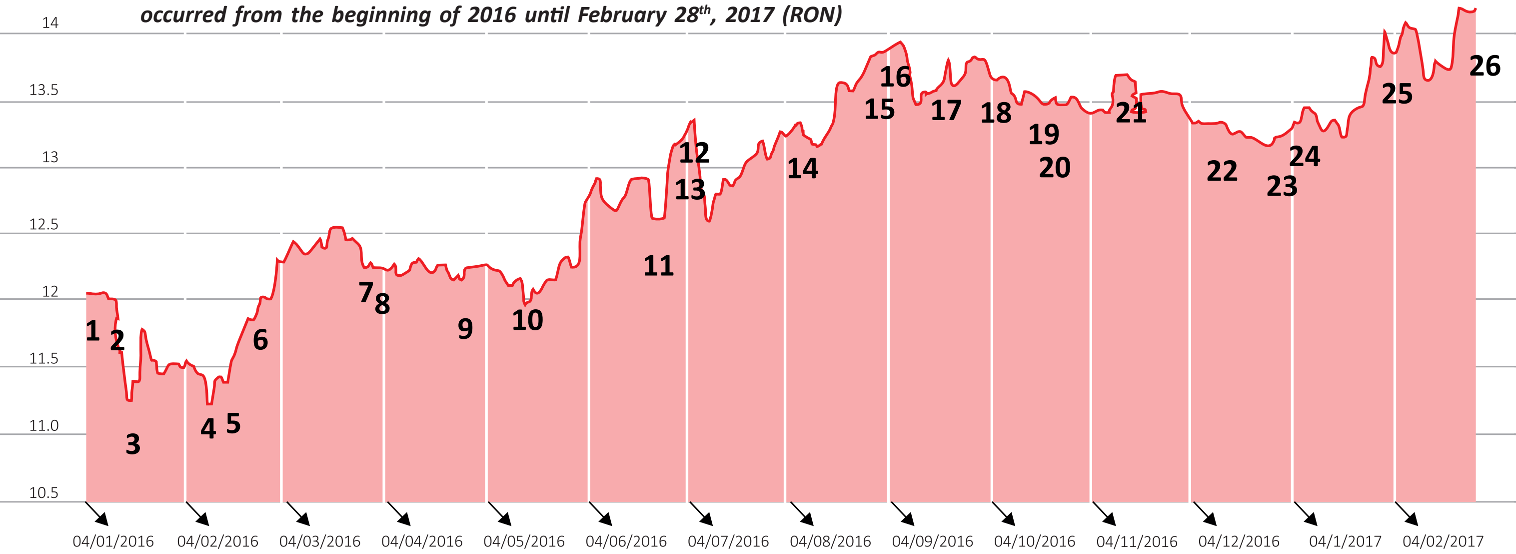
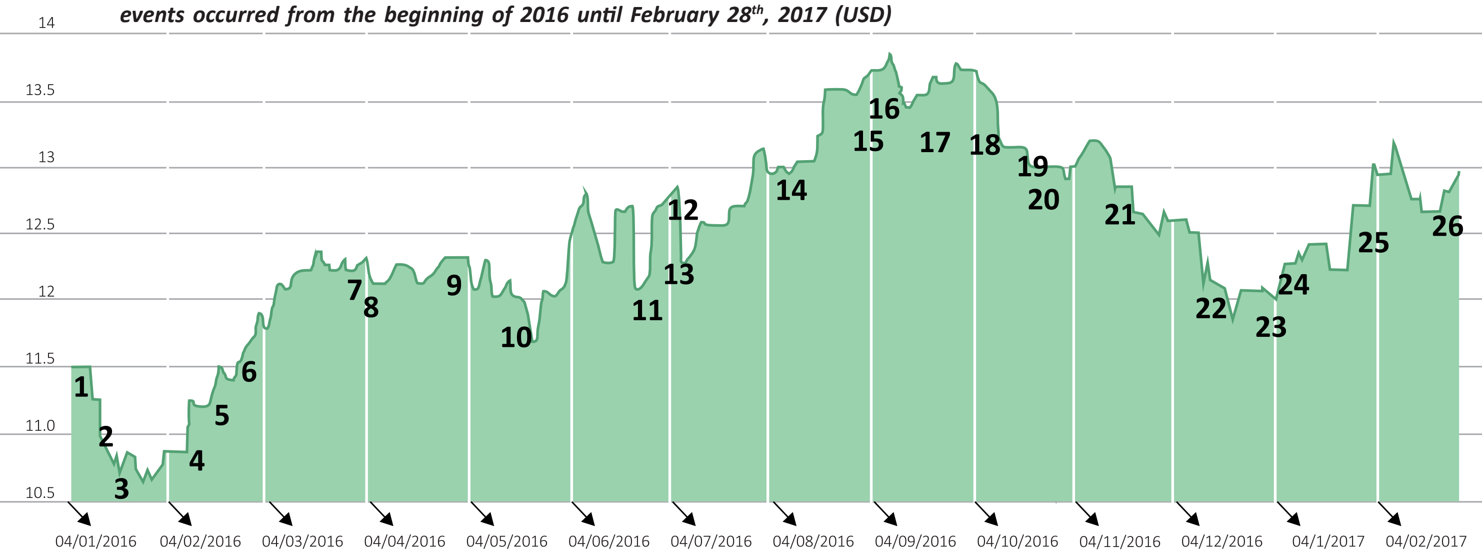
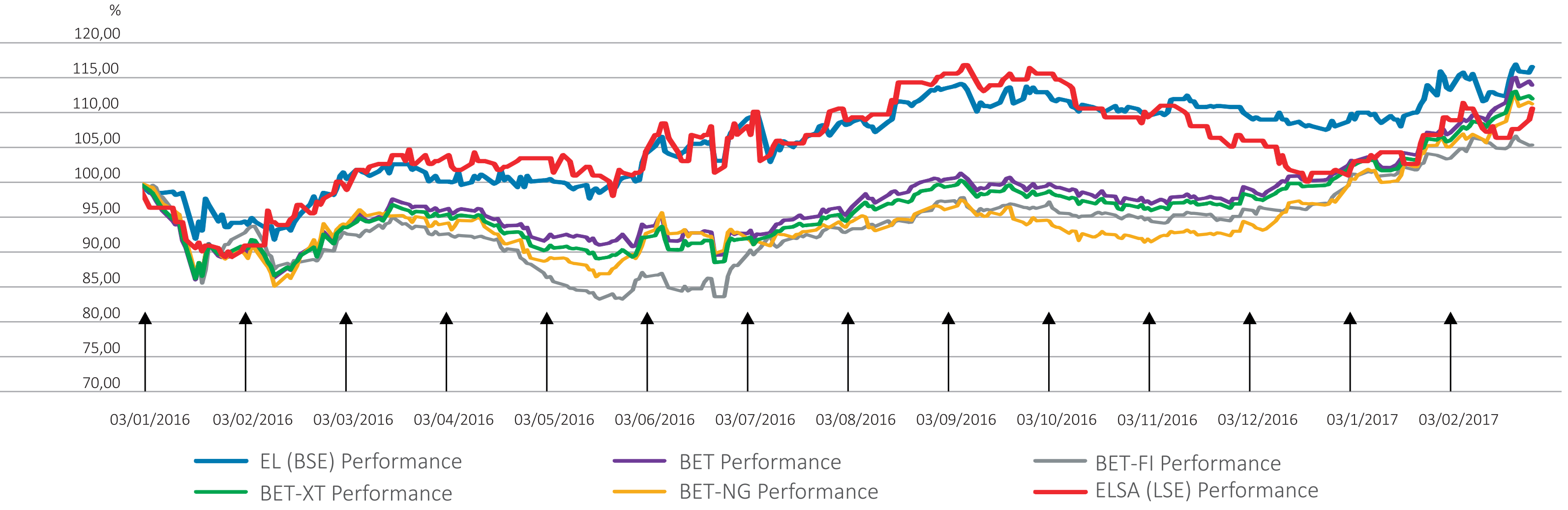


Figure 30: Global depositary receipts' price history on LSE, together with the most important events occurred from the beginning of 2016 until February 28th, 2017 (USD)



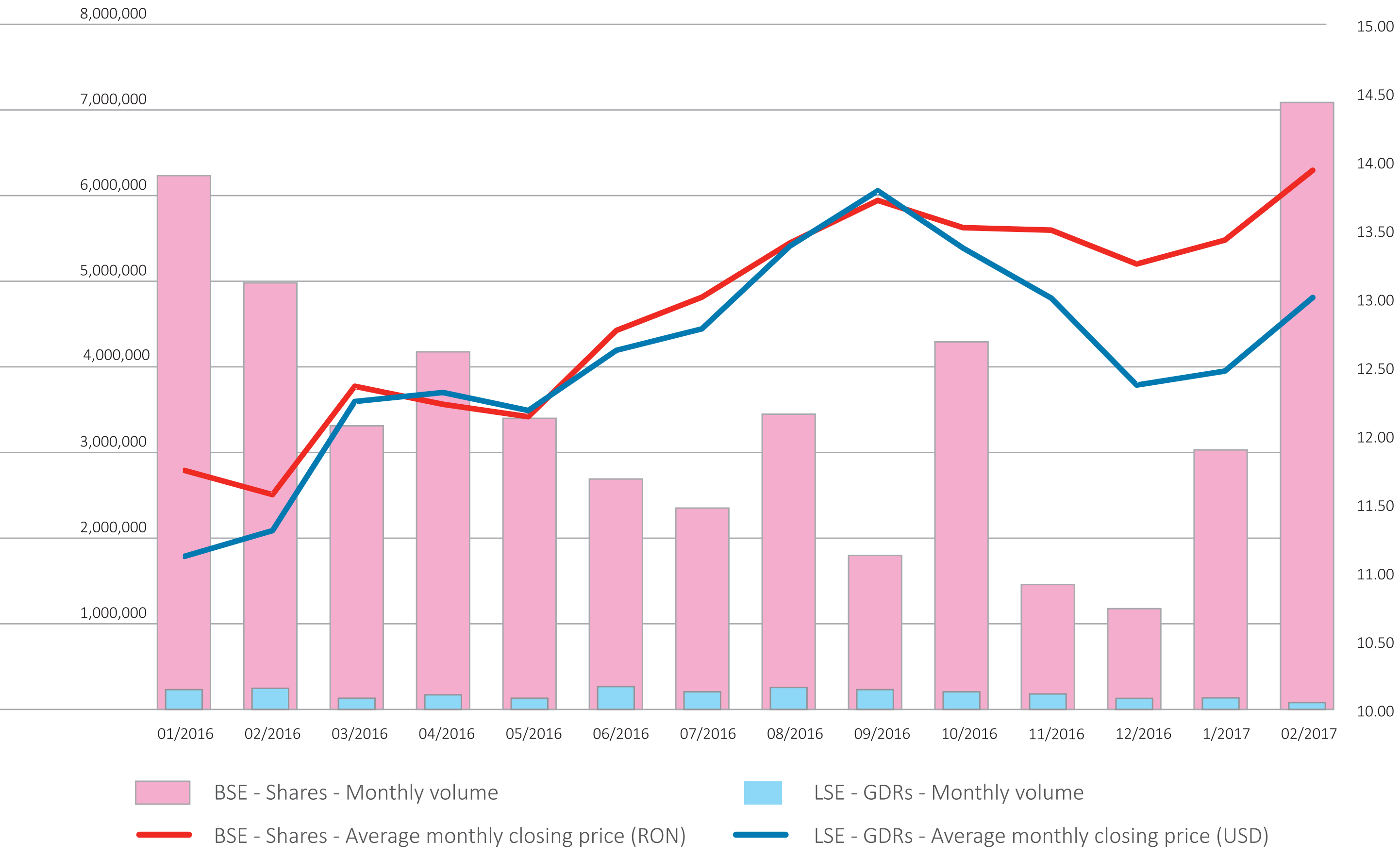
Source: LSE, Electrica

Figure 31: Comparative performance of Electrica's share price and BSE indices: BET, BETNG and BETFI (%, as compared with the last day of trading in 2015)



Source: BSE, Electrica

Figure 32: Monthly trading volume and average monthly closing price of shares on BSE (in RON) and GDRs on LSE (in USD)



Source: BSE, LSE, Electrica

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 for the statutory results obtained in the financial years 2012–2015 were as follows:

(RON mil.)	2012	2013	2014	2015
Dividends distributed	13.2	22.5	245	291.6
Dividends/share (RON)	0.064	0.108	0.7217	0.8600

Source: Electrica

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.

The Company will pay any dividends in RON.

The Company will distribute dividends on the basis its annual financial statements which starting with 2014 are prepared in accordance with IFRS-EU.

Repurchase of treasury shares

In July 2014 the Company bought back 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. There were no changes in the value of the treasury shares in 2015 and 2016.

6 MANAGEMENT OF THE GROUP

6.1 The Board of Directors of Electrica S.A.

During 2016, the Board of Directors has undergone some changes. At the beginning of the year, the Board of Directors consisted of 7 non-executive members, appointed by the Ordinary General Meeting of Shareholders on December 14th, 2015. Their term of office, registered based on the decision of the General Meeting of Shareholders, is four years. Four of the seven directors fulfilled the independence criteria provided by the Articles of Association, according to statements presented on the occasion of their nomination.

The Board of Directors is responsible for taking all the necessary measures to carry out the activity of the Company as well as to supervise its activity. Its structure, organization, duties and responsibilities are established under the Articles of Association and the Regulation of the Board of Directors.

During December 14th, 2015 – May 1st, 2016, the Board of Directors had the following members:

- **Mr. Cristian Busu** – non-executive director, elected as Chairman of the Board of Directors until January 2017
- **Ms. Arielle Malard de Rothschild** - non-executive independent director
- **Mr. Michael Boersma** – non-executive independent director
- **Mr. Pedro Mielgo Alvarez** – non-executive independent director
- **Mr. Bogdan George Iliescu** – non-executive independent director
- **Ms. Corina Georgeta Popescu** - non-executive director
- **Ms. Ioana Alina Dragan** - non-executive director.

Following Mr. Boersma's renunciation to his position of member of the Board of Directors of Electrica SA starting with 1st of May 2016, on April 26th, 2016 the Board of Directors appointed Mr. Willem Jan Antoon Henri Schoeber as interim member of the Board of Directors, until the next Ordinary General Meeting of Shareholders of the Company (i.e. October 21st, 2016).

On October 21st, 2016, the General Meeting of Shareholders elected Mr. Willem Jan Antoon Henri Schoeber as non-executive independent director with a mandate period equal with the remaining period until the expiration of the vacant mandate, respectively until 14 December 2019. Four of the seven directors fulfill the independence criteria provided by the Articles of Association, according to statements presented on the occasion of their nomination.

We present below the most relevant aspects regarding the professional experience of the members of the Board of Directors at the time of their appointment:

Cristian Busu
Mandate
4 years

Arielle Malard de Rothschild
Mandate
4 years

Michael Adriaan Boersma
Mandate
4 years

Pedro Mielgo Alvarez
Mandate
4 years

Bogdan George Iliescu
Mandate
4 years

Corina Georgeta Popescu
Mandate
4 years

Ioana Alina Dragan
Mandate
4 years

Willem Jan Antoon Henri Schoeber
Mandate
4 years

Cristian Busu

Mandate 4 years

Professional experience

- State Secretary, Ministry of Energy (December 2015 – January 2017).
- Member of the Board of Directors and of the Audit Committee at SIF OLTENIA.
- Manager at the Central branch of Marfin Bank in Bucharest.
- During 2009 – 2013, Financial Manager of Fondul Proprietatea and member of the Representatives Committee.
- Economic Adviser for the Economic Department of the Romanian Government.
- Lecturer at the Bucharest Academy of Economic Studies, in which capacity he conducted various teaching and research activities.

Arielle Malard de Rothschild

Mandate 4 years

Professional experience

- Has an extensive experience in investment banking, spending over 25 years in companies such as Lazard Frères & Cie and Rothschild. She is the founder of the Emerging Markets Division at the Rothschild & Cie investment bank, part of the Rothschild group.
- Before joining Rothschild & CIE in 1999, she spent 10 years as an investment banker at Lazard Frères & Cie, as part of the Sovereign Advisory team.
- Her experience includes major privatization projects in Romania, Poland, Russia, Hungary and Morocco, coordinating the privatization of companies such as MOL, Nafta Polska, ZIL, BCR or Dacia.
- Has experience in M&A projects, working in over 40 such projects in Eastern Europe and Africa.
- Member of the Board of Directors of Imerys S.A. (SBF120) and of Rothschild & Co, both listed on the Paris Stock Exchange and of Groupe Lucien Barrière.

Michael Adriaan Boersma

Mandate 4 years

Professional experience

- Professor of corporate governance at the TIAS School for Business and Society, University of Tilburg in the Netherlands
- Senior adviser for First State European Diversified Infrastructure Fund, London, UK.
- Non-executive independent director of Nynas AB, Stockholm, Sweden, a company owned by PDVE and Neste Oil Oyj, specializing in the production and trade of oils and bitumen.
- Chairman of the Board of Directors of Prometheus Energy, based in Houston (Texas, U.S.A.).
- Chairman of the Supervisory Board of TMG, a Dutch listed company, Amsterdam.
- Member of the Supervisory Board of PostNl, a Dutch listed company, The Hague, the Netherlands.
- Chairman of the Supervisory Board of the VieCuri Medical Center for Noord-Limburg in Venlo, the Netherlands.
- Chairman/member of foundations/institutions/advisory bodies (e.g. Energy Fund Limburg, Jheronimus Bosch 500, Protective preference shares FUGRO).
- From 2003 until the end of 2009 - CEO and Chairman of the Executive Board of Directors of Essent, the largest Dutch utility.

Pedro Mielgo Alvarez

Mandate 4 years

Professional experience

- Non-executive Chairman, Madrilena Red de Gas, Madrid Spain.
- Chairman and Managing Partner of the Fund GP, Nereo GreenCapital, Luxembourg.
- Non-executive Chairman, Ingenio 3000, Madrid, Spain.
- Independent Director, Landis & Gyr SAU, Sevilla, Spain.
- From 2008 until 2011 - non-executive Chairman, Centimetri, Milan, Italy.
- From 2008 until 2011 - Independent Director, Landis & Gyr AG, Zug, Switzerland.
- From 1999 until 2004 - Director, Redesur, Lima, Peru.
- From 1997 until 2004 – Chairman & CEO, Red Electrica de Espana, Madrid, Spain.
- From 1995 until 1997 – General Manager, Iniexport, Madrid, Spain.
- From 1991 until 1997 – Director, Marketing & Sales, Intec, Madrid, Spain.

Bogdan George Iliescu

Mandate 4 years

Professional experience

- Board member, Nominalization and Remuneration Committee member, Rating and Audit Committee member, Strategy committee member, SNTGN Transgaz SA, Medias.
- From May 2014 until May 2016 - Executive Manager, Corporate Finance Department, BRD – Group Societe Generale.
- From 2007 – 2014 – General Manager, BRD Corporate Finance.
- From 2005 until 2009 – Board member, SAI INVESTICA ASSET MANAGEMENT SA, Bucharest.
- From 2001 – 2007 – Project Manager, BRD/SG Corporate Finance.
- From 1997 – 2001 – Analyst, BRD – Group Societe Generale.

Corina Georgeta Popescu

Mandate 4 years

Professional experience

- State Secretary, Ministry of Energy.
- Head of Power Assets Department, OMV Petrom SA.
- From 2011 until 2015 – Bucharest Branch Manager, OMV Trading GmbH Viena, Austria.
- From 2008 until 2011 – Manager of Energy Market Regulation and Supervision, E-ON Romania.
- From 2007 until 2008, Head of Power Acquisition Department, E-ON Moldova Furnizare.
- From 2001 until 2006 – Head of Distribution Service, Electrica SA
- From 1998 until 2001 – Head of Operation Service, Electrica SA – Distribution & Supply Bucharest Branch
- From 1996 until 1998 – Chief Deputy Division, North Network Division, CONEL - Distribution & Supply Bucharest Branch.
- From 1991 until 1996 - North Network Division, RENEL - Distribution & Supply Bucharest Branch

Ioana Alina Dragan

Mandate 4 years

Professional experience

- Expert, Department of Administration of State Ownership in Energy, Ministry of Energy.
- Member of Shareholders General Assembly, OPCOM – Romanian Gas and electricity market operator.
- Member of Board of Directors, National Company of Uranium SA;
- From 2013 until 2014, Member of Board of Directors, SN Nuclearelectrica SA.
- 2014, Adviser of Minister, Ministry of Energy.
- From 2012 – 2013, Country Financial Specialist, Responsible for Siemens Financial Services Department, Siemens Romania.
- From 2008 until 2012, Bonne GAMME Relationship Manager, BRD – Group Societe Generale – Beller Agency.
- From 2007 until 2008, Grand Public Relationship Manager, BRD – Group Societe Generale – Beller Agency.
- From 2005 until 2007, Front Desk Operator, BRD – Group Societe Generale – ASE Agency.

Willem Jan Antoon Henri Schoeber

Mandate 4 years

Professional experience

- Independent business consultant (since 2013).
- Member of the board of directors of Neste Oyj (Helsinki, Finland), of the supervisory board of Gasunie NV (Groningen, the Netherlands) and member of the audit committees of these boards (since 2013).
- From 2010-2015: Chair of the Boards of Directors of EWE Turkey Holding AŞ (Istanbul, Turkey), Bursagaz (Bursa, Turkey), Kayserigaz (Kayseri, Turkey)
- From 2010-2013: Member of the executive board of EWE AG (Oldenburg, Germany), responsible for power generation and for the EWE utility businesses in Turkey and Poland
- From 2007-2011: Chair of the executive board of swb AG (Bremen, Germany)
- From 1977-2007: Various positions in the Royal Dutch Shell group in the Netherlands, France, Germany and the USA, with senior management positions in refining, i.a. refinery manager in Reichstett (France) and Cologne (Germany)

Source: Electrica

At the date of this report, the members of the Board of Directors are as follows:

No.	Name	Term of office*	Status	Date of first election
1.	Cristian Busu	4 years	non-executive director, President of BoD	September 22nd, 2014
2.	Arielle Malard de Rothschild	4 years	non-executive, independent director	September 22nd, 2014
3.	Ioana Dragan	4 years	non-executive director	December 14th, 2015
4.	Corina Popescu	4 years	non-executive director	December 14th, 2015
5.	Bogdan Iliescu	4 years	non-executive, independent director	December 14th, 2015
6.	Pedro Mielgo Alvarez	4 years	non-executive, independent director	December 14th, 2015
7.	Willem Jan Antoon Henri Schoeber	4 years	non-executive, independent director	April 26th, 2016

**starting with December 14th, 2015*

Source: Electrica

More details on the Board members' biographies can be found on the company's website.

Mr. Cristian Busu was elected Chairman of the Board of Directors during the new Board's first meeting, which took place on January 13th, 2016, for a term of one year, and reelected in January 2017 for another year.

In the its first meeting, held on January 13th, 2016, the new Board of Directors decided the composition of committees, as follows:

a) The Nomination and Remuneration Committee
- Mr. Bogdan Iliescu - Chair of the committee
- Ms. Arielle Malard de Rothschild
- Ms. Corina Popescu

b) The Audit Committee
- Mr. Pedro Mielgo Alvarez - Chair of the committee
- Ms. Arielle Malard de Rothschild
- Mr. Bogdan Iliescu

c) The Strategy and Corporate Governance Committee
- Mr. Michael Boersma - Chair of the committee (until his resignation as of May 1st, 2016, when his place was taken by Mr. Willem Schoeber)
- Ms. Ioana Dragan
- Mr. Cristian Busu.

Consultative committees' members are elected for a period of one year. The organization, duties and responsibilities of each committee are set under the Articles of Association of Electrica S.A., respectively in the committee charters - an integral part of the Corporate Governance Code of the Company. In its meeting held in January 2017, the Board decided to maintain the same composition of the committees, for another year.

According to the information held, there is no agreement, understanding or family relation between the directors of the Company and another person who may have contributed to their appointment as directors.

At 1st March 2017, no member of the Board of Directors held any Electrica S.A. shares.

According to the available information, the Board members were not involved in litigations or administrative proceedings regarding their activity within the Company in the last five years or regarding their capacity to fulfill their duties within the Company.

6.2 The activity of the Board of Directors of Electrica S.A. and of its Consultative Committees

In 2016, the Board of Directors met 30 times. Out of the 30 meetings that took place in 2016, 16 meetings were organized with physical presence of the members and 14 were held electronically, in accordance with the provisions of art. 17 paragraph 22 (respectively art. 18 alin. 23 after October 21st, 2016) of the Articles of Association of the Company.

We present below the situation of Board members' presence in the meetings of the Board of Directors and its committees in 2016:

Name	The Board of Directors (no. of meetings - 30)	The Audit and Risk Committee (no. of meetings - 10)	The Nomination and Remuneration Committee (no. of meetings - 15)	The Strategy and Corporate Governance Committee (no. of meetings - 11)
Cristian Busu	30	-	-	10
Arielle Malard de Rothschild*	29	9	14	-
Corina Popescu	30	-	15	-
Ioana Dragan	30	-	-	11
Bogdan Iliescu	30	10	15	-
Pedro Mielgo Alvarez	29	10	-	-
Willem Schoeber*	19	-	-	8
Michael Boersma*	8	-	-	3

**Note: in one meeting of the Board of Directors, Ms. Arielle Malard de Rothschild was represented by Mr. Cristian Busu, based on the mandate given. The same, Mr. Willem Schoeber was represented in one meeting by Mr. Pedro Mielgo Alvarez, and Mr. Michael Boersma was represented in two meetings of the Board of Directors by Ms. Arielle Malard de Rothschild, based on the mandates given.*

Source: Electrica

The main areas of interest and decisions adopted by the Board of Directors in 2016 refer to:
- Election of the Chairman of the Board of Directors and establishment of the consultative committees and election of their chairman;
- Continuing the project started in 2015 aiming to review and align the Articles of Association of Electrica and of its subsidiaries, considering more clearly the scope of activity and the responsibilities by level of management, controlled delegation of competence and implementation of a new corporate governance at group level, based on the new Corporate Governance Code issued by the Bucharest Stock Exchange (BSE Code) and the key points underlined by the Board's evaluation process. The EGMS approved the proposed revised Articles of Association on October 21st, 2016.
- Revision and endorsement of ELSA subsidiaries Articles of Association.
- The update of the charter of the Board of Directors and of the charters of the committees set up by the Board.
- Revision and endorsement of Electrica SA's financial statements at individual and consolidated levels for the financial year of 2015.
- Revision and endorsement of financial statements of Company's subsidiaries for the financial year of 2015.
- Revision and endorsement of Electrica SA's income and expenses budget at standalone and consolidated levels for the financial year of 2016.
- Revision and endorsement of income and expenses budgets of company's subsidiaries for the financial year of 2016.
- Revision and endorsement of the consolidated investment plan for the 2016 financial year.
- Analysis, coordination and approval of different proposals submitted by the executive management regarding acquisitions and investment opportunities (e.g.: supervising the negotiations with Fondul Proprietatea regarding the acquisition of the minority stakes within distribution and supply operators).
- Preparing and submitting for the GMS approval the new Remuneration Policy and mandate contracts, including revised KPIs for the members of the Board of Directors.
- Reviewing proposals on reshaping Group's activity, aiming to implement improved processes flows and an increased efficiency for core business, but also to create the basis for better operational and financial results, at individual and consolidated level.
- Setting the annual calendar of the Board meetings and the key documents and reports to be prepared by the executive management.
- Reviewing the BoD composition in subsidiaries, to assure a consistent approach and to support the subsidiaries development and market positioning, as well for strengthening the governance across the group.
- Approval of the Market Abuse Regulation.
- Approval of the Treasury Policy.
- Approval of the Delegation of Authority Policy.
- Approval of the Internal Audit Charter and of the Code of Ethics for the internal auditor.
- Approval of the audit plan for 2017.
- Approval of the Code of ethics of the internal auditor.
- Approval of the Internal Audit Policies and Manual of Procedures.
- Approval of the CSR Plan and Policies for 2016, aligned to the PR, Communication and CSR Strategy.
- The appointment of a new CEO starting with October 24th, 2016.
- Approval of the new organizational chart, to enter into force starting with January 1st, 2017, having as objective to streamline the

reporting lines in Electrica and at the Group level and to use and combine the necessary competencies and responsibilities in more efficient way.

- Revision and approval of the executive management KPIs achievement for 2015 and the new ones for 2016 – at Electrica and Group level.

In 2017, until the date of the Report, the Board of Directors met seven times (out of which two meetings were held electronically and one was telephonic) and adopted important decisions for both its organization and the development and operational orientation of the Company.

The main decisions adopted by the Board of Directors during meetings held 2017 refer to:

- Election of the Chairman of the Board of Directors.
- Reviewing the consultative committees' composition and election of their chairpersons.
- Analysis and endorsement of Electrica SA's budget, of the budgets of its subsidiaries and of the consolidated budget at Group level for 2017.
- Decisions regarding the mandate agreements of the General Managers of subsidiaries (termination/ prolongation/ confirmation for specific period of time).
- The termination of the mandate agreement of the executive manager of the Sales Coordination Division of Electrica SA.
- The appointment of the Chief Distribution Officer of Electrica SA.
- The approval of Electrica Dividends Policy.
- The approval of Policy on ethical career management.
- Revision and endorsement of Electrica SA's financial statements at individual and consolidated levels for the financial year of 2016.
- Revision and endorsement of financial statements of Company's subsidiaries for the financial year of 2016.
- Revision and approval of the individual and consolidated investment plan for the 2016 financial year.

Based on the main conclusions and objectives set following the evaluation process carried out in 2015, the Board of Directors has undergone several important projects during 2016 and until the date of the Report:

- ▶ Improving the corporate governance framework at Group level, having 3 main pillars:
  - The revision of the Articles of Association of Electrica and of its subsidiaries - project started in late 2015, aiming to review and align the corporate governance rules within the Group, considering more clearly the scope of activity and the responsibilities by level of management, controlled delegation of competence and the implementation of a new corporate governance at group level. The EGMS finally approved the new Electrica Articles of Association on 21 October 2016;
  - Consequently, the charters of the Board and of the committees were approached, as the most important tools to address the main areas of partial or non-compliance with the new Bucharest Stock Exchange Code provisions and the action plan related to the improvement of the Board's activity. The new charters of Electrica were discussed and finally approved during the meetings of November and December;
  - The next step is to further roll out these principles within subsidiaries and to define and apply appropriate governance policies at group level;
- ▶ Overseeing the activity at Group level:
  - Asking, receiving and analysing more information on the activity of subsidiaries;
  - Improving the communication with the executive management and creating a relevant tool for the periodic reporting of Electrica and Group activity;
  - Discussing during several meetings and analysing the materials and proposals regarding the Strategy on natural gas supply, Business Plan for gas supply and the Marketing Strategy;
- ▶ Consolidating the executive management team:
  - Following the mutual agreement on the termination of Mr. Ioan Rosca's mandate as CEO of Electrica, in March the Board nominated Ms. Iuliana Andronache as interim CEO and in October appointed Mr. Catalin Stancu as CEO of Electrica;
  - Implementing changes in the executive management team (HR manager, Sales Coordination Division manager, Chief Distribution Officer) and redefining the roles and competencies and reviewing the split of responsibilities among the executive management team members.
  - Approving a new organizational chart and introducing positions of performance managers middle level (MKP – Management Key Positions);
  - Approving the 2017 KPIs structure for Electrica SA's managers and the way of cascading from the general manager level to managers and from ELSA to its subsidiaries;
  - Approving new remuneration (structure and level) and KPIs for subsidiaries.

BOARD OF DIRECTORS EVALUATION

The Board of Directors, whose term started on December 14, 2015, has carried out an evaluation of its activity – at the end of 2015 with the support of an external advisor, a well-established international company, with comprehensive experience in corporate governance. The results of this analysis have been presented in the annual report for 2015.

An internal evaluation of the Board activities was carried out in December 2016, based on a questionnaire defined and thoroughly discussed by the Board members.

The questionnaire served to establish a self-assessment of the 2016 achievements of the Board in the following areas:

- The main objectives defined by the General Meeting of Shareholders for the Board: Group strategy, Corporate Governance, Placing of financial investments and Investment achievement in the distribution companies
- Impact of the Board on the functioning of the company
- Quality of functioning of the Board and its internal processes, including Board culture
- Individual aspects of the Board work for each Board member
- Role and functioning of the Chair.

The results of the questionnaire were discussed among the Board members in their meeting of February 10th, 2017. The main conclusions and observations were the following:

- ▶ The overall progress in the functioning of the company was not at the desired level, hampered by the fact, that the Board decided in March 2016 not to extend the mandate of the existing CEO and to start the recruitment of a new CEO with the support of an professional executive search agency. The new CEO could only be contracted in September 2016 and started his activities on October 24th, 2016. The CEO selection has been a top priority in the Board agenda 2016. The same holds for further reinforcements of the Company's top management, that remain a priority for the Board in 2017.
- ▶ The achievements on the Board's own KPIs, most notably on the investments realised and commissioned during 2016 in the distribution companies, that influence future profitability, have been below the Board's ambitions and expectations. The Board has taken organisational measures to improve this in the future and requested Management to proceed with restructuring and business process redesign, in particular (but not only) in this area.
- ▶ The process for a profitable deployment of the funds available to the company has continuous attention in the Board. During 2016 several external growth projects were thoroughly analyzed and negotiations in this respect were carried out and are still underway.
- ▶ The governance and management of the company have been reinforced by taking measures in the areas of management composition, composition of boards of subsidiaries and revised board charters. In doing so, the Board is striving for a consistent execution of company strategies and operational excellence both in parent company and subsidiaries. The board focuses on reaching a high standard of corporate governance in the company.
- ▶ The identification of risks and their mitigation has intensively been discussed in the Board at several occasions, in particular in the wider area of energy trading. Proprietary trading in Electrica has been stopped in this context. Further work is needed in the organisation to bring the company to an international standard of risk management.
- ▶ The Board has identified the need to improve the distribution of its time over formal requirements and activities coming from the organisation on the one hand and its own agenda and key priorities on the other. It has established an annual rolling agenda where strategic items will get more attention and it has reinforced the follow-up of its own action items – also in reaction to previous year's evaluation. Attention remains needed to follow this through.
- ▶ The Board's own meeting quality and culture are evaluated regularly with a feedback session planned after every meeting. All board members participate actively and the Board culture is stimulating for deviating opinions, that are taken for consideration by other members. No conflicts of interests for Board members have been observed in their Board work.
- ▶ The Chair received positive feedback and has been re-elected unanimously by the other Board members.

THE NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee consists of three non-executive Board of Directors members, the majority of them being independent members, while the chair of the committee is an independent director.

The role of the Committee is to propose candidates for the Board of Directors, to develop and propose to the Board the selection procedure of candidates for the positions of managers and other management positions, to recommend to the Board candidates for the positions listed, to formulate proposals on the remuneration of directors and other management positions.

The Committee has the following responsibilities concerning nomination matters:

- Recommending to the Board a nomination policy, including a target Board profile, process and principles for shareholders to consider when proposing candidates for director positions at the Company, and making recommendations to the Board regarding the appointment of interim directors in accordance with the policy;
- Reviewing the implementation of the nomination policy, preparing a report to the Board on its implementation, and presenting a summary of this report in the Directors' Report;
- Advising the Board on the appointment and dismissal of the General Manager, making recommendations on the appointment and dismissal of the Company's executive management team after considering the views of the General Manager, and making proposals on the appointment and dismissal of subsidiary board members in accordance with the Group Governance Policy;
- Recommending to the Board policies in the human resources field, including those covering recruitment and termination, talent management and development, and succession planning across the Company and its subsidiaries (the Group);
- Overseeing the process for the annual evaluation of the effectiveness of the Board and its consultative committees;
- Periodically assessing the size, composition and committee structure of the Board and making recommendations to the Board with regard to any changes;
- Making recommendations to the Board on continuous skill development programmes for Board members and executive management.
- Overseeing the nomination process of the general managers and executive managers in the subsidiaries according to the nomination and remuneration Policy

The Committee has the following duties in the field of remuneration:

- Making recommendations to the Board in relation to the remuneration, incentive and severance compensation policies of the Company;
- Advising the Board on the structure of the remuneration framework for Board members;
- Making recommendations to the Board in relation to the remuneration of the General Manager and other executive managers, including the main remuneration components, performance objectives and appraisal methodology;
- Making recommendations to the Board on the remuneration of subsidiary board members and the general limits of remuneration for subsidiary management;
- Monitoring compensation trends within industries relevant to the Group;
- Overseeing the remuneration process of the general managers and executive managers in the subsidiaries according to the Nomination and Remuneration Policy.

The Nomination and Remuneration Committee met 19 times during January 1st, 2016 – March 9th, 2017. During these meetings, the following topics were discussed and referred to the Board of Directors for approval:

- Recommendations on the remuneration of Board members and their framework – management agreement.
- Recommendations on the structure and remuneration of the subsidiaries Board members.
- Recommendations on the appointment of executive directors and performance criteria.
- Recommendations on the organizational structure of the Electrica SA.
- Recommendation on the appointment of the new CEO of Electrica SA.
- Recommendation on the appointment of the new CEO of Electrica Serv.
- Recommendation as regards the mandate agreements of the General Managers of subsidiaries (termination/ prolongation/ confirmation for specific period of time).
- Recommendation on the appointment of the Chief Distribution Officer of Electrica SA.
- Reviewing the BoD composition in subsidiaries for strengthening the governance across the group.
- Revision of the executive management KPIs achievement for 2015 and the new ones for 2016 – at Electrica and Group level.
- Recommendation on implementing new mandate contracts for the executive management positions in Electrica and subsidiaries, as well as for other key positions.
- Recommendation on the 2017 KPIs structure for Electrica SA's managers and the way of cascading from the general manager level to managers and from ELSA to its subsidiaries;
- Recommendation on the new remuneration (structure and level) and KPIs for subsidiaries

THE AUDIT AND RISK COMMITTEE

The Committee is made up of three members, most of them independent directors, the chairman is a non-executive independent director. This structure provided the necessary expertise in finance and risk management, according to legal requirements.

The main role of the Committee is to support the Board in fulfilling its duties of verifying the efficiency of Company's financial reporting, internal control and risk management. While fulfilling this role, the Committee advises the Board regarding the assessment of the Annual Report and Annual Financial Statements, whether the documents are accurate, balanced and comprehensive and provide all the necessary information for the shareholders' evaluation of the financial performance.

The Committee has the following duties in terms of financial reporting:

- examining the integrity of annual and interim financial statements or disclosures for Electrica and its subsidiaries (the Group) at standalone and consolidated levels;
- regularly reviewing the adequacy of the Group's accounting policies;
- reviewing and recommending the Company's financial forecast policy to the Board for approval;
- advising the Board on whether the content of the annual report, taken as a whole, represents a fair, balanced and understandable account for shareholders and provides them with the information necessary to assess the Company's performance

Regarding the auditing and internal control matters, the Committee has the following responsibilities:

- approving a Group-wide, annual risk-based audit plan as well as any material changes to the plan, and receiving regular reports on activities, key findings, and follow up regarding internal audit reports;
- advising the Board on the appointment, removal and remuneration of the Head of Internal Audit;
- monitoring the adequacy, effectiveness and independence of the internal audit function;
- making recommendations to the Board on the appointment, rotation or dismissal of the Company's external auditor;
- reviewing the plan, work and findings of the external auditor;
- assessing the independence and objectivity of the external auditor and monitoring compliance with relevant ethical and professional guidance, including the requirements on the rotation of audit partners
- regularly reviewing the adequacy and implementation of key internal control policies, including policies for detecting fraud and the prevention of bribery;
- reviewing related party transactions in line with a policy developed by the Committee and approved by the Board;
- reviewing annually a report by the Head of Internal Audit assessing the effectiveness of the system of internal control across the Group

The Committee has the following responsibilities concerning risk management matters:

- reviewing regularly the main risks facing the Company and Group, recommending to the Board relevant policies for their identification, mapping, management and mitigation of risk;
- reviewing annually a report from management assessing the effectiveness of the system of risk management across the Group;
- advising the Board on equity and debt financing, including proposals for contracting any type of loans and securities associated with these loans;
- advising the Board on its recommendations regarding major economic transactions within the authority of the General Meeting of Shareholders, assessing any associated risks regarding such transactions.

The Audit and Risk Committee met 12 times during January 1st, 2016 – March 9th, 2017. During these meetings, the following were discussed and referred to the Board of Directors for debate and, when applicable, approval/endorsement:

- The Audit Committee Charter.
- The audit plan for 2016.
- The internal audit policies and procedures manual.
- The internal audit charter.
- The internal Auditor's Ethical Code.
- The financial statements of Electrica S.A. at standalone and consolidated levels for the

financial year of 2015 and 2016, as well as financial statements of Company's subsidiaries for the financial year of 2015 and 2016.

- The income and expenses of Electrica S.A. at standalone and consolidated levels for the financial years of 2016 and the revenue and expenditure budgets of Company's subsidiaries for the financial years of 2016.
- Various reports submitted by the internal auditor on missions carried out within Electrica SA and its subsidiaries.
- Annual report on the internal audit activity for 2016.
- Annual report on integrity warnings for 2016.
- 2016 Individual preliminary unaudited results of Electrica SA.
- Annual report on risk management activity for 2016.
- Report on the internal control effectiveness.

The internal audit activity is carried out by a separate division from a structural point of view (the Internal Audit Department), within the Company. In order to ensure the fulfilment of its main functions, it reports to the Board of Directors through the Audit and Risk Committee and administratively - to the CEO.

THE STRATEGY AND CORPORATE GOVERNANCE COMMITTEE

The Committee was made up of three non-executive directors, the chairman being a non-executive independent director.

The Committee has the following duties in terms of strategy:

- making proposals to the Board on the development of the medium-term strategic plan, making recommendations on the strategic direction, priorities and long term objectives of Electrica and its subsidiaries (the Group);
- reviewing management proposals on the Group's consolidated annual budget, subsidiary annual budgets, and CAPEX plans for the Group, and making relevant recommendations to the Board;
- supporting the Board in monitoring and assessing the Group's performance in light of the approved strategic plan, budgets, industry trends, local and regional market trends, competiveness and advances in technology;
- periodically reviewing the overall strategic planning process, including the process for developing a medium-term strategic plan;
- advising the Board on proposed acquisitions, divestments, investment projects, joint-ventures, and cooperation projects, particularly assessing their alignment with the Group's strategy;
- performing any other activities or responsibilities on strategy matters as may be delegated to the Committee, from time to time, by the Board.

Regarding the tasks of the Committee on restructuring, they mainly related to:

- reviewing and making recommendations to the Board with respect to, the development and implementation of the Group's overall restructuring plans and objectives, including any determination regarding the disposition or rationalization of core businesses;
- regularly reviewing the organisational structure and chart of the Company, and making recommendations to the Board;
- performing any other activities or responsibilities on restructuring matters as may be delegated to the Committee, from time to time, by the Board.

At the same time, the Committee has duties in terms of corporate governance:

- overseeing and monitoring the Company's compliance with legal and contractual obligations on corporate governance, as well as other applicable corporate governance principles, and making recommendations to the Board ;
- regularly reviewing the Company's Corporate Governance Code, Board Charter and the Company's Articles of Association, and making recommendations to the Board on relevant amendments to the Company's corporate governance policy and documentation;
- recommending the Group Governance Policy to the Board for approval and regularly reviewing it thereafter;
- reviewing the chart of authorities for the Company in order to ensure that the delegation of authorities to management allows for effective and efficient decision-making process, and making recommendations to the Board;
- reviewing the Company's policy for corporate social responsibility and stakeholder engagement, and making recommendations to the Board;
- making recommendations to the Board on improving the quality of information flows to the Board including the adequacy of reports to the Board, key performance indicators presented to the Board, and guidelines for Board papers and presentations;
- preparing other reports or materials on corporate governance as may be requested by the Board.

On June 30th, 2016, the Committee changed his name from The Strategy, Restructuring and Corporate Governance Committee to the Strategy and Corporate Governance Committee). During January 1st, 2016 – March 9th, 2017, the Committee met 15 times and discussed and referred to the Board of Directors for approval/ endorsement:

- Revision of the Articles of Association of Electrica and of its subsidiaries, as well as of Electrica's Board and its committees' charters – this project required several iterations (overall 9 meetings of the Committee);
- Electrica Furnizare Strategy on the natural gas supply activity and the completion of the Electrica Furnizare object of activity; Electrica Furnizare Business Plan for gas supply.
- CSR Policies.
- ELSA Foundation.
- The rebranding of the subsidiaries.
- Risk Policy and Acquisition and Sales Strategy for gas and energy at Group level.
- Process for the improvement of the Board (BoD) functioning.
- The income and expenses of Electrica S.A. at standalone and consolidated levels for 2017 financial year and the revenue and expenditure budgets of Company's subsidiaries for 2017 financial year.
- Recommendation on different investment opportunities on the market.
- Recommendation on the Market Abuse Regulation.
- Recommendation on the Delegation of Authority Policy.
- Several reviews and recommendations regarding the Capex and Commissioning plans for 2016 and 2017 – quantitative and qualitative analysis.

6.3 Boards of Directors of Electrica subsidiaries

During 2016 the Board of Directors of Electrica' subsidiaries were composed from non-executive directors. Regarding the distribution subsidiaries, they suffered composing changes in March and October, respectively structure changes in the middle of December, 2016, when the number of BoD members was diminished from five to three according with the provisions of the new Articles of Association and they have been appointed for 4 years mandate, starting with December, 13th 2016 until December 12th 2020. The Resolutions of the General Meeting of Shareholders in distribution subsidiaries which appointed the new three directors, as well as the Resolutions changing the Articles of Association were contested in court by the minority shareholder.

Structure of the Board of Directors of Electrica's Distribution and Services Subsidiaries between January 1st and December 12th 2016

Subsidiary	January 1st – March 17th 2016	March 18th – October 5th 2016	November – December 12th 20116
SDMN	Ioan Rosca-chairman Aurel Gubandru Oana Truta Costin Mihai Paun Alexandra Borislavschi	Iuliana Andronache-chairman Gabriela Marin Oana Truta Costin Mihai Paun Alexandra Borislavschi	Iuliana Andronache-chairman Dan Catalin Stancu, starting with November 3rd 2016 Oana Truta Costin Mihai Paun Alexandra Borislavschi
SDTS	Marian Geanta-chairman Simona Fatu Carmen Pirnea Mihai Lazar Alexandra Borislavschi	Iuliana Andronache-chairman Simona Fatu Gabriela Marin Mihai Lazar Alexandra Borislavschi	Iuliana Andronache-chairman Simona Fatu Dan Catalin Stancu, starting with November 10th 2016 Mihai Lazar Alexandra Borislavschi
SDTN	Ioan Dumbrava-chairman Costica Vlad Ciprian Gheorghe Diaconu Oana Truta Ioan Rosca	Iuliana Andronache-chairman Gabriela Marin Ciprian Gheorghe Diaconu Oana Truta Alexandra Borislavschi	Iuliana Andronache-chairman Dan Catalin Stancu, starting with 11th November 2016 Ciprian Gheorghe Diaconu Oana Truta Alexandra Borislavschi

Source: Electrica

Regarding the services subsidiary, the Board of Directors suffered composing changes in March and in July, respectively structure changes in the middle of December, when the number of BoD members was diminished from five to three according with the provisions of the new Articles of Association and they have been appointed for 4 years mandate, starting with December, 13th 2016 until December 12th 2020

Structure of the Board of Directors of Electrica's Services Subsidiary between January 1st and December 12th 2016

Subsidiary	January 1st – March 17th 2016	March 18th – June 30th 2016	July 1st – December 12th 2016	December 13th – 21st December 2016
ES	Marin Adrian Gheorghe chairman	Ramiro Angelescu chairman	Ramiro Angelescu chairman	Iuliana Andronache chairman
	Catalin Leonte Gabriela Sandu Gabriela Marin Razvan Badan	Catalin Leonte Mirela Dimbean Creta Marin Adrian Gheorghe Raluca Bulumacu	Catalin Leonte Mirela Dimbean Creta Marin Adrian Gheorghe Madalina Rusu	Ramiro Angelescu Vlad Gheorghe

Source: Electrica

Structure of the Board of Directors of Electrica's Distribution and Services Subsidiaries as of December 31st, 2016

SDMN	SDTN	SDTS	ES
Dan Catalin Stancu chairman	Dan Catalin Stancu chairman	Dan Catalin Stancu chairman	Iuliana Andronache chairman
Alexandra Borislavschi Oana Truta	Alexandra Borislavschi Oana Truta	Alexandra Borislavschi Simona Fatu	Vlad Gheorghe Bogdan Popa

Source: Electrica

Regarding the situation of Electrica Furnizare's Board of Directors, during 2016 the following directors were in force, the reduction from five to three members of the Board being implemented at the beginning of 2017 when the directors had been appointed for four years mandate, starting with January 12th 2017 until January 11th 2021.

Structure of the Board of Directors of Electrica' Supply Subsidiary during 2016

Subsidiary	January 1st –March 17th 2016	March 18th–June 30th 2016	July 1st – July 31st 2016	August 1st – October 24th 2016
EF	Oana Truta Ioan Rosca-chairman Marcel Ionescu Victoria Lupu Ramiro Angelescu	Ramiro Angelescu-chairman Oana Truta Alina Calugareanu Marcel Ionescu Victoria Lupu	Vlad Gheorghe-chairman Oana Truta Raluca Bulumacu Marcel Ionescu Victoria Lupu	Vlad Gheorghe-chairman Dan Gheorghe Raluca Bulumacu Marcel Ionescu Victoria Lupu

Source: Electrica

Structure of the Board of Directors of Electrica' Supply Subsidiary as of December 31st, 2016

EF	Dan Gheorghe Marcel Ionescu Vlad Gheorghe Dragos Magui-chairman Mirela Dimbean Creta

Source: Electrica

The Resolutions of the General Meeting of Shareholders in supply subsidiary which appointed the new three directors, as well as the Resolution changing the Articles of Association were contested in court by the minority shareholder.

6.4 Executive management of Electrica S.A.

In accordance with the Articles of Association of the Company (approved by GMS on 21 October 2016), the Board of Directors appoints and revokes the CEO, as well as the other executives with mandates and also approves their empowerments. The CEO carries out the activity according to the provisions of the mandate contract concluded with the Company.

On 26 February 2016, the Board of Directors and Mr. Ioan Rosca, CEO at that time, announced that they had reached a mutual agreement on terminating his mandate as CEO of Electrica S.A. no later than June 2016. On 11 March 2016, the Board of Directors revoked Mr. Rosca from the CEO position and appointed Ms. Iuliana Andronache, current CFO, as interim CEO. During the meeting held on 19 September 2016, the Board of Directors appointed Mr. Dan Catalin Stancu as CEO for a mandate of four years starting with October 24 2016.

During the meeting held on 4 October 2016, the Board of Directors revoked Ms. Gabriela Marin from the position of executive manager coordinating the Human Resources Division starting as of 5 October 2016.

At the end of 2016, the executive managers are:

- Mr. Dan Catalin Stancu – CEO with a mandate of four years starting with 24 October 2016;
- Ms. Iuliana Andronache – CFO, with a mandate of four years starting with 27 October 2015;
- Ms. Alexandra Romana Augusta Popescu Borislavschi – Executive Manager of Strategy and Corporate Governance Division, with a mandate of four years starting with 4 August 2015;
- Mr. Ramiro-Robert-Eduard Angelescu – Executive Manager of Sales Coordination Division with a mandate of four years starting with 4 August 2015.

According to the best practices applied by companies listed on international markets, regarding the implementation of a succession plan for key-positions, the Nomination and Remuneration Committee coordinates the process of selection suitable applicants for the vacant Director positions of Electrica SA. The Nomination and Remuneration Committee is supported in this approach by an international consulting firm specialized in recruiting top management, in order to complete the selection process as soon as possible.

According to information held by the Company, there is no contract, understanding or family relationship between the directors of the Company and another person who may have contributed to their appointment as directors.

According to available information the persons mentioned in sections 6.33 – 6.4 have not been involved in any litigations or administrative proceedings related to their activity within the Company in the last five years and to their capacity to fulfil their work-related.

6.5 Executive management of Electrica S.A. subsidiaries

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

Name	Position	Subsidiary
Darius Dumitru Mesca	General Manager	SDMN
Ion Dobre	General Manager	SDTS
Emil Merdan	General Manager	SDTN
Mircea Patrascoiu	General Manager	Electrica Furnizare
Eugen Davidoiu, until April 26th 2016	General Manager	Electrica Serv
Viorel Vasiu, until July 5th 2016	General Manager	Electrica Serv
Vasile Ionel Bujorel Oprean	General Manager	Electrica Serv

Source: Electrica

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

Name	Position	Division
SDMN		
Gabriela Blagoi	Manager	Finance
Constantin Coman	Manager	Distribution
Valentin Branescu	Manager	Technical 110 kV
Gabriel Gheorghe	Manager	Development
Ion Preda	Manager	Control, Regulation and Communication
SDTS		
Monica Radulescu	Manager	Finance
Radu Holom	Manager	Distribution
Ioan Toma, pana in 31.08.2016	Deputy Manager	Distribution
Nicu Constandache	Manager	Technical 110 kV
Catalin Grama	Manager	Development
Ioan Dumbrava	Deputy Manager	Development
SDTN		
Dora Fataceanu	Manager	Finance
Vasile Filip	Manager	Distribution
Constantin Buda	Manager	Technical 110 kV
Ladislau Reider	Manager	Development
Electrica Furnizare		
Cristina Pana	Manager	Finance
Mihai Beu	Manager	Commercial
Oana Pirvulete	Manager	Legal
Petre Marin	Manager	Development
Roxana Gheorghe	Manager	Commercial Operations
Electrica Serv		
Ana Iuliana Dinu	Manager	Finance
Cristian Andruhovici	Manager	Human Resources and Administration
Alexandru Ivan	Manager	Commercial
Monica Felicia Dumitrascu	Deputy Manager	Human Resources and Administration
Viorel Vasiu	Manager	Production
Gheorghe Batir	Deputy Manager	Production
Viorel Beleuzu	Manager	Legal and Assets

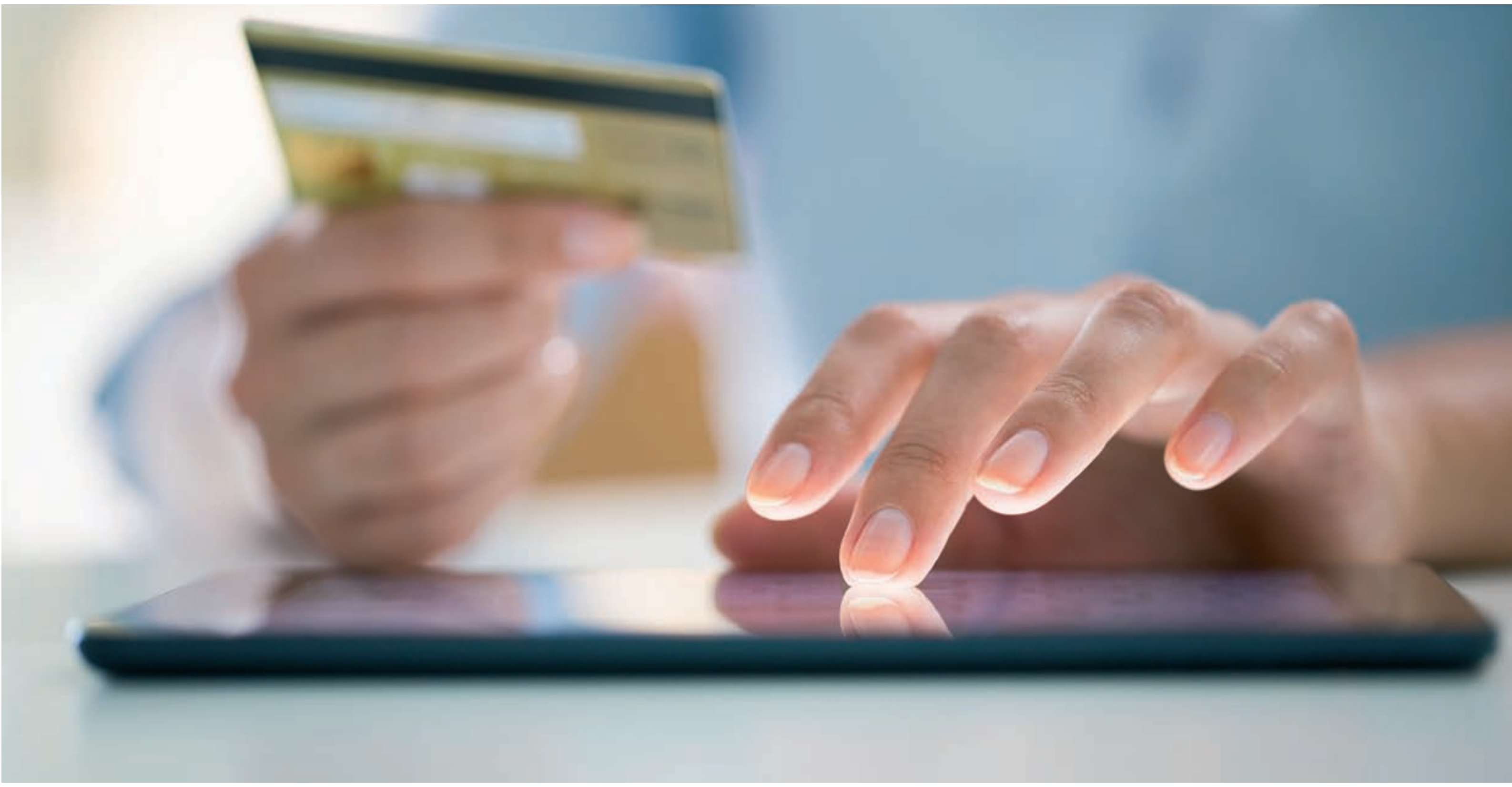
Sursa: Electrica

6.6 Number of shares owned by the managers of the Electrica Group

The table below shows the number of Electrica SA's shares held by the Group's managers as of February 15th, 2017:

Nr. Crt	Nume	Number of shares	Share in the share capital (%)
1.	Dan Catalin Stancu	-	-
2.	Ioan Rosca[4]	-	-
3.	Iuliana Andronache	-	-
4.	Alexandra Borislavschi	-	-
5.	Livioara Sujdea[5]	-	-
6.	Ramiro Robert Eduard Angelescu[6]	1,000	0.0003%
7.	Gabriela Marin[7]	-	-
8.	Oana Pirvulete	1,208	0.0003%
9.	Ion Dobre	1,660	0.0005%
10.	Emil Merdan	7,277	0.0021%
11.	Eugen Davidoiu[8]	2,478	0.0007%
12.	Radu Holom	1,000	0.0003%
13.	Dora Fataceanu	1,000	0.0003%
14.	Vasile Filip	8,745	0.0025%

Source: Electrica



[4] *CEO Electrica SA until 11 March 2016*
[5] *Chief Distribution Officer Electrica SA from 1 February 2017*
[6] *Executive Sales Manager Electrica SA until 27 January 2017*
[7] *HR Executive Manager Electrica SA until 5 October 2016*
[8] *General Manager Electrica Serv until 26 April 2016*

7 CORPORATE GOVERNANCE

7.1 General Meeting of Shareholders

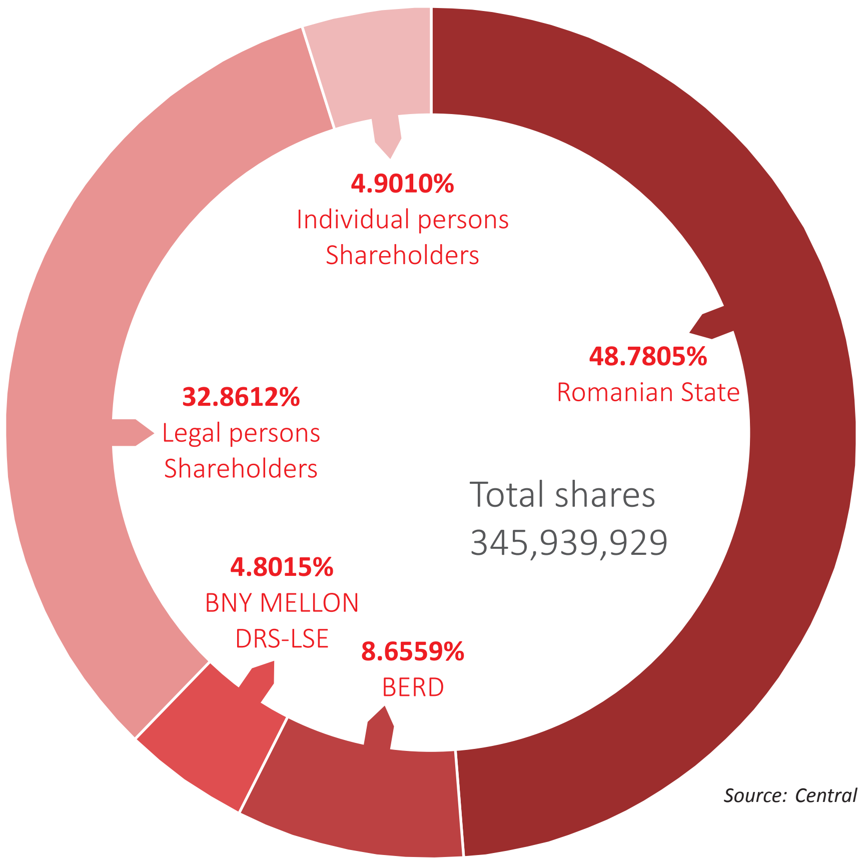
The General Meeting of Shareholders ("GMS") is the main corporate governance body of Electrica, deciding on the items as outlined in the Articles of Association. The convening, functioning, voting as well as other provisions regarding the GMS are detailed in Electrica's Articles of Association.

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 July 4th, 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 Central Depository on February 15th, 2017 and is presented in the table below:

Shareholder	Shares	Percent of share capital
Ministry of Energy, 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	16,610,424	4.8015%
Legal persons	113,679,866	32.8612%
Individual persons	16,954,364	4.9010%
TOTAL	**345,939,929**	**100%**

Source: Central Depository, Electrica

Figure 33: Shareholders' structure at February 15th, 2017



Source: Central Depository, Electrica

Following the stabilization process after the June 2014 IPO, Electrica S.A. owns 6,890,593 of its treasury shares, representing 1.99% of the total share capital. These shares entitle Electrica neither to voting rights nor to dividends.

7.2 Corporate Governance Code

Electrica S.A. adhered to the Corporate Governance Code issued by Bucharest Stock Exchange and has been willfully applying its provisions since the fiscal year 2014. Electrica had officially adopted the Corporate Governance Code ("CGC ELSA") in February 2015 and made it available on the Company's website for all interested parties' benefit.

This Corporate Governance Code 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 ELSA CGC comprises also ELSA's Articles of Association, the charters of the Board of Directors and those of its committees, and all these documents together contain the terms of reference and responsibilities of the administrative and executive management of the company.

Electrica S.A. has continuously developed and updated its corporate governance principles in order to meet the capital market requirements and to apply the best practices in corporate governance as well as to develop opportunities and increase competitiveness. Therefore, in October 2016 the company's Articles of Association was updated, following the approval of the General Meeting of Shareholders held on October 21st, 2016. Later, in January 2017, the charter of the Board of Directors and the charters of the committees had also been updated.

In September 2015 the BSE issued a new Corporate Governance Code ("the BSE Code"), which entered into force as of January 4th, 2016. The provisions of the new Code are being carefully examined and Company's compliance therewith is being thoroughly assessed. The "Comply or Explain" Statement presents the compliance level of the Company with the new provisions of BSE's CGC code. Electrica S.A. it is and has been in full compliance with most of these requirements. Regarding the aspects in which the company is not in full compliance, we mention that concrete actions will be taken in order to improve the degree of compliance in the shortest time. Further consideration will be applied with regards to these provisions and any subsequent progress made by the Company in achieving compliance will be reported to the capital market.

The CGC is also a guide for the management and the employees of Electrica S.A. 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 and Risk Committee ensures that the Company`s activity is carried on with honesty and integrity, including the approval of the whistleblower policy. The main purpose of the whistleblower policy is to protect the Company from ethical deviations, frauds and any other aspects of non-compliance that would otherwise harm Electrica's image or even involve legal sanctions, thus damaging the prestige and profitability of the Company. This procedure can be found on Electrica's website.

Whereas the shares of the Company are allowed for trading both on the regulated market administered by Bucharest Stock Exchange, and on the market managed by the London Stock Exchange (LSE), Electrica SA is subject to the imperative rules imposed by the national and European laws on market abuse regarding the arrangements applicable to inside information Therefore, the insider dealing and market manipulation guidelines are presented in Schedule 6 of the CGC.

7.3 Implementing action plans undertaken by signing the framework agreement with EBRD

The preparation of the Initial Public Offering and dual listing of Electrica involved the signing of a Framework Agreement with the European Bank for Reconstruction and Development, which provides action plans agreed with the overall objective to adopt new values, essential to ensure sustainable development.

Under this bilateral document, there are three important directions of action for the implementation of organizational change necessary in the context of the status as a listed dual company: developing a culture of integrity of the entire group, adoption of best practices in corporate governance and subsuming the development strategy of the principles of sustainability.

ACTIONS TO PREVENT FRAUD AND CORRUPTION

In order to develop a culture of integrity at Electrica group, accordingly to the standards of the bank, first action was the adoption in 2015 of a new code of ethics and professional conduct applicable to the entire Electrica Group, which integrates EBRD guidelines. After its adoption, Electrica has developed a system of ethics and compliance management, structured on two fundamental elements: dedicated organizational structures and mechanisms / tools needed in ethics and compliance management.

In the first quarter of 2016 the two basic elements of the system became operational by clearly defining the powers of departments / ethics counselors in the *Rules of organization and functioning* of each subsidiary and by adopting policies aiming for ***zero tolerance of corruption, fraud and money laundering, avoidance and combating conflicts of interest, gifts, protocol expenses and prohibition of facilitation payments, transparency and stakeholder engagement***, as required by the Code of ethics and professional conduct at art. 3.7 across all Group companies.

Based on this, Electrica defined and started the implementation program of the system of ethics and compliance management. The implementation program is structured in three dimensions:

- A dimension that aims to inform the staff, disseminating the values and principles of the Code and subsequent policies, their awareness throughout the organization;
- A dimension that aims to develop dedicated organizational structures and professional training for the dedicated staff who ranks the positions of counselor or within the departments of Ethics and Compliance;
- A dimension aimed at providing advice to the management and personnel to generate compliant behaviors and compliance monitoring.

The first dimension of the implementation program materialized in 2016 through information to all staff about the Code and policies consequential as a whole, but also specific provisions, developed at Group level and through an awareness program to middle-management on values, principles and provisions of the Code and policies by organizing dedicated workshops quarterly, at group level.

A second dimension of the program implementation during 2016 aimed both at increasing cohesion at the dedicated staff and encourage the exchange of ideas and solutions through a program of quarterly workshops and training by participating in a training program with external trainer. Also the mapping of the relevant processes for managing ethics and compliance framework and defining the operational procedure in the field.

The third dimension involved in 2016, carrying out sweeps, preparing and providing the information necessary to the staff and management in making decisions, updating information of the management and personnel through messages dedicated accordingly with their specific activities or developments of the external environment, analysis of reported cases of violation of the Code and / or policies, risk identification and analysis, monitoring compliance with the dedicated staff of the subsidiaries.

7.4 The action plan on corporate governance

The action plan on corporate governance assumed as part of the Framework Agreement with the European Bank for Reconstruction and Development was considered running ever since IPO and listing of the company on the stock exchange. Standards and measures it envisaged have been implemented and monitored continuously.

1. SELECTING INDEPENDENT DIRECTORS

EBRD guidelines were taken in the Articles of Association of Electrica adopted on July 4th, 2014 Electrica in force until the Extraordinary General Meeting of Shareholders dated November 10th, 2015 whose decision changed the members of the Board of Directors of the company, increasing it from 5 to 7 directors, from which 4 are independent.

On December 14th, 2015 Ordinary General Meeting of Shareholders has appointed new directors of Electrica. Following the cancellation of Mr. Michael Adriaan Maria Boersma as director of the company with effect from May 1st, 2016, the Board appointed as independent non-executive temporary director Mr. Jan Willem Antoon Henri Schoeber and this is confirmed by the General Meeting of Shareholders dated October 21st, 2016.
Also, the Board of Directors decided on January 27th to reelect Mr. Cristian Rusu as president of the BoD, having a mandate of one year.

The current composition of the Board is available here http://www.electrica.ro/grupul/despre/consiliul-de-administratie/.

2. NOMINATION AND REMUNERATION POLICIES

Electrica developed the Nomination and Remuneration policies with the support of a reputable international consultant in human resources and it received a positive opinion of the BoD and was approved by decision of the General Meeting of Shareholders, on March 31st, 2016. But it is necessary to implement these policies at Group level.

3. ADVISORY COMMITTEES OF THE BOARD OF DIRECTORS

At the Electrica's Board of Directors level operates three advisory committees:

- Audit and Risk Committee (Pedro Mielgo Alvarez - President, Arielle Malard de Rothschild - member, Bogdan George Iliescu - member);
- Nomination and Remuneration Committee (Bogdan George Iliescu - President, Arielle Malard de Rothschild – Member, Corina Popescu Georgeta - Member);
- Strategy and Corporate Governance Committee (Willem Schoeber - President, Dragan Alina Ioana - Member, Cristian Busu - Member).

Rules of organization and functioning of these advisory committees have been updated with the Rules of organization and functioning of the Board, by decision of the Board on December 16th, 2016.

The Board of Directors scheduled for January 2017 establishing the composition of the three advisory committees for 2017.

4. THE FRAMEWORK FOR INTERNAL CONTROL

Internal audit procedure and its associated documents were updated in a version approved by the Board of Directors since the beginning of 2015.
In October 2016 was developed Code of Ethical Conduct of the Internal Auditor to set standards of ethics unit applicable to all auditors own or contracted, at group level, Code, adopted by the Decision of the Board of Directors on 15 November 2016: http://www.electrica.ro/grupul/audit-intern/codul-etic-al-auditorului-intern/.

The internal audit plan for 2016, prepared by specialized department was also approved, by decision of the Board of Directors and implemented as approved.

5. ARTICLES OF ASSOCIATION OF ELECTRICA

EBRD guidelines were taken in the Articles of Association of Electrica adopted on July 04th, 2014. During 2016 the company's Articles of Association has been updated by decisions of the Extraordinary General Meeting of Shareholders dated April 27th, and October 21st, focusing mainly on changes alignment with ANRE regulations. All variants of the Articles of Association adopted at the time of listing Electrica are available on its website: http://www.electrica.ro/grupul/despre/act-constitutiv/.

6. CLEAR LINES OF RESPONSIBILITY AND COMPETENCE

In order to establish tasks and powers, as well as clearly defining the reporting system in the company, Electrica has developed projects to map processes, benefiting from external advice in this regard. The first of these projects was completed by defining the procedures applied in the company audited for certification according to ISO 9001/2015 and ISO 14001/2015 standards. Following the external audit conducted by Dekra Romania, Electrica has certified its integrated management system quality - environment - HSS.

A new organizational structure and delegation of authority regarding policy were approved by the Board of Directors for Electrica in the meeting on December 2016, implementation being accomplished in early 2017. By the end of 2017 the project will be expanded at the level of the Group by aligning organizational structures of all subsidiaries to the extent that specific activity subject allows.

7. CODE OF CONDUCT

EBRD requirements are partly covered by the Code of Ethics and Professional Conduct and the other part by the Code of Corporate Governance. Code of Ethics and Professional Conduct has been developed with the support of Transparency International, and the Code of Corporate Governance and Policy of the integrity warnings included in cooperation with external legal consultant of the company. The two codes have been aligned during January 2015 approved on February 2nd, 2015 and published on the website Electrica http://www.electrica.ro/grupul/etica-sustenabilitate-si-conformitate/valori-si-principii/.
During 2016 there were steps for implementing the provisions of both codes, along with monitoring and ensuring compliance functions in relation to them

8. COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE OF BSE

On January 4th, 2016 came into force the new Code of Corporate Governance of the Bucharest Stock Exchange, while Electrica published on this occasion the statement "Apply or Explain" according to the new provisions, on January 8th, 2016. In the latest statement "Apply or Explain" which appears in the Annex and presented the Company's compliance with the new provisions of the Code of Corporate Governance of the Bucharest Stock Exchange. On areas where the company is not fully compliant, clear actions are taken into account so that the degree of compliance to be improved in the shortest time.

Given the changing BSE Code of Corporate Governance, Electrica has made the changes necessary in their Corporate Governance Code, in cooperation with its external legal consultant, the update is available on the company website: http://www.electrica.ro/investitori/guvernanta-corporativa/codul-de-guvernanta-corporativa/. Last updated Code of Corporate Governance was published on the website on January 19th 2017. Regarding the Company's subsidiaries, it was done revising and updating the Articles of Association and governance principles for the whole Group. The new Articles of Association were approved by the Extraordinary General Meeting of each Electrica subsidiary, during December 2016, being aligned with the principles from the Article of Association of Electrica S.A., which was aproved by GSM on October 21st, 2016.

In the period June to September 2016, Electrica developed the Market Abuse Regulation, in compliance with national and European provisions in this field. It was adopted in September 2016 and is being implemented across the whole Group.

7.5 The environmental and social responsibility plan

Implementation of the Social and Environmental Action Plan, Annex of the Framework Agreement signed by Electrica S.A. with the European Bank for Reconstruction and Development started at the end of 2014, continuing in 2015 and 2016 and covering the following actions to complain the requirements of the bank.

In the period May - August 2016 at the company level was carried out a comprehensive project for identification and mapping of processes at Electrica, which benefit from external advice in this regard. It was completed by redefining the procedural framework applicable to the company and certification of integrated management system quality - environment - HSS, in accordance with the ISO 9001:2015 and ISO 14001:2015, OHSAS 18001:2007 following the external audit conducted by Dekra Romania.

In November 2016 Electrica started a program to streamline the promotion and monitoring of investment projects at group level and it will be fully implemented in the first quarter of 2017. The program seeks to establish a group-wide integrated procedural framework Electrica to conduct investment activity. This will include the settings of operational procedures and provisions in force concerning environmental impact assessment of investment projects of the Group and stakeholder consultation on projects with significant impact and targeting contractors on the requirements of environmental issues.

At the same time, in 2016 Electrica has followed the necessary steps to change the statutory documents of its subsidiaries, providing the necessary conditions for the integration of quality - environment - HSS management systems at the group level, the new Articles of Association being approved by the Extraordinary General Meeting of subsidiaries during December 2016. Implementation of the international standard energy management ISO 50001:2011 was scheduled after the completion of the process of redefining the structure of the Electrica group.

Management of complaints are made at group level based on conventional procedures in force at the level of each company, involving departments Communication and Public Relations for collection and for verification and analysis, the departments of audit and control, as well as experts from other departments, if the situation requires. Since April 2015 Electrica is functional at group level the reporting system of ethical misconduct, irregularities or any violations of the law by professional alert devices (whistleblowing). It includes hotline, postal address (physical and electronic) and an online platform for taking whistle blows, accessible on the websites of all companies in the group. Receiving and anonymization services of whistleblows alerts are outsourced and the provider for these for 2016 is Transparency International Romania.

Regarding Corporate Social Responsibility Program of Electrica, during 2016 Electrica approved and implemented both stakeholder engagement policy, available here http://www.electrica.ro/wp-content/uploads/2016/01/Politica-privind-implicarea-partilor-interesate.pdf, also involvement and social responsibility strategy including community actions involving their staff, providing sponsorships and donations to non-profit organizations and social causes, along with initiating a grant program called "Electrica put Romania in a different light" aimed at funding projects with long-term impact on the communities in which the company develops. In general, the strategy was addressed by the company to identify and support causes, actions or relevant projects, sustainable, positive long-term impact, all presented here: http://www.electrica.ro/wp-content/uploads/2017/01/brosura-net.pdf.

At the same time, Electrica managed to make important strides in developing an organizational culture oriented towards business ethics and compliance.

Identify and assess environmental and social risks by an independent consultant was not done in isolation, but as a part of the project to improve and develop the system of risk management to be implemented in Electrica group during 2017. The documentation for this project was completed in the first quarter of 2016 but regarding subsequent organizational changes require revision of this one.
Regarding the development of corporate policies on actions of reorganization / restructuring undertaken at Group level, the Collective Labour Agreement signed with the social partners and applicable during 2016 provides clear principles in this regard and establishes measures to reduce the social impact of these actions, in accordance with labor legislation. In parallel, the companies of Electrica group developed, approved and implemented Annual Training Programs. These programs target both professional development and retraining and are used to avoid, where possible, staff reductions.

Even if all group companies have implemented procedures for waste management, Electrica developed at the end of 2015 a procedural framework for the implementation of a unified system at Group level, the implementation of which shall be made after completion of the process of redefining the structure of the group Electrica. Waste management in 2016 was conducted independently by each company in the group, through the selective collection of waste generated to recovery or disposal, according to legal requirements and compiling all reports required by the environmental authorities.

For 2016, spills of insulating oil from transformers from the stations of distribution subsidiaries within the group Electrica were monitored and recorded in the registers of faults. For a number of locations (repair shops, warehouses) of Electrica Serv agencies were conducted soil analysis and water, as is required by environmental permits. Practically all incidents were treated by operative intervention measures, having a significant environmental impact and did not require decontamination of soil and groundwater.

Electrica group companies have developed a program to eliminate asbestos in facilities owned, pursuing the goal in all investment projects initiated.

Reducing noise pollution in residential areas and associated health risks is achieved by the inclusion of specific provisions in contracts for works and services, where applicable. To provide but a unified approach at group level, Electrica initiated the development of a framework procedure applicable across all its subsidiaries on environmental requirements and health and safety to be respected by the providers of works, also including noise pollution issues.

Electrica has conducted studies on the influence of electromagnetic fields of its installations and has measurements in this regard, all falling within the accepted standards, according to legal provisions in force. For all the modernization work and future investments are intended measurements of electromagnetic fields during commissioning of facilities and the provision of relevant data as required by law, measurements made by the contractors.

In 2016, Electrica was involved in numerous social responsibility activities and in financing projects with positive impact on the community. The documents necessary for the proper development of the CSR activity were completed and implemented, including the "Policy on Sponsorships and Donations" and the "Policy on Grant awarding". Moreover, Electrica adhered to the 10 principles of the Global Compact of the United Nations and to the local program, through Global Compact Network Romania, the largest corporate sustainability initiative in the world.

The company became a partner of famous NGOs, which managed to develop sustainable projects, with visible results. Within the social responsibility initiatives of the company, over 200 employees were involved in various volunteering activities.

- Health projects:
- Save The Children Romania - Counseling services and educational support for 100 children with mental health disorders integrated in school;
- Help Autism (the program "Parent for Parent") - Support for families of 50 children diagnosed with autism spectrum disorder, who cannot afford to pay the therapy needed for their recovery;
- HOSPICE Casa Sperantei (Hospices of Hope) - Electrica supported and participated along with its employees to a charity marathon. The amount raised covered the costs of operation for 52 days of the dedicated palliative care unit for stationary patients cared for by the NGO;
- HOSPICE Casa Sperantei (Hospices of Hope) - Supporting one of the mobile team of the organization. The donation covered 100 home visits, 78 days of hospitalization in units with beds and 200 participations in day care centers.
- Environmental projects:
- Let`s Do It, Romania! ("National Cleaning Day") - Support with both financial resources and involvement of employees in the cleaning action organized on 24 September, one of the biggest social movement in Romania (over 1.1 million volunteers in six years of activity).
- Social/education projects:
- Save The Children Romania (the program "School after school") - Provision of complementary services, both educational and social, to children and families who come from disadvantaged communities;
- Let`s Do It, Romania! („Let`s Do It, Corporate!") – With help from Electrica volunteers, a contribution was brought to the renovation, rehabilitation and rearrangement of the Placement Centre in Plopeni, which hosts 60 children and young people with special educational requirements;
- SERA Romania – To celebrate 20 years of activity, the foundation organized a charity concert at the Romanian Athenaeum, where Electrica was the main partner. The funds collected were directed to activities and programs aiming child protection.

Also, in 2016, the company launched the first edition of the grant program "Electrica puts Romania in a different light", during which it offered financing in the following areas: education, social and health services, environment, and culture. Over 180 projects entered the competition, six of which were selected for a total funding of EUR 50,000.

All the projects mentioned were included in the first CSR brochure of the company: "The story of light - A vision on Electrica's social involvement in the community".

8 FINANCIAL OVERVIEW

The financial overview of the company is based on the consolidated financial statements that have been prepared in accordance with the International Financial Reporting Standards ("IFRS") adopted by the European Union ("IFRS-EU"). These Consolidated financial statements are presented in RON, which is the functional currency of all companies within the Group.

8.1 Consolidated statement of the financial position

The following table presents the consolidated statement of the financial position:

RON mil.	December 31st, 2016	December 31st, 2015	Variation 2016/2015
ASSETS			
Non-current assets			
Intangible assets related to concession agreements	3,910	3,700	5.7%
Other intangible assets	17	14	20.4%
Tangible assets	702	779	-9.9%
Restricted cash	134	-	-
Deferred tax assets	40	51	-21.6%
Other non-current assets	2	4	-54.2%
Total non-current assets	**4,805**	**4,548**	**5.7%**
Current assets			
Trade receivables	778	838	-7.1%
Other receivables	20	37	-45.6%
Cash and cash equivalents	889	893	-0.5%
Deposits, treasury bills and gov. bonds	1,875	1,988	-5.7%
Inventories	23	23	-2.2%
Prepayments	6	9	-40.4%
Green Certificates	0	31	-
Income tax receivables	2	23	-89.7%
Total current assets	3,593	3,843	-6.5%
Total assets	8,398	8,148	0.1%
Total active circulante	**3.593**	**3.843**	**-6,5%**
Total active	**8.398**	**8.391**	**0,1%**
EQUITY AND LIABILITIES			
Equity			
Share capital	3,814	3,814	0.0%
Share premium	103	103	0.0%
Treasury share reserves	(75)	(75)	0.0%
Pre-paid capital contributions in kind from shareholders	5	3	79.7%
Revaluation reserve	105	140	-25.4%
Other reserves	302	274	10.3%
Retained earnings	1,430	1,355	5.6%
Total equity attributable to shareholders of the Company	**5,684**	**5,614**	**1.3%**
Non-controlling interests	837	829	0.9%
Total equity	**6,520**	**6,443**	**1.2%**

RON mil.	December 31st, 2016	December 31st, 2015	Variation 2016/2015
Liabilities			
Non-current liabilities			
Long-term bank borrowings	128	-	-
Financing for network construction related to concession agreements	42	122	-65.9%
Deferred tax liabilities	196	181	8.0%
Employee benefits	193	194	-0.5%
Other payables	45	43	4.3%
Total non-current liabilities	**603**	**540**	**11.6%**
Current liabilities			
Financing for network construction related to concession agreements	86	100	-14.1%
Short-term bank borrowings	-	60	-
Bank overdrafts	143	66	116.2%
Trade payables	723	656	10.1%
Other payables	161	249	-35.5%
Deferred revenue	4	4	4.3%
Employee benefits	84	135	-37.6%
Provisions	62	128	-51.1%
Current income tax liability	12	11	11.5%
Total current liabilities	**1,275**	**1,408**	**-9.5%**
Total liabilities	**1,878**	**1,949**	**-3.6%**
Total equity and liabilities	**8,398**	**8,391**	**0.1%**

Source: Electrica

NON-CURRENT ASSETS

The application model of IFRIC 12, being to a large extent correlated to the recognition and depreciation of the asset components of RAB, reflects the principle of generating revenues.
Non-current assets increased by 5.7% in 2016 compared to 2015, from RON 4,548 mil. to RON 4,805 mil., primarily as a result of an increase in the assets related to concession agreements (investments made in the network, for the most important ones please refer to Appendix 2).

CURRENT ASSETS

Current assets decreased by 6.5% in 2016 as compared to 2015, from RON 3,843 mil. to RON 3,593 mil., mainly driven by the decrease in the value of deposits, treasury bills and government bonds, as well as by decrease of receivables and green certificates.

TRADE RECEIVABLES

Trade receivables decreased by RON 60 mil, representing 7.1%, from RON 838 mil. in 2015 to RON 778 mil. in 2016. This variation was mainly caused by the decrease in amounts receivable by Electrica Furnizare in line with revenue reduction.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents decreased by 0,5% in 2016 compared to 2015, from RON 893 mil.to RON 889 mil.

DEPOSITS, TREASURY BILLS AND GOVERNMENT BONDS

Deposits, treasury bills and government bonds decreased by RON 113 mil. compared to 2015, as a result of setting a collateral deposit to guarantee loans contracted by distribution subsidiaries.

SHARE CAPITAL AND SHARE PREMIUM

The subscribed share capital in nominal terms consists of 345,939,929 ordinary shares on December 31st, 2016 (345,939,929 ordinary shares on December 31st, 2015) with a face value of RON 10 per share. All shares rank equally with regard to the Company's residual assets. Holders of ordinary shares are entitled to dividends and have the right to one vote per share in the general meetings of shareholders of the Company, except for 6,890,593 shares repurchased by the Company in July 2014 for stabilization.

	Number of ordinary shares	
	2016	2015
Number of shares at 1 January	345,939,929	345,939,929
Shares issued during the year	-	-
Number of shares at December 31st	**345,939,929**	**345,939,929**

Source: Electrica

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

In 2014 there were several changes to the share capital: a share capital increase of 188,264 ordinary shares in February and an increase of 3,846,797 ordinary shares in May, the shares being issued in respect of land contributed by the shareholder in the previous periods; the partial division of Electrica S.A. by separation of a part of the patrimony (investments held by Electrica S.A. in other entities) and its transfer to the newly established company - Societatea de Administrare a Participatiilor in Energie S.A.) which lead to a share capital decrease of 43,123,780 ordinary shares; the share capital increase on July 2nd, 2014 of 177,188,744 ordinary shares, as a result of organizing an IPO, which referred to an offering of 142,007,744 shares and 8,795,250 GDRs, each GDR representing the equivalent of four shares. The underwritings amounted to RON 1,556,095 thousand and USD 120,143,115. Consequently, the Group recognized an increase of share capital amounting to 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.
In 2016 there were no changes to the share capital.
Until December 31st, 2003, the statutory share capital in nominal terms was restated according to IAS 29 "Financial Reporting in Hyperinflationary Economies", with the corresponding adjustments being reflected in the retained earnings.

TREASURY SHARES

In July 2014 the Company bought-back 5,206,593 shares and 421,000 GDRs, representing the equivalent of 1,684,000 shares. The total amount paid for these shares and GDRs was RON 75,372 thousand.

DIVIDENDS

Dividends for 2015, worth RON 292 mil., were declared on the basis of individual annual statutory financial statements prepared in accordance with the Romanian accounting regulations. Dividends for 2015 were approved by the Ordinary General Meeting of Shareholders of April 27th, 2015 and were paid first on July 18th, 2016.

REVALUATION RESERVES

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

RON mil.	2016	2015
Balance at 1 January	**140**	**156**
Revaluation of tangible assets attributable to shareholders of the Company	-	-
Release of revaluation reserve to retained earnings due to depreciation and disposals of tangible assets	(29)	(14)
Spin-off effect	-	-
Loss of control over subsidiaries	(6)	(2)
Balance at December 31st	**105**	**140**

Source: Electrica

OTHER RESERVES

Other reserves include:
- Legal reserves – established as 5% of the profit before tax according to the individual statutory financial statements of companies within the Group, until the total legal reserves reach 20% of the paid-up nominal share capital of each company, according to legal provisions. These reserves are deductible for income tax purposes and are not distributable.
- Other reserves established in compliance with the legislation in force.

RON mil.	Legal reserves	Other reserves	Total other reserves
Balance on 1 January 2014	**246**	**369**	**615**
Set-up of legal reserves	30	-	30
Effect of division	(39)	(369)	(408)
Balance on December 31st, 2014	**237**	**-**	**237**
Set-up of legal reserves	37	-	37
Balance on December 31st, 2015	**274**	**-**	**274**
Set-up of legal reserves	28	-	28
Balance on December 31st, 2016	**302**	**-**	**302**

Source: Electrica

NON-CONTROLLING INTERESTS ("NCI")

The following tables summarise the information related to each of the Group's subsidiaries that has material non-controlling interest, before any intra-group elimination.

December 31st, 2015 (RON mil.)	EDMN	EDTN	EDTS	EF	Intra-group adjustments	Total
NCI percentage	**22%**	**22%**	**22%**	**22%**		
Non-current assets	1,354	1,333	1,224	131	-	-
Current assets	279	154	195	1,066	-	-
Non-current liabilities	(139)	(176)	(123)	(71)	-	-
Current liabilities	(174)	(270)	(268)	(720)	-	-
Net assets	**1,319**	**1,041**	**1,028**	**406**	**-**	**-**
Carrying amount of NCI	**290**	**229**	**226**	**89**	**2**	**837**
Revenues	801	857	790	4,141	-	-
Profit	107	116	115	173	-	-
Other comprehensive income	1	1	3	(1)	-	-
Total comprehensive income	**109**	**117**	**117**	**172**	**-**	**-**
Profit allocated to NCI	24	25	25	38	-	112
Other comprehensive income allocated to NCI	0.3	0.3	0.6	(0.1)	-	1
Cash flows from operating activities	214	219	238	258	-	-
Cash flows from investment activities	(56)	(213)	(150)	(20)	-	-
Cash flows from financing activities*	(154)	(95)	(135)	(111)	-	-
Net increase/(decrease) in cash and cash equivalents**	**4**	**(89)**	**(47)**	**127**	**-**	**-**
Dividends paid to NCI during the year	**27**	**28**	**26**	**25**	**-**	**106**

**Cash flows from financing activities include dividends paid to NCI.*
***The amounts presented represent the cash flows of subsidiaries*
Source: Electrica S.A.

NON-CURRENT LIABILITIES

Non-current liabilities increased by 11.6% in 2016 compared to 2015, from RON 540 mil. to RON 603 mil, as a result of contracted bank loans by the distribution subsidiaries.

CURRENT LIABILITIES

Current liabilities decreased by 9.5% in 2016 compared to 2015, to RON 1,275 mil from RON 1,408 mil., as a result of changes in the following categories (representing 81% of total current liabilities):

Trade payables

Trade payables increased by 10.1% in 2016 compared to 2015, to RON 723 mil. from RON 656 mil. The main categories included in trade payables are: payables to electricity suppliers, fixed assets suppliers and other suppliers (suppliers of services, materials and consumables etc.).

Provisions

RON mil.	Provisions
Balance on 1 January 2015	**128**
Provisions recognized	44
Provisions used	(70)
Provisions reversed	(39)
Balance on December 31st, 2015	**62**

Source: Electrica

As of December 31st, 2016, provisions refer mainly to:
- RON 35.5 mil. for group potential fiscal obligations (including interest and penalties);
- RON 12.7 mil. for restructuring provision recorded by Electrica Serv;
- RON 3 mil. for customer claim which requests the reimbursement of connection fee

Short-term employee benefits

Short-term employee benefits have decreased by 37.6% in 2016 as compared to 2015.

RON mil.	December 31st, 2016	December 31st,2015
Personnel payables	37	32
Current portion of defined benefit liability and other long-term employee benefits	10	12
Social security charges	28	52
Tax on salaries	9	15
Termination benefits	0	22
Total	**84**	**135**

Source: Electrica

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

At December 31st, 2015, termination benefits in amount of 22.5 mil. RON refers to benefits for voluntary leaves of employees related to 2015, while in 2016 short-term employee benefits in amount of RON 53 mil. where deconsolidated, as a result of deconsolidation of Servicii Energetice Moldova.

Other current liabilities

Other payables decreased by 35.5% in 2016 compared to 2015.

RON mil.	December 31st, 2016	December 31st, 2015
VAT payable	85	119
Other liabilities to the State	30	91
Liabilities related to radio and TV tax	10	13
Other liabilities	22	25
Liabilities related to Green Certificates	14	-
Total	**161**	**249**

Source: Electrica

The decreased debt towards state budget is mainly a result of deconsolidation of Servicii Energetice Moldova. In accordance with Law 533/2003, which amended Law no. 41/1994 on the organization and functioning of the Romanian Radio Broadcasting Company and of the Romanian Television Company, radio and TV taxes are collected by Electrica Furnizare on behalf of these companies. The payable of the Group to the above mentioned institutions is represented by the radio and TV tax collected and not paid by year end.

Other liabilities refer mainly to guarantees, various creditors, connection fee, habitat fee and contribution for cogeneration. Other non-current liabilities refer to guarantees from customers related to electricity supply.

8.2 Consolidated statement of profit and loss

The following table presents the Consolidated Income Statement of Electrica Group, for years 2016 and 2015.

RON mil.	2016	2015	Variation 2016/2015
Revenues	5,518	5,503	0.3%
Other operating income	243	211	15.3%
Electricity purchased	(2,756)	(2,719)	1.4%
Green Certificates	(401)	(347)	15.8%
Construction costs related to concession agreements	(528)	(490)	7.8%
Employee benefits	(654)	(663)	-1.3%
Repair, maintenance and equipment	(44)	(59)	-25.3%
Depreciation and amortisation	(373)	(351)	6.4%
Impairment of property, plant and equipment, net	(1)	(2)	-70.7%
Impairment of trade and other receivables, net	(41)	(4)	823.0%
Other operating expenses	(442)	(455)	-2.9%
Change in provisions, net	65	(55)	-218.6%
Operating profit	**586**	**569**	**3.0%**
Financial income	20	38	-47.1%
Financial costs	(17)	(17)	-2.9%
Net finance (income)/cost	**3**	**20**	**-84.5%**
Profit before tax	**589**	**589**	**-0.0%**
Income tax expense	(120)	(107)	12.3%
Profit for the year	**469**	**482**	**-2.8%**

Source: Electrica

THE CONSOLIDATED FINANCIAL STATEMENT

Electrica's revenues in 2016 and 2015 amounted to RON 5,518 mil. and RON 5,503 mil, respectively.
The increase in revenues by RON 15 mil., or 0.3%, in 2016 as compared to 2015, resulted from the deconsolidation of Servicii Energetice Moldova.

Electricity purchased

The expense for electricity purchased by the Group increased by RON 37 mil. or 1.4%, reaching RON 2,756 mil. in 2015, from RON 2,719 mil. in 2015. This is mainly a consequence of an increase in quantities supplied.
As percentage of the revenue, the cost of electricity purchased was the main cost element of the Group, accounting for 49.9% in 2016 and 49.4% in 2015.

Green certificates

Electricity suppliers have a legal obligation to purchase/supply a certain share of the electricity produced from renewable sources, through the acquisition of green certificates, based on annual targets or quotas set by law, regarding the share of gross production from renewable sources.
The cost with the acquisition of Green Certificates is a pass through cost.
As a percentage of revenues, the cost with the acquisition of Green Certificates represented, at Group level, 7.3% in 2016 compared to 6.3% in 2015.

Construction costs

In 2016, the costs related to the construction of power grids increased by RON 38 mil. or 7.8%, to RON 528 mil in 2016 from RON 490 mil. in 2015. This increase is mainly due to RAB increase in 2016, resulting from undertaken investments.

Employee benefits

Expenses for salaries and employee benefits decreased by RON 9 mil. or 1.3%, to RON 654 mil. in 2016 from RON 663 mil. in 2015. This decrease was attributable to lower benefits for employees of SDMN and SEM. As percentage in revenues, the expense for salaries and employee benefits accounted for 11.9% in 2016 compared to 12% in 2015.

Repair, maintenance and equipment

Repair, maintenance and equipment expenses decreased by RON 15 mil. or 25.3%, to RON 44 mil. in 2016 from RON 59 mil. in 2015. This was mainly attributable to a decrease in expenses with maintenance and repair of the distribution companies. Expenses with repairs, maintenance and equipment accounted for 0.8% of revenues recorded in 2016, respectively 1.1% of revenues recorded in 2015.

Other operating expenses

Other operating expenses remained decreased by RON 13 mil. or 2.9%, %, from RON 455 mil. in 2015 to RON 442 mil. in 2016, as a result of exclusion of SEMO expenses. Other operating expenses accounted for 8% of revenues in 2016, respectively 8.3% of revenues in 2015.

Change in provisions, net

This expense category recorded a favorable evolution at the Group level, with a variation of RON 120 mil in 2016 compared to 2015, from a negative position of RON 55 mil to a positive one of RON 65 mil RON, generated by the reversal of a provision from ELSA related to late payment penalties claimed by NAFA and a restructuring provision recorded by Electrica Serv, as achieving the reduction of staff.

Operating profit

As a result of the cumulative impact of the above mentioned factors, the operating profit increased by RON 17 mil, or 3%, to RON 586 mil. in 2016 from RON 569 mil. in 2015, driven by improved efficiency in the energy services segment.

Net finance income/cost

The Group recorded a positive financial result in 2016, decreasing by RON 17 mil., as compared to 2015, from RON 20 mil. in 2015 to RON 3 mil. in 2016, due to lower investments made in 2016 and due to unfavorable evolution on the local capital market.

Profit before tax

The profit before tax remained at the same level as in 2015 to RON 589 mil.

Income tax expense

The income tax increased by RON 13 mil, or 12.3%, to RON 120 mil. in 2016 from RON 107 mil. in 2015.

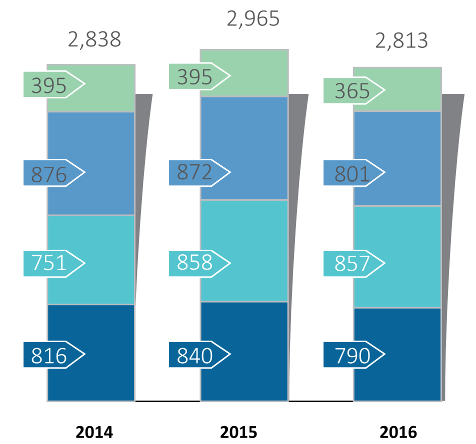
Net profit for the period

Taking into account the above mentioned, the net profit for 2016 decreased by RON 13 mil, or 2.8%, to RON 469 mil. in 2016 from RON 482 mil. in 2015.

SEGMENT REPORTING - DISTRIBUTION

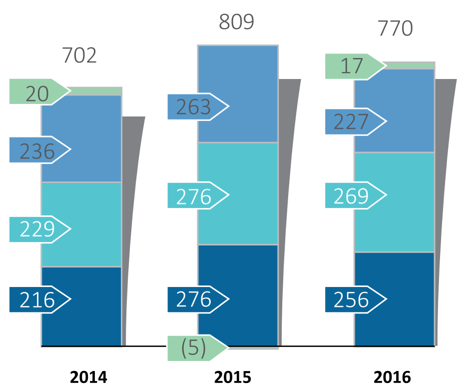
Key indicators - The distribution segment

Figure 34: Distribution segment revenues w/o conso adjustments (mil. RON)



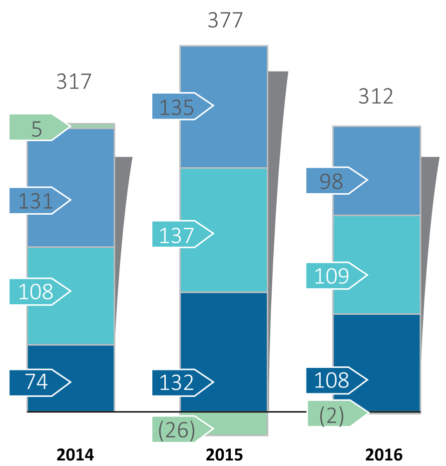
Source: Electrica

Figure 35: Distribution segment EBITDA w/o conso adjustments (mil. RON)



SDTS SDTN SDMN Electrica Serv

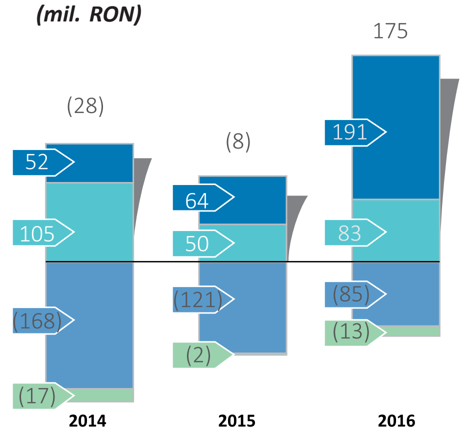
Source: Electrica



Source: Electrica

Figure 36: Distribution segment net profit (mil. RON)

Figure 37: Distribution segment net debt/ (cash) (mil. RON)



Source: Electrica

The following table presents the Income Statement of the Group's distribution segment, for the period 2014 –2015.

RON mil.	December 31st, 2016	December 31st, 2015
External revenues	1,142	1,103
Inter-segment revenue	1,356	1,509
Segment revenue	**2,498**	**2,613**
Segment profit (loss) before tax	**398**	**464**
Net finance (cost)/ income	(12)	(10)
Depreciation, amortization and impairment, net	(350)	(335)
EBITDA	**760**	**809**
Net profit / (loss) of the segment	**312**	**377**

Source: Electrica

Revenues

Revenues from the distribution segment decreased by RON 115 mil., or 4.4%, to RON 2,498 mil. in 2016, compared to RON 2,613 mil. in 2015. This was mainly attributable to a decrease in regulated distribution tariffs, in the context of 2.6% increase in distributed electricity.

Electricity purchased

The cost of electricity purchased to cover the network losses increased by RON 10 mil., or 2%, to RON 501 mil. in 2016 from RON 491 mil. in 2015. The increase was mainly caused by the upward trend in the volumes of electricity needed to cover network losses and of energy acquisition price.

Employee benefits

Employee benefits decreased by RON 4 mil, or 1%, to RON 531 mil. in 2016 from RON 535 mil. in 2015, driven mainly by the undertaken reorganization and efficiency improvement measures, with SDMN recording the most significant decrease.

Repair, maintenance and equipment

Repairs, maintenance and equipment expenses decreased by RON 44 mil., or 16%, to RON 259 mil. in 2016 from RON 303 mil. in 2015. These amounts do not include the consolidation adjustments between Electrica Serv and distribution subsidiaries. This decrease was caused especially by the diminished level of expenses with network maintenance, as a consequence of investments made by the distribution subsidiaries, and also by the capitalization, starting with 2014, of certain maintenance and repair expenses.

EBITDA

The decrease in revenues together with the increase in costs of purchased electricity to cover network losses, led to a decrease of RON 49 mil., or 6.1%, in EBITDA of the distribution segment.
The EBITDA margin decreased by 54 bps in 2016, from 30.97% in 2015 to 30.43% in 2016

Net profit of the segment

The net profit followed a similar trend with EBITDA, decreasing by RON 65 mil., or 17.4%. The net profit margin decreased to 12.48% in 2016 from 14.43% in 2015.

SEGMENT REPORTING – SUPPLY

Key indicators - the supply segment

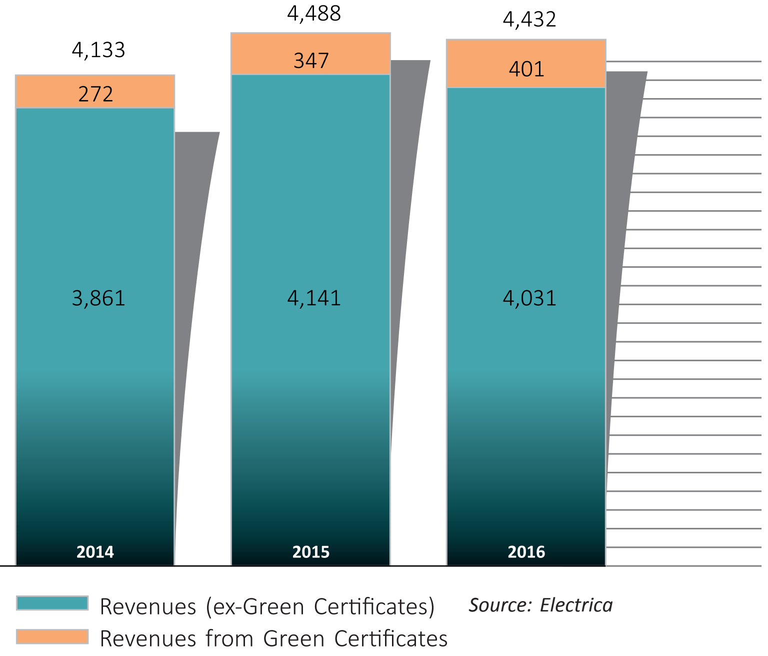


Figure 38: Revenues for the supply segment (mil. RON)

Source: Electrica

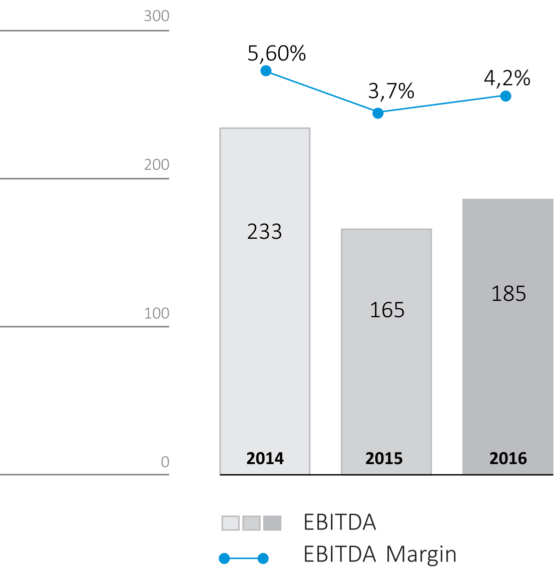


Figure 39: EBITDA for the supply segment (mil. RON)

Source: Electrica

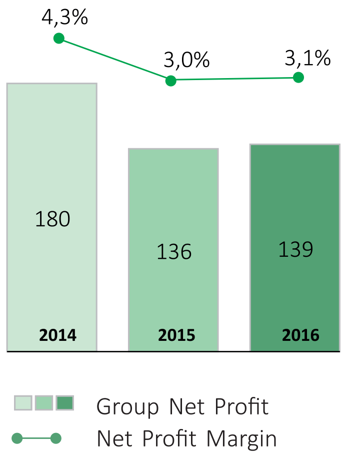
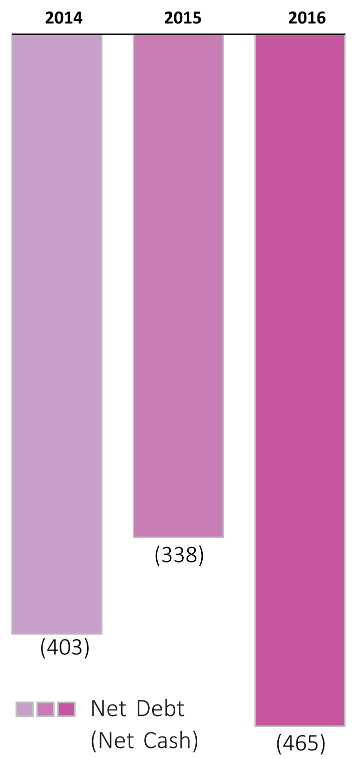


Figura 40: Net profit of the supply segment (mil. RON)

Source: Electrica

Figure 41: Net debt/ (Cash) for the supply segment (mil. RON)



Source: Electrica

The following table presents the Income Statement of the Group`s supply segment for 2015 and 2016.

RON mil.	December 31st, 2016	December 31st, 2015
External revenues	4,347	4,375
Inter-segment revenues	85	114
Segment revenue	**4,432**	**4,488**
Segment profit (loss) before tax	**174**	**160**
Net finance (cost)/income	(1)	3
Depreciation, amortization and impairment, net	(10)	(7)
EBITDA	**185**	**165**
Net Profit (loss) of the segment	**139**	**136**

Source: Electrica

Revenues

Net revenues (excluding revenues from Green Certificates) from the supply segment decreased by RON 110 mil. or 2.7%, to RON 4,031 mil. in 2016 from RON 4,141 mil. in 2015. This can be explained by the net result coming from a 4.7% decrease in supply tariff for 2016, correlated with an increase in competition on the electricity supply market, and an 5.4% increase in supplied quantities.

Electricity purchased

The expense with electricity purchased decreased by RON 148 mil., or 3.8%, to RON 3,742 mil. in 2016 from RON 3,891 mil. in 2015.
This decrease was mainly attributable by the decrease of 2.7% of average electricity acquisition price compensated by the increase with 5% in purchased quantity.

Green certificates

The 17% increase in the value of Green Certificates included in the invoice to final consumers from RON 35.90/MWh in 2015 to RON 41.90/MWh in 2016, in accordance with ANRE regulations, generated an increase in revenues from green certificates, without affecting the profitability, taking into account that Green Certificates are re-invoiced to consumers at their cost.

The cost with acquisition of Green Certificates increased by RON 54 mil., or 16%, to RON 401 mil. in 2016 from RON 347 mil. in 2015. This was mainly due to an increase in the regulated quota of Green Certificates imposed to electricity suppliers by ANRE, from 0.278 Green Certificates for 1 MWh supplied in 2015 to 0.317 Green Certificates for 1 MWh supplied in 2016.

Salaries and employee benefits

In 2016, salaries and employee benefits remained constant as compared to 2015, amounting to RON 82 mil (RON 1 mil. decrease as compared with 2015).

EBITDA

Decreased expense with energy acquisition by RON 148 mil. in 2016 as compared to 2015 resulted in an increase in EBITDA by RON 20 mil., or 12%, which, correlated with a decrease in revenues, led to an increase of 51 bps in EBITDA margin, from 3.7% in 2015 to 4.2% in 2016.

Segment net profit

The net profit increased by RON 3 mil., or 2.4%, as a result of a decrease in expenses with electricity acquisition at a higher rate than the selling price decrease.

8.3 Consolidated cash flow statement

RON mil.	2016	2015	Variation 2016/2015
Cash flows from the operating activities			
Profit	**468.9**	**482.2**	**-2.8%**
Adjustments for:			
Depreciation	40.9	44.1	-7.3%
Amortisation	332.2	306.7	8.3%
Impairment of tangible assets, net	0.7	2.4	-70.7%
Loss on disposal of tangible assets	(8.0)	4.7	-
Impairment loss on trade and other receivables, net	40.6	4.4	823.0%
Change in provisions, net	(65.2)	55.0	-
Net finance cost	(3.2)	(20.5)	-84.5%
Gain on loss of control over subsidiaries in financial distress	(73.7)	(38.5)	91.4%
Income tax expense	120.1	107.0	12.3%
Total adjustments	**853.3**	**947.4**	**-9.9%**
Changes in:			
Trade receivables	(88.3)	(126.4)	-30.1%
Other receivables	34.0	(5.9)	-
Deposits, treasury bills and government bonds	(4.9)	(2.6)	89.8%
Restricted cash	(134.5)	-	-
Prepayments	3.8	(0.8)	-
Green Certificates	31.3	22.4	39.7%
Inventories	0.5	1.0	-51.5%
Trade payables	150.7	81.8	84.2%
Other payables	(34.9)	(62.1)	-43.9%
Employee benefits	5.3	(2.3)	-
Cash generated from operating activities	**816.3**	**852.5**	**-4.2%**
Interest paid	(4.6)	(8.0)	-43.0%
Income tax paid	(93.7)	(101.3)	-7.4%
Net cash from operating activities	**718.0**	**743.2**	**-3.4%**
Cash flows from the investment activity			
Payments for purchases of tangible assets	(32.1)	(31.8)	1.2%
Payments for network construction related to concession agreements	(500.3)	(353.3)	41.6%
Payments for purchases of other intangible assets	(7.5)	(8.8)	-14.0%
Proceeds from the sale of tangible assets	27.8	14.8	88.4%
Payments for purchases of treasury bills and government bonds	(2,437.5)	(4,094.0)	-40.5%
Proceeds from maturity of treasury bills and government bonds	2,436.4	3,240.5	-24.8%
Increase in deposits with maturity of 3 months or longer	(300.9)	(350.2)	-14.1%
Proceeds from deposits with maturity of 3 months or longer	419.8	439.0	-4.4%
Interest received	18.4	41.3	-55.5%
Effect on loss on control over subsidiaries on cash	(1.6)	(2.9)	-43.8%
	-	-	
Net cash used in investing activities	**(377.6)**	**(1,105.4)**	**-65.8%**

RON mil.	2016	2015	Variation 2016/2015
Cash flows from financing activities			
Proceeds from long term bank loans	127.7	18.0	609.6%
Proceeds from short term bank loans	-	51.8	-
Repayment of long term bank loans	(9.9)	(8.1)	22.2%
Repayment of short-term bank loans	(50.0)	(1.9)	2521.9%
Dividends paid	(396.9)	(341.3)	16.3%
Repayment of financing for network construction related to concession agreements	(92.7)	(109.9)	-15.7%
Payment of finance lease liabilities	-	(0.3)	-
Net cash from/(used in) financing activities	**(421.7)**	**(391.7)**	**7.7%**
Net (decrease)/increase in cash and cash equivalents	**(81.3)**	**(753.8)**	**-89.2%**
Cash and cash equivalents at 1 January	827.5	1,581.4	-47.7%
Cash and cash equivalents at December 31st	746.2	827.5	-9.8%

Source: Electrica

Cash flow

In 2016, net cash from operating activities amounted to RON 718 mil.

The profit before tax for the period was RON 589 mil. The main adjustments were: (i) adding the depreciation and amortization amounting to RON 373 mil., a change in impairment and loss on disposal of tangible assets worth RON 7 mil., a net change in trade and other receivables of RON 40.6 million (mainly as a result of Transenergo receivables impairment in amount of MRON 32), deducting a net finance cost of RON 3.2 mil., a gain from losing control over subsidiaries of RON 73.7 mil., a change in provisions, net in amount of MRON 60 mainly due to reversal of tax provisions made in previous years (ii) a variation of trade receivables and other receivables worth RON 54.3 mil., of trade payables and other accounts payable worth RON 116 mil. and a variation regarding Green Certificates of RON 31 mil.

The income tax and interest paid totaled RON 98 mil. in 2016.

In 2015, net cash from operating activities amounted to RON 743 mil.

The profit before tax for the period was RON 589 mil. The main adjustments were: (i) adding the depreciation and amortization amounting to RON 351 mil., a change in impairment and loss on disposal of tangible assets worth RON 7 mil., a net change in trade and other receivables of RON 4.4 million (mainly as a result of a decrease in trade receivables collected in 2015 compared to 2014), deducting a net finance cost of RON 20.5 mil., a gain from losing control over subsidiaries of RON 38.5 mil., adjusting employee benefits and provisions worth RON 52.6 mil., (ii) a variation of trade receivables and other receivables worth RON 132 mil., of trade payables and other accounts payable worth RON 36 mil., of inventories worth RON 1 mil. and a variation regarding Green Certificates of RON 22.4 mil.

The income tax and interest paid totaled RON 109 mil. in 2015.

9 POST BALANCE SHEET EVENT

During the period between the 2016 financial year closing and the date of the present report, the following relevant events took place at Electrica S.A. level:

- On January 4th, 2017, the Company informed its shareholders and investors about the conclusion in the second semester of 2016 of a legal act with a value greater than EUR 50,000 with Filiala de Intretinere si Servicii Energetice „Electrica Serv" S.A., affiliate, where Electrica is the sole shareholder. The auditor report of factual findings according to art. 225 of Law no. 297/2004 regarding the transactions reported in the second semester of 2016 was published on January 31st, 2017.
- On January 27th, 2017, the Board of Directors took note of the cases disputed by Electrica S.A. in contradiction with ANRE and approved the following:
  - withdrawal of legal actions in cases on the suspension of applicability of ANRE orders by which the distribution tariffs were determined for 2015 and 2016;
  - formulating motions of judgement suspension in cases on the annulment of ANRE orders by which the distribution tariffs were determined for 2015 and 2016, until the settlement of the case on the annulment of ANRE Order no. 146/2014, by which the regulatory rate (RRR) was changed.
- On January 27th, 2017, the Board of Directors decided to reappoint Mr. Cristian Busu as BoD chair for a mandate of one year. Also, the Board of Directors decided the same composition of the BoD's committees and re-elected their chairs for one year mandate. Detailed information is provided under chapter 6.1 and 6.2 of the present report.
- Also, during the same meeting, the Board of Directors decided:
  - To revoke Mr. Ramiro Robert Eduard Angelescu from the position of Executive Manager of the Sales Coordination Division of SE Electrica S.A., starting as of January 27th, 2017.
  - To appoint Ms. Livioara Sujdea, as Executive Manager - Chief Distribution Officer, starting with February 1st, 2017.
- On January 30th, 2017, the shareholders and the investors were informed that as of January 27th, 2017, in its Balancing Responsible Party business line, Electrica S.A. had a RON 36.3 million exposure on one of its clients, Transenergo. As the client filed for its insolvency, with ELSA and another market player also filing separate insolvency requests, management expects low recoverability of the total exposure.

The Company has sent current reports to the market to inform the investors and all the other stakeholders on the events presented above.

Regarding the supply subsidiary, on January 2017 was held the Ordinary General Meeting of Shareholders which implemented the provisions of the new Articles of Association approved in December 2016 namely, the number of BoD members was diminished from five to three. The Resolutions of the General Meeting of Shareholders through which were adopted the decisions mentioned were contested in court by the minority shareholder.

APPENDIX 1 – LITIGATIONS

Electrica Group litigations in 2016 year – status as of January 31st 2017

1. LITIGATION WITH FONDUL PROPRIETATEA

Crt. no.	Parties/Case file number	Subject matter	Court	Case status
1	Plaintiff: Fondul Proprietatea Defendant: Electrica Distributie Nord Transilvania 532/1285/2014	Cancellation of the AGA decision through which the Corporate Governance Strategy was approved	Cluj Commercial Court	The court admits to a civil lawsuit. The decision is final.
2	Plaintiff: Fondul Proprietatea Defendant: SDEE Transilvania Sud S.A. 6208/62/2016	Presidential Ordinance for suspending the effects of the EGM Decision 9/2016 and OGM Decision 10/2016	Brasov Court	In course of settlement.
3	Plaintiff: Fondul Proprietatea Defendant: SDEE Transilvania Sud S.A. 6207/62/2016	Cancellation of the EGM Decision 9/2016 regarding the ammendament of the AoA and of the OGM Decision nr. 10/2016 regardind the members of the BoD.	Brasov Court	Settled on 02.02.2017
4	Plaintiff: Electrica Furnizare Intervener: Fondul Proprietatea Electrica S.A. 46356/3/2016	Claims based on EGD 116/2009 intervention claim -ORC-*TB- Regarding the non-registration to the CRO of the AGA decision	Bucharest Court	In course of settlement.
5	Plaintiff: Electrica Furnizare Intervener: Fondul Proprietatea 46358/3/2016	Claims based on EGD 116/2009 intervention claim -ORC-*TB Regarding the non-registration to the CRO of the AGA decision no. 5 on 15.12.2016	Bucharest Court	In course of settlement.
6	Plaintiff: Fondul Proprietatea Defendant: Electrica Furnizare 47011/3/2016	Action for the anullament of the EGM Decision no 5/15.12.2016 regargding the increase of the share capital and of the Decision 6/15.12.2016 regarding the ammendament of the AoA (process on merits)	Bucharest Court	In course of settlement.
7	Plaintiff: Fondul Proprietatea Defendant: Electrica Furnizare Intervener: Electrica SA 47014/3/2016	Presiding judge's order for suspension of the effects of AGEA Decision no. 5 and no. 6/2016	Bucharest Court	In course of settlement.

8	Intervener: Fondul Proprietatea Defendant: Electrica Distributie Nord Transilvania 1148/1285/2016	Rejection of the decision for AGEA registration claim no. 9/ December 13, 2016	Cluj Specialized Court	In course of settlement.
9	Intervener: Fondul Proprietatea Defendant: Electrica Distributie Nord Transilvania 1149/1285/2016	Rejection of the decision for AGOA registration claim no. 10/ December 13, 2016	Cluj Specialized Court	In course of settlement.
10	Plaintiff: Fondul Proprietatea Defendant: Electrica Distributie Nord Transilvania 1160/1285/2016	Claim for annulment of the AGEA decision no. 9/ December 13, 2016	Cluj Specialized Court	Case file in the filtering proceedings
11	Plaintiff: Fondul Proprietatea Defendant: Electrica Distributie Nord Transilvania 1159/1285/2016	Issuing presiding judge's order for suspension of the enforcement of the AGEA decision no. 9/ December 13, 2016 and of AGA Decision no. 10/ December 13, 2016.	Cluj Specialized Court	Reject the exception of the prematurity claim, exception raised by the defendant. Accepts the application for issuing of a presiding judge's order claimed by the Plaintiff FONDUL PROPRIETATEA S.A. in contradiction with the defendant ELECTRICA DISTRIBUTIE NORD TRANSILVANIA and consequently: Order the suspension of the enforcement of the Decision of the Ordinary General Meeting of the Shareholders no. 10, dated on December 13, 2016 and of the Decision of the Extraordinary General Meeting of the Shareholders no. 9, on December 13, 2016, issued by the defendant company, until the final solution of the Cluj Specialized Court on the case file no. 1160/1285/2016. Enforceable. EDTN appealed.
12	Plaintiff: Fondul Proprietatea Defendant: Electrica Distributie Muntenia Nord Intervener: Electrica SA 7622/105/2016	Rejection of the decision for AGOA registration claim on December 13, 2016	Prahova Court	In course of settlement.

2. DISPUTES WITH ANRE

Crt. no.	Parties/Case file number	Subject matter	Court	Case status
1	Plaintiff: Electrica S.A. Defendant: ANRE 192/2/2015	Cancellation of the Order of the president of the Regulation National Authority in the Energy Field (ANRE) no. 146/2014	High Court of Cassation and Justice	Appeal – under pre-filtering proceedings.
2	Plaintiff: Electrica S.A.; Enel Distributie Muntenia S.A. Defendant: ANRE 7968/2/2015	Cancellation of the Order of the ANRE president no. 165/2015	High Court of Cassation and Justice	Appeal – under pre-filtering proceedings.
3	Plaintiff: Electrica S.A Defendant: ANRE 361/2/2015	Cancellation of the Order of the ANRE president no. 155/2014	High Court of Cassation and Justice	Appeal. On the term on December 6, 2016, the court admits in principle, the Appeal, establishing the term for the lawsuit trial of the Appeal. According to the decision of the Company Management Board, on the lawsuit, the suspension of the case trial will be claimed until the settlement of the case file no. 192/2/2015.
4	Plaintiff: Electrica S.A. Defendant: ANRE 360/2/2015	Cancellation of the Order of the ANRE president no. 156/2014	High Court of Cassation and Justice	Appeal – under preliminary filtering proceedings. According to the decision of the Company Management Board, in the case lawsuit, the suspension of the case trial will be claimed until the settlement of the case file no. 192/2/2015.
5	Plaintiff: Electrica S.A. Defendant: ANRE 134/2/2016	Action for suspension of the administrative act – ANRE Order no. – 165/2015	High Court of Cassation and Justice	Appeal – under preliminary filtering proceedings. According to the decision of the Company Management Board, in the case lawsuit, the cancellation of the case trial will be claimed.
6	Plaintiff: Electrica S.A. Defendant: ANRE 340/2/2016	Action for partial annulment (regarding the special tariffs) of the administrative act – ANRE Order 171/2015	High Court of Cassation and Justice	Appeal – under preliminary filtering proceedings. According to the decision of the Company Management Board, in the case lawsuit, the suspension of the case trial will be claimed until the settlement of the case file 192/2/2015.
7	Plaintiff: Electrica S.A. Defendant: ANRE 342/2/2016	Action for partial annulment (regarding the special tariffs) of the administrative act – ANRE Order. no. 172/2015	High Court of Cassation and Justice	Appeal – under the preliminary filtering proceedings According to the decision of the Company Management Board, on the case the suspension of the case judgment will be claimed until settlement of the case file 192/2/2015.

8	Plaintiff: Electrica S.A. Defendant: ANRE 343/2/2016	Action for partial annulment (regarding the special tariffs) of the administrative act – ANRE Order. no. 171/2015	High Court of Cassation and Justice	Appeal – under the preliminary filtering proceedings According to the decision of the Company Management Board, on the case the cancelation of the case judgment will be claimed.
9	Plaintiff: Electrica S.A. Defendant: ANRE 345/2/2016	Action for partial annulment (regarding the special tariffs) of the administrative act – ANRE Order. no. 172/2015	High Court of Cassation and Justice	Appeal – under the preliminary filtering proceedings According to the decision of the Company Management Board, on the case the cancelation of the case judgment will be claimed.
10	Plaintiff: FDEE Electrica Muntenia Nord S.A. Defendant: ANRE 184/2/2015	Contentious administrative matters – Cancellation of the ANRE President Order No. 146/2014	High Court of Cassation and Justice	Suspended case file until the final settlement of the case file 7341/2/2014 by the Bucharest Court of Appeals, against the suspension of an affidavit Appeal was stated. Through the Affidavit on May 18, 2016, the communication to the parties of the report on the admissibility of the Appeal is ordered. The case file no. 7341/2/2014 is in course of settlement.
11	Plaintiff: FDEE Electrica Muntenia Nord S.A. Defendant: ANRE 164/2/2016	Cancellation of Order no. 165/2014, of the President of National Authority for Regulation in the Energy Field (ANRE)	Bucharest Court of Appeals	The case file no 1574/July 17, 2016 was interlinked to this case file. Through the Decision no. 2409/July 17, 2016 the claims were rejected as ungrounded. An appeal is going to be filed.
12	Plaintiff: FDEE Electrica Muntenia Nord S.A. Defendant: ANRE 165/2/2016	Suspension of the enforcement of the ANRE President Order no. 165/2015	High Court of Cassation and Justice	Through the Decision no. 1086/April 01, 2016, the Bucharest Court of Appeals rejected the claim on suspension of as ungrounded. Appeal was stated, which is in the regulating proceedings in the High Court of Cassation and Justice (ICCJ).
13	Plaintiff: FDEE Electrica Muntenia Nord S.A. Defendant: ANRE 41/42/2016	Cancellation of the ANRE President Order No. 172/2015	Bucharest Court of Appeals	In course of settlement.
14	Plaintiff: FDEE Electrica Muntenia Nord S.A. Defendant: ANRE 42/42/2016	Suspension of the enforcement of the ANRE President Order no. 172/2015	High Court of Cassation and Justice	Through the Decision no. 1272/2016 of the Bucharest Court of Appeals, the claim for suspension of was rejected, as ungrounded. Appeal was stated - regulating proceedings.
15	Plaintiff: Electrica Distribuţie Transilvania Nord (EDTN) Defendant: ANRE 213/2/2015	Cancellation of Order no. of the President of National Authority for Regulation in the Energy Field (ANRE) 146/2014	High Court of Cassation and Justice	Appeal – under the preliminary filtering proceedings
16	Plaintiff: Electrica Distribuţie Transilvania Nord (EDTN) Defendant: ANRE 353/2/2015	Cancellation of the ANRE President Order No. 155/2014	High Court of Cassation and Justice	Appeal – under the preliminary filtering proceedings
17	Plaintiff: FDEE Electrica Distribuţie Transilvania Nord Defendant: ANRE 18/33/2016	Action for annulment of administrative act – ANRE Order no. 165/2015	High Court of Cassation and Justice	Appeal – under the preliminary filtering proceedings
18	Plaintiff: FDEE Electrica Distribuţie Transilvania Nord Defendant: ANRE 17/33/2016	Action for suspension of the administrative act– ANRE Order no. 165/2015	High Court of Cassation and Justice	Appeal in course of settlement.
19	Plaintiff: SDEE Electrica Distribuţie Transilvania Sud S.A. Defendant: ANRE 87/64/2016	Contentious administrative matters – Claim for suspension of administrative act – The ANRE President Order no. 165/2015	Bucharest Court of Appeals	Suspended until the settlement of 18/64/2016
20	Plaintiff: SDEE Electrica Distribuţie Transilvania Sud S.A. Defendant: ANRE 18/64/2016	Cancellation of the Order no. 165/2015 of the President of National Authority for Regulation in the Energy Field (ANRE)	High Court of Cassation and Justice	Appeal – under the preliminary filtering proceedings
21	Plaintiff: SDEE Electrica Distribuţie Transilvania Sud S.A. Defendant: ANRE 88/64/2016	Cancellation of the Order no. 171/2015 of the President of National Authority for Regulation in the Energy Field (ANRE)	High Court of Cassation and Justice	Appeal – under the preliminary filtering proceedings
22	Plaintiff: SDEE Electrica Distribuţie Transilvania Sud S.A. Defendant: ANRE 41/64/2016	Cancellation of the Order no. 171/2015 of the President of National Authority for Regulation in the Energy Field (ANRE)	High Court of Cassation and Justice	Appeal – under the preliminary filtering proceedings
23	Plaintiff: SDEE Electrica Distribuţie Transilvania Sud S.A. Defendant: ANRE 371/2/2015	Cancellation of the ANRE President Order no. 156/2014	High Court of Cassation and Justice	Appeal – under the preliminary filtering proceedings

24	Plaintiff: SDEE Electrica Distribuţie Transilvania Sud S.A. Defendant: ANRE 208/2/2015	Cancellation of the ANRE President Order no. 146/2014	High Court of Cassation and Justice	Appeal – under the preliminary filtering proceedings
25	Plaintiff: SDEE Electrica Distribuţie Transilvania Sud S.A. Defendant: ANRE 17/64/2016	Claim for suspension of administrative act – The ANRE President Order no. 165/2015	Bucharest Court of Appeals	Rejects the claim. Decision no. 1388/April 22, 2016, remained final.
26	Plaintiff: SDEE Electrica Distribuţie Transilvania Sud S.A. Defendant: ANRE 40/64/2016	Claim for suspension of administrative act – The ANRE President Order no. 171/2015	Bucharest Court of Appeals	Rejects the claim. Decision no. 1048/March 20, 2016, remained final.
27	Plaintiff: Electrica Furnizare S.A. Defendant: ANRE 26210/3/2013	Judicial action having as object the right recognition provided in art. 79 para. (6) in the Law no. 123/2012, the order for the defendant to change the tariff regulated by the ANRE Order no. 40/2013, the order for the defendant to pay the counter value of the prejudice that can not be covered by changing the regulated tariff mentioned above.	High Court of Cassation and Justice	Appeal – under the preliminary filtering proceedings
28	Plaintiff: Electrica Furnizare S.A. Defendant: ANRE 8201/2/2015	Judicial action having as object an order for the defendant to solve a dispute related to the procedure for changing the supplier.	High Court of Cassation and Justice	Bucharest Court of Appeals has admitted the judicial action stated by Electrica Furnizare S.A., coercing ANRE to solve the dispute. ANRE stated an appeal that is under the preliminary filtering proceedings.

3. FISCAL MATTER DISPUTES

Crt. no.		Object	Court	Case status
1	Plaintiff: Electrica S.A. Defendant: ANAF 7614/2/2013	Complaint related to the Decision no.147/May 22, 2013. Value of lei 2,387,992 (action for cancel against the Decision no. 147/May 22, 2013, issued by ANAF within the proceedings for administrative claims' settlement stated against the promissory note throughout the ancillary payment obligations for delayed payments of the current budgetary duties were established, by the decision no. 214/2012 in amount of lei 2,387,992).	High Court of Cassation and Justice	On the date of March 06, 2015, the court has admitted the claim in part and partially cancelled the Decisions no. 147/May 22, 2013 and no. 214/October 30, 2012, issued by the defendant for the amount of lei 2,383,070, representing fiscal ancillary obligations. It keeps the claimed fiscal-administrative acts for the amount of lei 4,922 lei. It coerces the Defendant to the payment of the amount of lei 30,961.35 lei, to the Plaintiff, as court charges. ANAF has stated Appeal – under the preliminary filtering proceedings
2	Plaintiff: Electrica S.A. Defendant: ANAF 5433/2/2013	Claim on the fiscal administrative act, cancelling the Decision 24/ January 31, 2013, on the ancillary payment obligations. Value of lei 9,805,319.	High Court of Cassation and Justice	On the merits, the court has admitted in part the action stated by the Plaintiff SC Electrica SA and: -cancels the decision no. 24/2013, issued by ANAF-DGSC; - cancels in part the decisions on the ancillary payment obligations no. 1270/2012 (on the amount of lei 5,705,115) and no. 1271/2012 (on the amount of lei 3,747,331), issued by ANAF, and also of ANAF notices of assessment no, 2143501.5/2012, 2143501.6/2012, 2143501.7/2012, 2143501.11/2012(on regard to the amount of lei 352,873). Rejects the action as for the rest. Coerces ANAF to pay lei 20,500 court charges to the Plaintiff. ANAF has stated Appeal – preliminary filtering proceedings.
3	Plaintiff: Electrica S.A. Defendant: ANAF 103614/299/2015	Challenge on enforcement of the enforceable title no. 28/June 23, 2015 for the amount of lei 16,915,950 stated in the Decision no. 3/2008. Enforcement files 13267221/61/90/2015/179599.	Sector 1 Court	The court on the merits rejected the claim. Electrica has stated appeal, rejected as ungrounded.
4	Plaintiff: Electrica S.A. Defendant: ANAF 6480/3/2016	Challenge on annulment against the decision no. 1029 within the file no. 55166/299/2010 on the merits of the BC, in the file no. 55166/299/2010 of BC TB S5, for the amount of lei 31,250,651 lei – accessories regarding the income tax.	Bucharest Court	The Court rejects irrevocably the appeal for annulment as ungrounded.
5	Plaintiff: Electrica S.A. Defendant: ANAF 29213/299/2016	Disputes with professionals-suspension of enforcement of the art. 484; 507; 512; 700; 718 NCPC on the enforceable title no. 28/June 255, 2015 for the amount of lei 16,915,950.	Sector 1 Court	Admits the exception of remaining without object of the claim regarding the suspension of the enforcement until the settlement of the appeal against the enforcements.
6	Plaintiff: Electrica S.A. Defendant: ANAF 51817/299/2016*	Challenge on enforcement, cancellation of the foreclosure for the amount of lei 41,209,736 – title 151/2016.	Sector 1 Court	The file is under regulation proceedings.
7	Plaintiff: FDEE North Muntenia S.A. Defendant: Ploiesti Public Service for local Finances 309/42/2015	Cancellation of administrative act – Notice of assessment no. 124814/November 28, 2014. The amount under litigation: lei 11,963,955, representing additional differences resulting from the report on the fiscal audit, out of which lei 8,528,896 additional tax on the buildings for the period of January 2009- September 2014 and lei 3,439,085 lei accessory fiscal obligations calculated until the date of November 11, 2014	High Court of Cassation and Justice	Through the Decision no. 32/ February 10, 2016, Ploiesti Court of Appeals Ploiesti has rejected the claim, as ungrounded. FDEE has stated Appeal – within the regulating proceedings.

8	Plaintiff: FDEE Nord S.A. Defendant: ANAF 1018/2/2016	Cancelation administrative act – Decision no. 462/November 23, 2015 –amount of lei 7,731,693 (lei 4,689,686 lei income tax + lei 3,042,007 VAT) and for the amount of lei 6,154,799 (lei 3,991,503 interests/increases and late fees related to the income tax + lei 2,163,296 interests/penalties and delay fees related to the VAT)	Bucharest Court of Appeals	In course of settlement.
9	Plaintiff: FISE Electrica Serv S.A. Defendant: Ploiesti Public Service for local Finances 6358/2/2014	Cancellation of administrative act Decision no. 375/October 01, 2014 – amount of lei 2,351,034	High Court of Cassation and Justice	In course of settlement.

4. OTHER SIGNIFICANT DISPUTES (WHOSE VALUE IS MORE THAN EURO 500 THOUSANDS)

Crt. no.	Parties/Case file number	Object	Court	Case status
1	Plaintiff: Termoelectrica S.A. Defendant: Electrica S.A. 5651/2/2014 (on merits the case file had the no. 15350/3/2010)	Claims: amount of lei 25,047,353.32 representing delay fees of the invoices for electric power in the period of April 1, 2007 – March 31, 2008	High Court of Cassation and Justice	Admits the appeal declared by the Plaintiff SC TERMOELECTRICA SA THROUGH THE JUDICIAL LIQUIDATOR CONSORTIUM MUSAT & ASOCIAŢII RESTRUCTURING & INSOLVENCY SPRL AND MUSAT & ASOCIAŢII SPARL in opposition to the Respondent-defendant SOCIETATEA ENERGETICA ELECTRICA SA, against the Civil Sentence no. 6576/November 13, 2013 delivered by the Bucharest Court – Section VIth Civil, within the case file no. 15350/3/2010. Cancels the appealed sentence and re-judging: Rejects the exception of prescription of the rights to actions, as ungrounded. Admits the claim stated by the Plaintiff SC TERMOELECTRICA SA in opposition to the defendant SOCIETATEA ENERGETICA ELECTRICA SA (former SC ELECTRICA SA). Coerces the defendant to the payment of the amount of lei 25,047,458.32, representing contractual penalties related to the main debt amounting lei 68,453,678.47 lei, related to the interval April 01, 2007-March 31. Coerces the Respondent-defendant SOCIETATEA ENERGETICA ELECTRICA SA to the payment of the court charges amounting lei 761,576.79 lei. The decision is enforceable. Electrica has stated Appeal.
2	Plaintiff: SPEEH Hidroelectrica S.A. Defendant: Electrica S.A. 13268/3/2015	Coerces Electrica to the payment to SPEEH Hidroelectrica SA of the amount of lei 5,444,761 (loss due to the electric power sale to an average prices per MWH under the production cost for 1 MWH); coerces to partial payment of the benefit not obtained by Hidroelectrica through the sale of the total amount of MWh 398.300, calculated, according to the ANRE regulations; coercion of the defendant to the payment of the legal interest from the date of the decision delivery and until the effective payment, court charges.	Bucharest Court	In course of settlement.
3	Appellant – Defendant: Electrica S.A. Respondent – Plaintiff: Cez Distributie S.A. Respondent– Defendants: Termoelectrica S.A., Ministry of Public Finance, Romanian State 35866/3/2014	Declaratory action (discharge of by right of the obligation of CEZ Distributie to Electrica of an amount of lei 4,425,068.55, of Electrica to Termoelectrica of the same amount and of Termoelectrica to the Risk Fund for internal and foreign loans guaranteed by the state of the same amount of lei 4,425,068.55).	High Court of Cassation and Justice	Exchange the sentence in the whole, in the way that admits the claim and considers discharged, by right, the obligations of Cez Distributie to Electrica in amount of lei 4,425,068.55 lei, of Electrica to Termoelectrica in the same amount and of Termoelectrica to the Risk Fund for internal and foreign loans guaranteed by the state of the same amount of lei 4,425,068.55. Coerces the Defendants to the joint payment of the amount of lei 48,361 stamp fee and judicial fee in the first procedural cycle and in the first instance in the second procedural cycle and also of the amount of lei 33,459 lawyer fees. Coerces the summoned parties, to jointly pay the amount of lei 24,281 stamp fee and judicial stamp in appeal and of lei 9605 lei as lawyer fees. Electrica has stated Appeal. In Appeal: Admits the appeals stated by the appellants-defendants SOCIETATEA ENERGETICA ELECTRICA SA, S.C. TERMOELECTRICA S.A. through judicial liquidator MUŞAT & ASOCIAŢII RESTRUCTURING & INSOLVENCY SPRL and MINISTRY OF PUBLIC FINANCE against the civil decision no. 801 A on May 14, 2015 of the Bucharest Court of Appeals – Section VIth Civil. Changes the contested decision, in the way that rejects the stated appeal by the Plaintiff SC CEZ DISTRIBUŢIE SA against the civil sentence no. 6135 on December 8 , 2014 of the Bucharest Court – Section VIth Civil. Coerces the Respondent-Plaintiff SC CEZ DISTRIBUŢIE SA to the payment of the amount of lei 24,181 to the appellant-defendant SOCIETATEA ENERGETICA ELECTRICA SA representing court charges.
4	Plaintiff: Electrica S.A. Defendant: Cez Distributie S.A. 11601/63/2009	Claim action in value of lei 4,425,068.55	Craiova Court of Appeals	Admits the action. Cez Distributie has stated appeal, but rejected by the court. With Appeal.
5	Creditor: Electrica S.A. Debtor: Petprod S.A. 47478/3/2012*/a1	Insolvency proceedings Enter a claim to the statement of affairs for the amount of lei 2,591,163.01	Bucharest Court	Ongoing proceedings.

6	Creditor: Electrica S.A. Debtor: CET Braila S.A. 2712/113/2013	Insolvency proceedings. Enter a claim to the statement of affairs for the amount of lei 3,826,034.8.	Braila Court	Ongoing proceedings.
7	Creditor: Electrica S.A., AAAS, BCR SA and others Debtor: Oltchim S.A. 887/90/2013	Insolvency proceedings. Enter a claim to the statement of affairs in amount of lei 658,535,805.38. lei.	Valcea Court	Ongoing proceedings.
8	Creditor: Electrica S.A. Debtor: Romenergy Industry SRL 2088/107/2016	Insolvency proceedings. Enter a claim to the statement of affairs in amount of lei 2,917,265.89.	Alba Court	Ongoing proceedings.
9	Plaintiff: Electrica S.A. Defendant: Authority for the Management of the State Assets (AAAS former AVAS) 8260/3/2013	Action in claims for the amount of lei 11.173.143.	High Court of Cassation and Justice	The Instance on the merits has admitted the claim, coercing AAAS to pay to the Plaintiff the amount of lei 11,173,143. Coerces the defendant to pay to the Plaintiff the amount of lei 105,847.43, as court charges title. AAAS has stated appeal, rejected as ungrounded.
10	Appellant: Electrica S.A. Respondent: AAAS 38859/299/2015	Electrica SA has stated Challenge on enforcement against the foreclosure of the Administrative Decision no. P/14/27055/ December 16, 2014 16.12.2014 and of all the subsequent foreclosure acts. (administrative decision issued by the Respondent AAAS against the subscribed for the amount of lei 7,505,637.00, as recovery title for the illegal state aid that would have been granted to S Electrica SA, in the context of privatization of S Electrica Banat SA and of S CSR Resita SA)-claim cancelling of this act. -Canceling demand for payment issued by the BEJ-Oprescu Mihai in the foreclosure file no. 8/2015 (where it is stated that "the interest is added, that is going to be calculated beginning with the date of providing the amount to the beneficiary disposal and until the effective date of the debt plus lei 99,687.50 lei counter-value of foreclosure and of all the subsequent acts."); -cancelling of all the foreclosure acts issued in the file no. 8/2015; -suspension of the foreclosure begun by the Respondent until the irrevocable settlement of the current litigation; -provisory suspension of until the settlement of the claim for suspension of requested by the present sue petition.	Sector 1 Court	The instance admits the claim for suspension of the foreclosure stated by the Plaintiff Electrica; Suspension of the foreclosure performed based on the foreclosure file no .8/2015 of BEJ Oprescu Mihai until the settlement of the challenge of enforcements; Based on art. 413 alin. 1 item 1 CPC suspended the judgment of the case regarding the Plaintiff Electrica, until the final settlement of the file no. 2155/2/2015 of CAB (currently this file is under the Appeal phase to ICCJ, in the filtering procedure).
11	Appellant: Electrica Respondent: AAAS 39803/299/2015	provisory suspension of the administrative decision invested with foreclosure title and of all the subsequent foreclosure acts – the suspension being necessary to clarify the foreclosure character of the title enforced by Respondent that is not a judicial decision but is issued by AAAS	Sector 1 Court	Admits the claim for provisory suspension of the foreclosure. Provisory suspension of the foreclosure that is executed in the foreclosure file no. 8/2015 on the merits of BEJ Oprescu Mihai until the settlement of the suspension of claim stated within challenge of enforcements.
12	Appellant: AAAS Respondent: Electrica S.A. 78584/299/2015	Challenge on enforcement – AAAS stated Challenge on enforcement against the foreclosure acts performed by BEJA Dorina Gont, Lucian Gont, Marian Panait, consisting in: -summons (foreclosure file) no. 1914/ June 16, 2015, through which AAAS is demanded to pay within 15 days, the total amount of lei 11,426,867.65 lei (debt and foreclosure fees); -Affidavit on June 15, 2015 regarding the writ of execution; -Affidavit on June 16, 2015 regarding the settlement of the foreclosure fees. (The Civil Sentence no. 6440/2013 in the file no. 8260/3/2013 is the enforceable title.)	Bucharest Court	The instance on the merits admitted, in part, the challenge on enforcement. It cancels, in part, the Affidavit for stating the foreclosure expenses on the date of June 16, 2015 developed in the foreclosure file no. 1914/2015 constituted to B.E.J.A. Dorina Gonţ, Lucian Gonţ and Marian Panait, regarding the keeping of the amount of lei 1,445.74 as title for expenses needed to accomplish the foreclosure. Cancels in part, the foreclosure performed in the foreclosure file 1914/2015 constituted to B.E.J.A. Dorina Gonţ, Lucian Gonţ and Marian Panait for the amount of lei 1.445,74 lei, representing foreclosure charges establish illegally. Rejects the claim for suspension of the foreclosure, as it remains without object. Rejects the claim for return the foreclosure, as ungrounded. Coerce the Plaintiff to pay to B.E.J.A. Dorina Gonţ, Lucian Gonţ and Marian Panait the amount of lei 161.20, representing expenses incurred by photocopying of the foreclosure file. Both AAAS, and Electrica have stated appeal. The appeal instance admits the stated appeal by AAAS. Changes in part the appealed sentence in the way that regarding the executor fee it will be reduced to the amount of lei 59365 plus VAT. Keeps the rest of dispositions. Rejects the appeal stated by Electrica as ungrounded.
13	Appellant: AAAS Respondent: Electrica S.A. Garnishee: IOR S.A. 96099/299/2015	Claim to foreclosure – AAAS has stated a claim to foreclosure against the foreclosure acts performed by the BEJA Dorina Gont, Lucian Gont, Marian Panait, consisting of: - garnishment (setting up) notice on the date of August 25, 2015, developed in accordance with art. 783 NCPC until the completion of the amount of lei 10,342,891.72 (rest of debt and court charges) -Affidavit on June 15, 2015 regarding the writ of execution; -Affidavit on June 16, 2015 regarding the settlement of the foreclosure fees. (The Civil sentence no. 6440/2013 is the Enforceable title.)	Sector 1 Court	The instance accepts the exception of the authority of the judged matter; rejects the challenge on enforcement under all the claim heads for the authority of the judged matter. With appeal.
14	Appellant: AAAS Respondent: Electrica S.A. 86175/299/2015	Claim to foreclosure Suspension of the Foreclosure file 1914/2015 (throughout AAAS is ordered to pay, within 15 day, the total amount of lei 11,426,867.65 - debt and collection fees)	Sector 1 Court	Admits in part the exception of authority of the judged matter. Rejects the head of claim having as object the cancellation of the affidavit on the date of June 16, 2015 regarding the collection fees as inacceptable. Rejects the other heads of the claim as ungrounded. Reject the suspension of claim of the foreclosure as being without object. With appeal rights.
15	Appellant: AAAS Respondent: Electrica S.A. 27873/299/2016	Claim to foreclosure. Referring to the foreclosure case file no. 1914/2015 in the Office of the Associated Legal Executors Dorina Gont, Lucian Panait and Marian Panait	Sector 1 Court	In course of settlement.

16	Creditor: Electrica S.A. Debtor: Transenergo Com S.A. 1372/3/2017	Insolvency proceedings. Debt with calculated penalties until January 25, 2017. Lei 36,797,429.55 lei.	Bucharest Court	On the date of February 1, 2017, the opening of the insolvency proceedings was ordered. Electrica is going to develop the statement of claims. Until the moment of opening the proceedings, the foreclosure against the debtor was initiated.
17	Creditor: Electrica S.A. Debtor: Electra Management & Suppy SRL 41095/3/2016	Insolvency proceedings. Main debt: lei 4,941,420.03.	Bucharest Court	Against the debtor, a claim for opening the insolvency proceeding was stated, that will have the term on February 24, 2017. In the situation of opening of the proceedings, we are going to subscribe to the statement of affairs. Presently we are under foreclosure proceedings.
18	Plaintiff: FDEE Electrica Muntenia Nord S.A. Defendant: Transenergo Com S.A. 47088/3/2016	Claims: debt lei 8,306,493.06 – tariff for distribution	Sector 5 Court	Regulation proceedings. The insolvency proceedings of the Debtor were ordered.
19	Plaintiff: FDEE Transilvania Nord SA Defendant: Romenergy Industry S.A. 2088/107/2016	Bankruptcy - debt: lei 5,439,537.09 lei	Alba Court	Ongoing proceedings.
20	Plaintiff: SDEE Transilvania Sud SA Defendant: Romenergy Industry S.A. 2088/107/2016	Bankruptcy - debt: lei 3,987,508.14 lei	Alba Court	Ongoing proceedings.
21	Plaintiff: SDEE Transilvania Sud SA Defendant: Romenergy Industry S.A. 3086/62/2016	Writ of payment - debt: lei 2,806,317.75	Brasov Court	Suspended case file until the settlement of the case file regarding the bankruptcy of Romenergy Industry S.A.
22	Plaintiff: FISE Electrica Serv S.A. Defendant: National Leasing IFN SA 39542/3/2009	Claims – EUR 1,177,221.50 EUR, equivalent of lei 5,298,203,.8 lei, calculated on the exchange rate respectively of 4.5006 lei/euro on January 30	Bucharest Court	Suspended according to the insolvency Law no. 85/2006
23	Plaintiff: FISE Electrica Serv S.A. Defendant: Best Recuperare Creante SRL 2253/3/2011 (former 58348/3/2010)	Insolvency – amount to be recovered: lei 3,938,810.56	Bucharest Court	Ongoing proceedings.
24	Plaintiff: FISE Electrica Serv S.A. Defendant: National Leasing IFN S.A. 18711/3/2010	Insolvency – amount to be recovered: lei 53,023,201.08	Bucharest Court	Ongoing proceedings.

25	Plaintiff: FISE Electrica Serv S.A. Defendant: Best Recuperare Creante SRL 54060/3/2011	Summons for payment – lei 3,938,810.56 lei	Bucharest Court	Suspended according to the insolvency Law no. 85/2006
26	Plaintiff: FISE Electrica Serv S.A. (civil party) Defendant: Ruga Gabriel, Stoica Ioan Constantin, s.a. 1436/33/2015 (former 4228/117/2009)	Corruption criminal offence – lei 4,128,969.65 (according to the sentence on the merits court)	Cluj Court of Appeals	In course of settlement.
27	Plaintiff: FISE Electrica Serv S.A. Defendant: Servicii Energetice Banat S.A. 8776/30/2013 (joint with cu 2982/30/2014)	Banckrupt - debt lei 73,453,299.30	Timis Court	Ongoing proceedings.
28	Plaintiff: FISE Electrica Serv S.A. Defendant: Servicii Energetice Oltenia SA 2570/63/2014	Insolvency - debt lei 26,448,133.90	Dolj Court	Ongoing proceedings.
29	Plaintiff: FISE Electrica Serv S.A. Defendant: Servicii Energetice Muntenia S.A. 40081/3/2014	Insolvency - debt lei 15,343,942.68	Bucharest Court	Ongoing proceedings.
30	laintiff: FISE Electrica Serv S.A. Defendant: Servicii Energetice Dobrogea S.A. 8785/118/2014	Insolvency proceedings - banckruptcy - debt lei 18,168,842.73 lei	Constanta Court	Rejected on 17.02.2016.
31	Plaintiff: FISE Electrica Serv S.A. Defendant: CNAS, CASMB 43602/3/2015	Recovery amounts of social insurance – FNUASS – lei 1,384,652 + interest	Bucharest Court	Admits the action in part.
32	Plaintiff: FISE Electrica Serv S.A. Defendant: Servicii Energetice Moldova 4435/110/2015	Insolvency proceedings - banckruptcy – debt: lei 73,708,082.90	Bacau Court	Ongoing proceedings.
33	Plaintiff: FISE Electrica Serv S.A. Defendant: New Koppel Romania 20376/3/2016	Claims – Euro 655,164.44 – equivalent lei of 2,948,239.98	Bucharest Court	Ongoing proceedings.

34	Creditor: Electrica Furnizare S.A. Debtor: Metal S.A. Galati 2181/121/2013	Insolvency proceedings Enter a claim to the statement of affairs for the amount of lei 21,634,926.27.	Galati Court	Ongoing proceedings.
35	Creditor: Electrica Furnizare S.A. Debtor: Apaterm S.A. Galati 4783/121/2011	Insolvency proceedings Enter a claim to the statement of affairs for the amount of lei 2,742,115.08.	Galati Court	Ongoing proceedings.
36	Creditor: Electrica Furnizare S.A. Debtor: Vegetal Trading SRL Braila 1653/113/2014	Insolvency proceedings Enter a claim to the statement of affairs for the amount of lei 2,252,570.18.	Braila Court	Ongoing proceedings.
37	Plaintiff: Carpatcement Holding S.A. Defendant: Ministry of Economy, Romanian Government, Electrica Furnizare S.A. 1665/2/2014	Compliance obligation Canceling penalties in amount of lei 2,440,785 – Based EGD 57/2002.	High Court of Cassation and Justice	On the merits, the Plaintiff action was rejected, the Plaintiff stating Appeal.
38	Creditor: Electrica Furnizare S.A. Debtor: Balan S.A. 2139/96/2007	Insolvency proceedings Enter a claim to the statement of affairs for the amount of lei 48,856,788.69.	Harghita Court	Ongoing proceedings.
39	Creditor: Electrica Furnizare S.A. Debtor: Ariesmin S.A. Branch 7375/107/2008	Insolvency proceedings Enter a claim to the statement of affairs for the amount of lei 20,711,587.76.	Alba Court	Ongoing proceedings.
40	Creditor: Electrica Furnizare S.A. Debtor: Zlatmin S.A. Branch 6/107/2003	Insolvency proceedings Enter a claim to the statement of affairs for the amount of lei lei 9,314,175.96.	Alba Court	Ongoing proceedings.
41	Creditor: Electrica Furnizare S.A. Debtor: Hidromecanica S.A. 3836/62/2009	Insolvency proceedings Enter a claim to the statement of affairs for the amount of lei 4,792,025.80.	Brasov Court	Ongoing proceedings.
42	Creditor: Electrica Furnizare S.A. Debtor: Nitrarmonia S.A. 261/F/2004	Insolvency proceedings Enter a claim to the statement of affairs for the amount of lei 2,285,997.22.	Brasov Court	Ongoing proceedings.
43	Creditor: Electrica Furnizare S.A. Debtor: European Drinks S.A. 4058/111/2016	Writ of payment. Debt: lei 5,535,461.37.	Bihor Court	Settled by transaction.
44	Creditor: Electrica Furnizare S.A. Debtor: Remin S.A. 32/100/2009	Insolvency proceedings Enter a claim to the statement of affairs for the amount of lei 71,443,401.67.	Timisoara Court	Ongoing proceedings.
45	Creditor: Electrica Furnizare S.A. Debtor: Oltchim S.A. 887/90/2013	Insolvency proceedings Enter a claim to the statement of affairs for the amount of lei 56,533,826.02.	Valcea Court	Ongoing proceedings.

5. DISPUTES AGAINST THE ROMANIAN COURT OF ACCOUNTS

Crt. no.	Parties/Case file number	Object	Court	Case status
1	Plaintiff: Electrica S.A. Defendant: Romanian Court of Auditors; 2268/2/2014	Suspension of and cancelling the administrative act on those ordered by the Decision no.3/January 14, 2014 and the Resolution no.23/March 17, 2014.	High Court of Cassation and Justice	Court on the merits: Admits in part the claim. Cancels partially the Resolution no. 23 on March 17, 2014 regarding the items 1 and 5 and the Decision no. 3/January 14, 2014 regarding the items 4 and 8. Rejects, as ungrounded the claim regarding items 2, 3 and 4 in the Resolution no. 23/March 17, 2014, 17.03.2014 and items 5, 6 and 7 in the Decision no 3/January 14, 2014. Rejects the claim for suspension of the enforcement of the Decision no. 3/January 14, 2014, as ungrounded. With Appeal in term of 15 day from the notice regarding the solution on the merits and 5 days from the notice regarding the suspension of. Admits in part the claim stated by S Electrica SA. Cancels in part the Resolution no. 23 on March 17, 2014 regarding items 1 and 5 and the Decision no. 3/January 14 regarding the items 4 and 8. Rejects, as ungrounded the claim regarding the items 2, 3 and 4 in the Resolution no. 23/March 17, 2014 and the items 5, 6 and 7 in the Decision no. 3/January 1, 2014. Rejects the claim for suspension of the enforcement of the Decision no. 3/January 14, 2014, as ungrounded. With Appeal in term of 15 day from the notice regarding the solution on the merits and 5 days from the notice regarding the suspension of. Electrica and CCR have stated Appeal. Currently, the case file is to ICCJ, in filtering proceedings.
2	Plaintiff: Electrica S.A. Defendant: Romanian Court of Auditors; 8335/2/2012	Suspension of and cancelling the administrative and fiscal act Litigations Court of Accounts Law no. 94/1992.	High Court of Cassation and Justice	The Company of Administration of the shares in Energy, founded by division of Electrica, was approach in the case file, and Electrica claimed to be EXTRACTED FROM THE CASE. The Supreme Court of Cassation and Justice has ascertained, on the term of January 21, 2016, that Electrica S.A. is not standing to bring active proceedings in the case.
3	Plaintiff: FISE Electrica Serv S.A. Defendant: Romanian Court of Auditors 368/2/2014	Disputes Law no. 94/1992	High Court of Cassation and Justice	Reject the Appeal stated by the Plaintiff S.C. Filiala de Întreţinere şi Servicii Energetice Serv S.A. against the civil decision no. 1306 on April 24, 2014 of the Bucharest Court of Appeal – Section VIIIrd Contentious administrative and fiscal matters, as ungrounded. Admits the Appeal stated by the defendant Romania Court of Accounts against the same decision. Quash in part the decision under appeal in that it dismisses the action stated by the Plaintiff S.C. Filiala de Întreţinere şi Servicii Energetice Serv S.A. and on the measure ordered in item 12 in the Decision no. 32/2013 of the Court of Accounts. Keep the other decisions of the sentence under appeal. Final.
4	Plaintiff: Electrica Furnizare S.A. Defendant: Romanian Court of Auditors; 5755/2/2013	Disputes Court of Accounts (Law no. 94/1992), action on cancellation of the Audit Report no. 2835/2013, of the Decisions no. 20/2013 and of the Affidavit no. 82/2013.	High Court of Cassation and Justice	Appeal- In course of settlement.

6. OTHER DISPUTES WITH POSSIBLE SIGNIFICANT IMPACT

Crt. no.	Parti/Nr. dosar	Object	Court	Case status
1	Plaintiff: Niculescu Vladimir Defendant: FDEE Electrica Muntenia Nord S.A., City hall Valenii de Munte town 1580/105/2008	Claim based on the Law no. 10/2001 – for a land of 1558 sqm and built area of 202 sqm, located in Valenii de Munte, str. N. Iorga, no. 129 and being used by the Exploitation Center Valeni.	Prahova Court	Presently, the case is on the merits of Prahova Court Prahova.
2	Plaintiff: FDEE Transilvania Nord SA Defendant: Local Council of Oradea City Intervener: RCS&RDS 2527/111/2015	Cancellation of the Oradea LCD no /April, 28 2015 regarding the association between Oradea City, SC RDS&RCS SA and SC Delalina SRL in order to develop an electric power distribution network.	Oradea Court of Appeals	The court on the merits rejects the EDTN action as premature. The ETDN Appeal was admitted and the case was sent to be re-trialed to Bihor Court. In course of settlement.
3	Plaintiff: FDEE Transilvania Nord SA Defendant: Local Council of Oradea City Intervener: RCS&RDS 2526/111/2015	Cancellation of the Oradea LCD no 284/April 28, 2015 on the Regulation regarding the settlement of the conditions for exercising the right to access on the public or private property of the Oradea City, in order to install electronic communication networks.	Oradea Court of Appeals	On the merits the claim was rejected. Appeal was settled, the case file being in course of regulating procedures.
4	Plaintiff: FDEE Transilvania Nord SA Defendant: Local Council of Oradea City, RCS&RDS 3340/111/2015	Cancellation of the Oradea LCD no 108/February 02, 2014 on the public bidding for concession of the land of 100,000 sqm area, in order to develop an underground channel for installing the electronic and electric communication networks.	Bihor Court	On the claim of the Defendant RCS-RDS the suspension of the case was ordered until the settlement of the case file 2414/2/2016 with Delalina SRL, case file on the lawsuit of the Bucharest Appeal Court. RCS-RDS settled a claim for reexamination of the stamp duty; therefore, the case file 3340/111/2015/a1 was developed, within the application to challenge the constitutionality of the provisions of art. 39 par. 1 and par. 3 in the EGD 80/2013 was invoked. The application to challenge the constitutionality was admitted in principle, and the case was suspended until the settling by the Constitutionality Court.
5	Plaintiff: Delalina S.R.L. Defendant: FDEE Transilvania Nord SA 910/111/2016	The obligation to issue technical permit for connection in the favor of SC Delalina SRL	Bihor Court	The case file was suspended until the settlement of the case file no. 2414/2/2016 with Delalina SRL, case file on the lawsuit of the Bucharest Court of Appeals.
6	Plaintiff: Delalina S.R.L., Foto Distributie S.R.L. Defendant: FDEE Transilvania Nord SA, ANRE, Romanian Government, Ministry of Economy, Commerce and Relationships with the Business Environment, Ministry of Energy, Banat Enel Distribution, Muntenia Enel Distribution, Dobrogea Enel Distribution 2414/2/2016	Cancellation of administrative acts (Order 73/2014, Concession agreements)	Bucharest Court of Appeals	In course of settlement.
7	Plaintiff: Delalina S.R.L., Foto Distributie S.R.L. Defendant: ANRE Intervener: FDEE Transilvania North SA 4013/2/2016	The case file has as object the cancellation of the ANRE decision on refusal to give licenses for electric power distribution.	Court of Appeals Bucharest	In course of settlement.

APPENDIX 2 – DETAILS OF MAIN INVESTMENTS IN 2016 BY THE ELECTRICA GROUP

In 2016, the most significant investments made by the Group are the following:

DESCRIPTION	value (mln RON)
MUNTENIA NORD	
Modernization and SCADA integration of transformer station 110 kV Cuza Voda, Braila County	3.9
Modernization of FDCP-AMR with GSM Stage V/C Micro XIV Buzau Neighborhood	3.9
Modernization of 110/20 kV transformer station Maraşeşti	2.8
Modernization and SCADA integration of transformer station 110kV Adjud, Vrancea County	3.1
Modernization of OHL 110 kV Tecuci - Cudalbi and 110 kV cell in the Station 110/20 kV Cudalbi, Galati County	6.9
Modernization and SCADA integration of transformer station 110kV Laminorul, Galati County	2.2
Modernization and SCADA integration of transformer station 110kV Pastarnacu, Prahova County	2.5
Modernization 110kV Columbia station (replacement transformer 2*25 MVA with 2*40MVA)	4.2
Modernization and amplification groups neutral treatment with BSRC in 110/MT Station Doftana, Campina, Busteni, Sinaia, Southern District Ploiesti, Urlati, Northern District Ploiesti, Prahova County	2.3
Providing the technical conditions of operation of the 110 kV equipments of the transformer station 110/20kv Romanu, Braila County	2.1
Providing the technical conditions of operation of the 110 kV equipments of the transformer station 110/20kv Dudesti, Braila County	2.2
Modernization of OHL 110 kV Schela Tudor Vladimirescu (panel 94 - 104; 104 - 113; 113 - 123), Galati County	2.3
Acquisition and installation of meters	8.4
Modernization and SCADA integration transformer stations VOL I Ploiesti Vest, Ploiesti Sud, Doftana, Pleasa, Urlati	2.2
Improvement of technical operating conditions of failure signaling system in UPL 20 kV and introduction in DAS Dambovita, the city of Targoviste	5.6
Integration in SCADA system of transformer stations EDMN VOL I	2.6
TRANSILVANIA NORD	
Modernization of 110/20kV Dej (Cuzdrioara) station	2.5
Replacement of wire guard with OPGW on: OHL 110 kV Lapus-Tocila; OHL 110 kV Viseu -Pietrosul; OHL 110 kV Pietrosul - Baia Borsa; OHL 110 kV BM3 - Nistru; OHL 110 kV Nistru - Negresti	3.7
Increasing the distribution capacity to 20 kV of the Station 110/20/10 kV CAMPULUI	3.1
Modernization of grud 20 kV Station 110/20/10 kV Cluj Sud	2.4
Switch to 20 kV distribution in transformation Station 110/6 kV Turda	2.2
SCADA stage III - SCADA integration of 15 stations	2.8
SCADA stage IV - preparation works for SCADA integration of 14 stations	3.3
SCADA stage IV - SCADA integration of 14 stations	2.5
Optimization of central points Cluj and Oradea, implementation and installation EMS application with DMS Cluj update and DMS Oradea implementation	5.3
Automation of distribution - all Distribution Subsidiaries	7.4
Switch to 20 kV distribution Velenta station	3.0
Automation of distribution - modernization TP	4.8
Modernization and systematization transformer station 110/20 kV CET 2 - stage I	2.7
Replacement of 110/MT power transformers with low losses FDEE EDTN	2.4
Reconstruction/Retrofitting OHL 110 kV Cluj Sud - Iernut, DC with OHL 110 kV Iernut - Campia Turzii, in the panel stretching between poles 5-16, near the village of Cuci, Mures County	3.0
Reconstruction/Retrofitting OHL 110 kV Iernut - CFR Calarasi, DC with OHL 110 kV Iernut - Ludus, in the panel stretching between poles 8-23, near the village of Cuci, Mures County	3.7
Switch to 20 kV distribution CET 1 station	2.5
Automation of distribution - modernization TP - SCADA integration	4.2
Switch to 20 kV distribution Iosia, Oradea	2.1

TRANSILVANIA SUD	
Modernization of 110/20/6 kV Predeal station and switch to 20 kV RED Predeal, Braşov County - Objective 1 and Objective 3, Braşov County	5.6
Integration of transformer stations belonging to CEM 110 kV Braşov in SCADA DMS system of S.C. FDEE Electrica Distributie Transilvania Sud S.A.	2.2
Modernization and improving safety Station 110/20/10 kV Baraj, Mures County	2.4
Modernization of 110/20/6 kV Predeal station and switch to 20 kV RED Predeal, Braşov County - Objective 2: Switch to 20 kV EDN Predeal, Braşov County	2.8
Improvement voltage level OHL j.t. Barcani, Covasna County	4.5
Improvement voltage level OHL j.t. Bretcu, Covasna County	2.2
Modernization of electricity supply installations in blocks of flats within SDEE Harghita	6.1
Modernization of electricity supply installations in blocks of flats within SDEE Mures	4.9
Improvement voltage level and modernization OHL j.t. Târgu Mureș area str. Viile Dealului Mic, Viile 1 Mai, Piata Republicii, Eden, Mures County	3.5
Modernization of electricity supply installations in the city of Medias (Gura Campului neighborhood), Sibiu County	6.7
Improvement voltage level area PTa 1, PTa 2, Valea Crisului, Covasna County	3.3
Switch to 20 kV of the Distributor Vinalcool area PA 9, Mures County	3.7
Improvement voltage level OHL j.t. Sita Buzaului, area PTa 2, Covasna County	2.3

In 2016, the largest transfers of tangible assets in progress to tangible assets are represented mainly by the commissioning of the investment objectives, as follows:

DESCRIPTION	value (mln RON)
MUNTENIA NORD	
Modernization and SCADA integration of transformer station 100kV Cuza Voda, Braila County	4.1
Modernization and SCADA implementation Sahateni Station	2.8
Modernization of FDCP-AMR with GSM Stage V/C Micro XIV Buzau Neighborhood	3.9
Modernization of 110/20 kV transformer station Maraşeşti	4.1
Modernization and SCADA integration of transformer station 110 kV Adjud, Vrancea County	2.8
Modernization of OHL 110 kV Tecuci - Cudalbi and 110 kV cell in the Station 110/20 kV Cudalbi, Galati	7.1
Modernization 110kV Columbia station (replacement transformer 2*25 MVA with 2*40MVA)	4.6
Modernization and amplification groups neutral treatment with BSRC in 110/MT Station Doftana, Campina, Busteni, Sinaia, Southern District Ploiesti, Urlati, Northern District Ploiesti, Prahova County	5.0
Acquisition and installation of meters	12.7
Improvement of technical operating conditions of failure signaling system in UPL 20 kV and introduction in DAS Dambovita, the city of Targoviste	5.7
Integration in SCADA system of transformer stations EDMN VOL I	2.6
Providing the technical conditions of operation of the 110 kV equipments of the transformer station 110/20kv Romanu, Braila County	2.2
Providing the technical conditions of operation of the 110 kV equipments of the transformer station 110/20kv Dudesti, Braila County	2.1
Modernization and SCADA integration of transformer stations 110kV Ploiesti Vest, Ploiesti Sud,Doftana, Pleasa, Urlati	2.2
TRANSILVANIA SUD	
Modernization of 110/20/6 kV Predeal station and switch to 20 kV RED Predeal, Braşov County - Objective 1 and Objective 3, Braşov County	4.6
Integration of transformer stations belonging to CEM 110 kV Braşov in SCADA DMS system of S.C. FDEE Electrica Distributie Transilvania Sud S.A.	11.4
Modernization of electricity supply installations in Medias (Gura Campului neighborhood) Sibiu County	6.2
Modernization of electricity supply installations in blocks of flats within SDEE Harghita	5.0
Modernization of electricity supply installations in blocks of flats within SDEE Mures	4.9
Switch to 20 kV of the Distributor Vinalcool area PA 9, Mures County	3,7
Improvement voltage level OHL j.t. Valea Crisului, Covasna County	3.3
Modernization and improving safety in supply installation switching to underground supply cable 20 kV, Tg Mures-Cristesti, Mures County	2.7
Improvement voltage level OHL j.t. Sita Buzaului, PTA 2_ Ciumenic, Covasna County	2.3
Improvement voltage level OHL j.t. Bretcu, Covasna County	2.2
Modernization of 110/20/6 kV Predeal station and switch to 20 kV RED Predeal, Braşov County - Objective 2: Switch to 20 kV EDN Predeal, Braşov County	2.2
Improvement voltage level OHL j.t. Barcani, Covasna County	4.7
Improvement voltage level and modernization OHL j.t. Târgu Mureș area str. Viile Dealului Mic, Viile 1 Mai, Piata Republicii, Eden, Mures County	3.5
TRANSILVANIA NORD	
Creation of grud 20 kV Station 110/20/6 kV Clujana	2.0
Increasing safety in supply to consumers in Valea lui Mihai	3.6
Modernization of 110/20/10KV Baia Mare 5 station	6.4
Modernization of 110/20/6 KV Carei 1 transformer station	4.6
Modernization of 110/20 kV Dej - Cuzdrioara station	6.7
Modernization of busbar 20 kV Station 110/20/10 kV Cluj Sud	2.5
Modernization of Crisul Oradea Station	2.6
Modernization of 110/20/6 KV Satu Mare 1 station	4.7
Modernization of 110/20 kV Negresti station	3.8
Reconstruction of OHL 110 kV Cluj Sud - Iernut	3.3
Reconstruction of OHL 110 kV Iernut - CFR Calarasi	3.9
Retrofitting of MT equipment in 110 Palota Station	2.8
Modernization of power transformers 110 kV/MT (3 works)	2.2
SCADA stage III - preparation works for SCADA integration - 15 stations	3.2
SCADA stage IV - preparation works for SCADA integration of 14 stations Aghires, Sacuieni, Voievozi, Suplac, Tileagd, Baia Borsa, Tocila, Pietrosul, Tasnad, Lechinta, Rodna, Prundu Bargaului, Sarmasag, Cehu Silvaniei	4.8
SCADA stage III + IV - SCADA integration in 29 stations	2.1
Modernization of metering points (all SD)	3.7
Optimization of central points Cluj and Oradea, implementation and installation EMS application with DMS Cluj update and DMS Oradea implementation	5.6
Automation of distribution - modernization TP and SCADA integration SD Zalau	4.5
Automation of distribution - modernization TP at SD Bistrita	3.5
Replacement of existing MT/JT transformers with transformers with low losses	3.6
Replacement of wire guard with OPGW on: OHL 110 kV Lapus-Tocila; OHL 110 kV Viseu -Pietrosul; OHL 110 kV Pietrosul - Baia Borsa; OHL 110 kV BM3 - Nistru; OHL 110 kV Nistru - Negresti	7.6
Distribution automation system for 2015-2016 DAS Baia Mare- automatic reclosers 20 kV and remote controlled separators	2.5
Distribution automation system for 2015-2016 DAS Bistrita- automatic reclosers 20 kV and remote controlled separators	2.4
Distribution automation system for 2015-2016 DAS Cluj- automatic reclosers 20 kV and remote controlled separators	5.1
Distribution automation system for 2015-2016 DAS Satu Mare- automatic reclosers 20 kV and remote controlled separators	3.1
Distribution automation system for 2015-2016 DAS Zalau- automatic reclosers 20 kV and remote controlled separators	4.5
Modernization of electricity supply installations in Oradea - zona PTZ Ortopedie, PTZ Decebal 2; PTZ Moara; PTS Decebal 1; PTZ Centrocoop; PTZ Engels; PTZ Centrul de Calcul	4.3
Switch to 20 kV distribution Velenta station - Oradea	3.6

APPENDIX 3

INTERNAL AUDIT REPORT FOR 2016

The Annual Audit Plan for 2016, endorsed by the Audit Committee and approved by the Board of Directors by the Decision no.39/08.12.2015, provided for seven missions planned for 2016 in the following auditable areas: human resources, technical, procurement, transportation, risk management, BRP activity (Balance Responsible Part). This plan was drawn up in view of identifying the efficiency of internal controls within ELSA. On the date of audit missions planning, the Audit & Compliance Office team was made of two internal auditors, but after April the internal audit missions were conducted by five internal auditors.

In 2016, upon the request of the Board of Directors, were conducted two ad-hoc missions on human resources and procurement auditable areas.

During the first half year 2016, 5 audit missions were conducted in the company, 3 from Annual Internal Audit Plan and 2 ad-hoc missions. Seven audit reports were developed, containing 36 recommendations of witch 20 with high risk impact in case of non-implementing. The missions developed in first half of year:

- Procurement of services – ad-hoc mission;
- Enterprise risk management – planned mission;
- Human resources activity - ad-hoc mission;
- Transportation activity – planned mission;
- EDN access (Electric Distribution Network) - planned mission.

In the second half of 2016 were conducted 3 audit missions, planned and were developed 11 internal audit reports, containing 45 recommendations of which 18 with high risk impact in case of non-implementing. The missions developed in second half of year :

- Administrative activity;
- BRP activity;
- Procurement evaluation.

These missions were performed by teams made of two internal auditors supervised by the chief of internal audit department.

The internal audit report concluded as a result of the missions were acknowledged by the management of audited entities, endorsed by the Audit Committee and the implementation of their recommendations is consistently monitored by their follow up sheets. As a result of the audit missions and the acceptance of their recommendations by the audited entities and persons, the audited structures make up their own plans of measure to meet the recommendations.

During 2016 have been uptated Charta of internal audit and Code of ethic behaviour for internal auditors. Were developed Manual of politicies and procedures for internal audit, based on CAFR (Chamber of financial auditors) model, organization which appropriated entirely International Standards for the Professional Practice of Internal Auditor. All these procedures were endorsed by Audit Committee and approved by Board of Directors.

SOCIETATEA ENERGETICA ELECTRICA S.A.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

CONTENTS

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

(All amounts are in THOUSAND RON, if not otherwise stated)

	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Intangible assets related to concession arrangements	22	3,910,388	3,700,211
Other intangible assets	22	17,218	14,295
Property, plant and equipment	21	701,962	779,264
Restricted cash	20	134,492	-
Deferred tax assets	16	39,668	50,597
Other non-current assets		1,741	3,802
Total non-current assets		**4,805,469**	**4,548,169**
Current assets			
Trade receivables	17	777,989	837,782
Other receivables	19	20,030	36,804
Cash and cash equivalents	20	888,841	893,492
Deposits, treasury bills and government bonds	18	1,875,054	1,987,881
Inventories		22,750	23,258
Prepayments		5,635	9,460
Green certificates		-	31,304
Income tax receivable	16	2,385	23,135
Total current assets		**3,592,684**	**3,843,116**
Total assets		**8,398,153**	**8,391,285**
EQUITY AND LIABILITIES			
Equity			
Share capital	23	3,814,242	3,814,242
Share premium		103,049	103,049
Treasury shares reserve	23	(75,372)	(75,372)
Pre-paid capital contributions in kind from shareholders		5,144	2,862
Revaluation reserve	23	104,681	140,358
Legal reserves	23	302,236	273,899
Retained earnings		1,429,908	1,354,595
Total equity attributable to the owners of the Company		**5,683,888**	**5,613,633**
Non-controlling interests	24	836,599	828,957
Total equity		**6,520,487**	**6,442,590**

	Note	31 December 2016	31 December 2015
Liabilities			
Non-current liabilities			
Financing for network construction related to concession agreements	25	41,617	122,065
Deferred tax liabilities	16	195,689	181,253
Employee benefits	14	192,965	193,915
Other payables	27	44,921	43,068
Long-term bank borrowings	29	127,733	-
Total non-current liabilities		**602,925**	**540,301**
Current liabilities			
Financing for network construction related to concession agreements	25	85,513	99,576
Short term bank borrowings	30	-	59,821
Bank overdrafts	20	142,626	65,963
Trade payables	26	722,830	656,410
Other payables	27	160,890	249,306
Deferred revenue		4,415	4,235
Employee benefits	13,14	83,972	134,625
Provisions	28	62,407	127,613
Current income tax liability		12,088	10,845
Total current liabilities		**1,274,741**	**1,408,394**
Total liabilities		**1,877,666**	**1,948,695**
Total equity and liabilities		**8,398,153**	**8,391,285**

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

General Manager	**Finance Manager**
Dan Catalin Stancu	Iuliana Andronache

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts are in THOUSAND RON, except per share data)

	Note	2016	2015
Revenues	9	5,517,802	5,502,795
Other income	10	243,454	211,161
Electricity purchased		(2,756,032)	(2,718,682)
Green certificates		(401,382)	(346,754)
Construction costs related to concession agreements	22	(528,372)	(490,023)
Employee benefits	15	(654,383)	(662,963)
Repairs, maintenance and materials		(44,077)	(59,015)
Depreciation and amortization	21,22	(373,096)	(350,813)
Impairment of property, plant and equipment, net	21,22	(695)	(2,368)
Impairment of trade and other receivables, net	17,19	(40,614)	(4,400)
Change in provisions, net	28	65,206	(54,979)
Other operating expenses	10	(441,959)	(455,319)
Operating profit		**585,852**	**568,640**
Finance income	11	20,037	37,851
Finance costs	11	(16,856)	(17,368)
Net finance income		**3,181**	**20,483**
Profit before tax		**589,033**	**589,123**
Income tax expense	16	(120,136)	(106,963)
Profit for the year		**468,897**	**482,160**
Profit for the year attributable to:			
• owners of the Company	24	356,566	362,675
• non-controlling interests		112,331	119,485
Profit for the year		**468,897**	**482,160**
Earnings per share			
Basic and diluted earnings per share (RON)	**12**	**1.05**	**1.07**

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

Director General	**Finance Manager**
Dan Catalin Stancu	Iuliana Andronache

SOCIETATEA ENERGETICA ELECTRICA SA
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts are in THOUSAND RON, if not otherwise stated)

	Note	2016	2015
Profit for the year		**468,897**	**482,160**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Remeasurements of the defined benefit liability	14	4,792	16,707
Tax related to remeasurements of the defined benefit liability	16	(768)	(2,674)
Other comprehensive income, net of tax		**4,024**	**14,033**
Total comprehensive income		**472,921**	**496,193**
Total comprehensive income attributable to:			
owners of the Company		359,555	374,294
non-controlling interests		113,366	121,899
Total comprehensive income		**472,921**	**496,193**

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

General Manager	**Finance Manager**
Dan Catalin Stancu	Iuliana Andronache

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts are in THOUSAND RON, if not otherwise stated)

		Attributable to the owners of the Company									
	Note	Share capital	Share premium	Treasury shares	Pre-paid capital contributions in kind from shareholders	Revaluation reserve	Legal reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2016		**3,814,242**	**103,049**	**(75,372)**	**2,862**	**140,358**	**273,899**	**1,354,595**	**5,613,633**	**828,957**	**6,442,590**
Comprehensive income											
Profit for the year		-	-	-	-	-	-	356,566	**356,566**	112,331	**468,897**
Other comprehensive income		-	-	-	-	-	-	2,989	**2,989**	1,035	**4,024**
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**	**359,555**	**359,555**	**113,366**	**472,921**
Transactions with owners of the Company											
Contributions and distributions											
Land for which ownership rights were obtained		-	-	-	2,282	-	-	-	**2,282**	-	**2,282**
Dividends to the owners of the Company	23	-	-	-	-	-	-	(291,582)	**(291,582)**	-	**(291,582)**
Total transactions with owners of the Company		**-**	**-**	**-**	**2,282**	**-**	**-**	**(291,582)**	**(289,300)**	**-**	**(289,300)**
Other changes in equity											
Dividends to non-controlling interests	23	-	-	-	-	-	-	-	**-**	(105,724)	(105,724)
Set up of legal reserves	23	-	-	-	-	-	28,337	(28,337)	**-**	-	**-**
Transfer of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment	23	-	-	-	-	(29,251)	-	29,251	**-**	-	**-**
Loss of control over subsidiaries in financial distress	32	-	-	-	-	(6,426)	-	6,426	**-**	-	**-**
Balance at 31 December 2016		**3,814,242**	**103,049**	**(75,372)**	**5,144**	**104,681**	**302,236**	**1,429,908**	**5,683,888**	**836,599**	**6,520,487**
Balance at 1 January 2015		**3,814,242**	**103,049**	**(75,372)**	**3,273**	**156,018**	**236,597**	**1,246,635**	**5,484,442**	**804,266**	**6,288,708**
Comprehensive income											
Profit for the year		-	-	-	-	-	-	362,675	**362,675**	119,485	**482,160**
Other comprehensive income		-	-	-	-	-	-	11,619	**11,619**	2,414	**14,033**
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**	**374,294**	**374,294**	**121,899**	**496,193**
Transactions with owners of the Company											
Contributions and distributions											
Land for which ownership rights were obtained		-	-	-	(411)	-	-	-	**(411)**	-	**(411)**
Dividends to the owners of the Company	23	-	-	-	-	-	-	(244,692)	**(244,692)**	-	**(244,692)**
Total transactions with owners of the Company		**-**	**-**	**-**	**(411)**	**-**	**-**	**(244,692)**	**(245,103)**	**-**	**(245,103)**
Other changes in equity											
Dividends to non-controlling interests	23	-	-	-	-	-	-	-	**-**	(97,208)	**(97,208)**
Set up of legal reserves	23	-	-	-	-	-	37,302	(37,302)	**-**	-	**-**
Transfer of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment	23	-	-	-	-	(14,217)	-	14,217	**-**	-	**-**
Loss of control over subsidiaries in financial distress	32	-	-	-	-	(1,443)	-	1,443	**-**	-	**-**
Balance at 31 December 2015		**3,814,242**	**103,049**	**(75,372)**	**2,862**	**140,358**	**273,899**	**1,354,595**	**5,613,633**	**828,957**	**6,442,590**

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

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts are in THOUSAND RON, if not otherwise stated)

	Note	2016	2015
Cash flows from operating activities			
Profit for the year		468,897	482,160
Adjustments for:			
Depreciation	21	40,886	44,084
Amortisation	22	332,210	306,729
Impairment loss of property, plant and equipment, net	21	695	2,368
Loss/(Gain) on disposal of property, plant and equipment		(8,015)	4,676
Impairment of trade and other receivables, net	17,19	40,614	4,400
Change in provisions, net	28	(65,206)	54,979
Net finance income	11	(3,181)	(20,483)
Gain on loss of control over subsidiaries in financial distress	10,32	(73,693)	(38,501)
Income tax expense	16	120,136	106,963
		853,343	**947,375**
Changes in :			
Trade receivables		(88,336)	(126,401)
Other receivables		33,954	(5,855)
Deposits, treasury bills and government bonds		(4,943)	(2,605)
Prepayments		3,825	(816)
Green certificates		31,304	22,404
Restricted cash		(134,492)	-
Inventories		508	1,047
Trade payables		150,682	81,784
Other payables		(34,854)	(45,171)
Employee benefits		5,323	(2,309)
Cash generated from operating activities		**816,314**	**869,453**
Interest paid		(4,575)	(8,030)
Income tax paid		(93,722)	(118,177)
Net cash from operating activities		**718,017**	**743,246**

	Note	2016	2015
Cash flows from investing activities			
Payments for purchases of property, plant and equipment		(32,140)	(31,759)
Payments for network construction related to concession agreements		(500,262)	(353,302)
Payments for purchase of other intangible assets		(7,530)	(8,755)
Proceeds from sale of property, plant and equipment		27,829	14,771
Payments for purchase of treasury bills and government bonds	18	(2,437,538)	(4,093,998)
Proceeds from maturity of treasury bills and government bonds	18	2,436,404	3,240,481
Increase in deposits with maturity of 3 months or longer		(300,895)	(350,228)
Proceeds from deposits with maturity of 3 months or longer		419,799	438,990
Interest received		18,358	41,286
Effect on loss on control over subsidiaries on cash		(1,609)	(2,863)
Net cash used in investing activities		**(377,584)**	**(1,105,377)**
Cash flows from financing activities			
Proceeds from long term bank loans		127,733	18,000
Proceeds from short term bank loans		-	51,753
Repayment of long term bank loans		(9,900)	(8,100)
Repayment of short term bank loans		(50,000)	(1,907)
Dividends paid	23	(396,922)	(341,293)
Repayment of financing for network construction related to concession agreements	25	(92,658)	(109,875)
Payment of finance lease liabilities		-	(294)
Net cash used in financing activities		**(421,747)**	**(391,716)**
Net decrease in cash and cash equivalents		**(81,314)**	**(753,847)**
Cash and cash equivalents at 1 January	20	827,529	1,581,376
Cash and cash equivalents at 31 December	**20**	**746,215**	**827,529**

The accompanying notes are an integral part of these consolidated financial statements
The non-cash transactions are disclosed in Note 20.

General Manager	**Finance Manager**
Dan Catalin Stancu	Iuliana Andronache

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts are in THOUSAND RON, if not otherwise stated)

1 Reporting entity and general information

(A) GENERAL INFORMATION ABOUT THE GROUP

These financial statements are the consolidated financial statements of Societatea Energetica Electrica S.A. ("the Company" or "Electrica SA") and its subsidiaries (together "the Group"). During 2016 the Company changed its name from Societatea de Distributie si Furnizare a Energiei Electrice Electrica S.A. to Societatea Energetica Electrica S.A.
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 2016 and 2015 the major shareholder of Societatea Energetica Electrica SA is the Romanian State, represented by the Ministry of Energy (48.78%), after the ownership dilution following an initial public offer. The second largest 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 2016	% shareholding as at 31 Dec 2015
Societatea de Distributie a Energiei Electrice Muntenia Nord SA	Electricity distribution in geographical area of Muntenia Nord	14506181	Ploiesti	78.0000021%	78.0000021%
Societatea de Distributie a Energiei Electrice Transilvania Nord SA	Electricity distribution in geographical area of Transilvania Nord	14476722	Cluj-Napoca	77.99999%	77.99999%
Societatea de Distributie a Energiei Electrice 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 (in reorganization)	Services in the energy sector (maintenance, repairs, construction)	29384120	Bucuresti	100%	100%
Servicii Energetice Oltenia SA (in reorganization)	Services in the energy sector (maintenance, repairs, construction)	29389861	Craiova	100%	100%
Servicii Energetice Moldova SA*	Services in the energy sector (maintenance, repairs, construction)	29386768	Bacau	n/a*	100%
Servicii Energetice Dobrogea SA*	Services in the energy sector (maintenance, repairs, construction)	29388378	Constanta	n/a*	n/a*

** Societatea Energetica Electrica SA lost the control of Servicii Energetice Dobrogea starting January 2015 and of Servicii Energetice Moldova starting January 2016 when the bankruptcy proceedings of the subsidiaries began (see Note 32). As of these dates the Group ceased to consolidate these companies.*

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 (Societatea de Distributie a Energiei Electrice Transilvania Sud, Societatea de Distributie a Energiei Electrice Muntenia Nord and Societatea de Distributie a Energiei Electrice Transilvania Nord) 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 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 32.

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) REGULATIONS REGARDING THE ENERGY SECTOR

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. 72/2013, no. 112/2014 no. 146/2014 and no. 165/2015. The specific distribution tariffs applicable for the years 2016 and 2015 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):

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016 (All amounts are in THOUSAND RON, if not otherwise stated)

	Order 171, 172, 173/14.12.2015			Order 155, 156, 154/15.12.2014		
	1 January-31 December 2016			1 January-31 December 2015		
	High voltage	Medium voltage	Low voltage	High voltage	Medium voltage	Low voltage
Transilvania Nord	19.93	64.20	167.74	21.10	68.44	180.59
Transilvania Sud	21.22	63.58	172.02	23.41	70.26	192.65
Muntenia Nord	15.93	52.60	171.38	18.47	61.31	199.92

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"); working capital requirements and revenues from reactive energy.

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; costs generated by the impossibility of shutting down the electricity supply for certain consumers, according to the legislation; damages paid by the main distribution operator to third parties for maintenance works established in court.
The regulated rate of return on the RAB starting with 2015 is 7.7%, in accordance with the ANRE Order no. 146/2014.

The distribution tariffs applicable for 2017 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 113, 114, 112/14.12.2016		
	1 January-31 December 2017		
	High voltage	Medium voltage	Low voltage
Transilvania Nord	19.05	60.98	157.71
Transilvania Sud	20.63	61.64	165.37
Muntenia Nord	14.79	48.46	157.81

Regulatory asset base (RAB)
In accordance with ANRE Orders no. 72/2013, 112/2014, 146/2014 and 165/2015, the determination of the distribution tariffs is based on, inter alia, the regulated asset base ("RAB"). The RAB calculation is based on 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 methodology, in the reference year of the regulatory period, the distribution operator may request the regulator the recognition of the revaluation of asset commissioned after 1 January 2005, based on the revaluations studies 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 value of the assets commissioned after 1 January 2005 updated using the cumulative inflation rate over that period.
Starting with the fourth regulatory period, the value of RAB at 31 December of the reference year of a regulatory period is no longer updated with the inflation rate.

Tariff adjustments
Annually, ANRE makes revenue corrections 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; changes in revenues from reactive energy 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 year.

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 2016 the Group is in an over-recovery position of approximately RON 332 million (2015: RON 322 million), which will be deducted from the tariffs for subsequent periods.

Tariffs increase limitations
Starting with the third regulatory period (2014-2018) the distribution tariffs shall not increase year on year by more than 7% for the weighted average tariff and 10% for each specific distribution tariff.
According to ANRE Order no. 165/2015, starting 2015 the tariff variation limitation applies only to tariff increases, and not to tariff decreases.

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

Regulated market
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 and amended by Order no. 92/2015 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, costs related to technical and operational services, 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.

Until 2018 when the market for the household consumers will be competitive, the tariffs applicable to the households consumers shall be annual approved by ANRE based on the reported costs and regulated profit margin. The tariffs are established in order to cover the costs of electricity (including transports costs, network services, distribution costs and the regulated profit margin). The previous ANRE 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 current methodology (ANRE Order 92/2015) establish the regulated profit as a percentage of 1.5% of the total supply costs (that includes energy acquisition, transport and distribution costs, costs related to the system services and costs related market operations and supply) and the operating supply costs of 4.5 RON/client/month in 2015 and 4.7 RON/client/month in 2016.

The tariffs for electricity supplied under regulated regime in 2016 and 2015 are those established by ANRE Orders no. 115/2016, no. 176/2015, no.157/2014 and no. 57/2014.
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, and the quantities acquired are established by ANRE.

Competitive market
Transactions on the competitive en-gross market are transparent, public, centralised and non-discriminatory. Participants on the en-gross market can trade electricity based on the bilateral contracts concluded on the related centralised market.

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.
ANRE establishes by order, until 1 March of each year, the compulsory annual quota for the acquisition of green certificates related to the previous year, based on the quantities of electricity from renewable sources and the final consumption of electricity of the previous year.

2 Basis of accounting

These consolidated financial statements have been prepared in accordance with International Reporting Standards ("IFRS") as adopted by the European Union ("IFRS-EU"). They were authorized for issue by the Board of Directors on 9 March 2017. The financial statements will be submitted for shareholders' approval in the meeting scheduled on 27 April 2017.

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.

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
The distribution subsidiaries (as operators) concluded concession contracts with the Ministry of Economy (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 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.

IFRIC 12 "Service Concession Arrangements" deals with public-to-private service concession arrangements.

IFRIC 12 applies to public-to-private service concession arrangements if:
(a) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
(b) the grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the infrastructure at the end of the term of the arrangement.

The control or regulation referred to in condition (a) could be by contract or otherwise (such as through a regulator). The activities of the electricity distribution operators, including distribution tariffs, are regulated by ANRE.

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 operators 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 operators 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 of 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.

Within the arrangements, the Group incurs significant expenditure in relation to the development and maintenance of the infrastructure. The construction works are either outsourced by the Group to sub-contractors, or performed internally. Significant management judgment is involved in accounting for the concession arrangements under IFRIC 12, including those in respect of the recognition of revenue based on the stage of completion of the services and separation of construction or upgrade services from operation services.

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 17 and 30 – assumptions and estimates about the recoverability of trade receivables;
- Note 6 j) – estimates regarding the useful lives of property, plant and equipment;
- Note 21- assumptions regarding the revalued amount of property, plant and equipment;
- Note 32 – assumptions and estimates regarding the measurement of assets of the subsidiaries under financial distress;
- Note 16 – recognition of deferred tax assets: availability of future taxable profit against which tax loss carried forward can be used;
- Notes 28 and 33 – 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 30 – financial instruments;
- Note 21 – 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 32.

6 Significant accounting policies

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 (consumed by 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.

Re-measurements 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. Re-measurements 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. The obligation for covering the annual acquisition quota is accrued in profit or loss.

(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.

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016 (All amounts are in THOUSAND RON, if not otherwise stated)

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 measures 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 10 years at 31 December 2016 (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 re-measurement 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.

(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 recognised 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) CONTINGENT ASSETS AND LIABILITIES

A contingent liability is:

a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

b) a present obligation that arises from past events but is not recognized because:

i. it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

ii. the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognized in the Group's financial statements, but disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.
A contingent asset is not recognized in the Group's financial statements but disclosed when an inflow of economic benefits is probable.

(U) 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.

(V) 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.

(W) SUBSEQUENT EVENTS

Events occurring after the reporting date 31 December 2016, 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 New standards and interpretations not yet adopted or adopted by the EU and not yet effective

A number of standards were adopted by the EU but are not yet mandatorily effective for the year ending 31 December 2016 and have not been applied in preparing these consolidated financial statements:

- IFRS 9 "Financial Instruments". IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group currently plans to apply IFRS 9 initially on 1 January 2018. The actual impact of adopting IFRS 9 on the Group's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The Group has performed a preliminary assessment of the potential impact of adoption of IFRS 9 based on its position at 31 December 2016 and does not believe that the new requirements, if applied at 31 December 2016, would have had a material impact on its financial statements.
- IFRS 15 "Revenue from Contracts with Customers". IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group has performed an initial assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements.

Rendering of services
The Group does not expect significant differences in the timing of revenue recognition or the net impact on the result for the financial period.

Transition
The Group plans to adopt IFRS 15 in its consolidated financial statements for the year ending 31 December 2018, using the retrospective approach. As a result, the Group will apply all of the requirements of IFRS 15 to each comparative period presented and adjust its consolidated financial statements.
The Group is currently performing a detailed assessment of the impact resulting from the application of IFRS 15.

A number of standards were not yet adopted by the EU:

- IFRS 16 "Leases". IFRS 16 is effective for annual periods beginning on or after 1 January 2019. IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases. Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals. Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained. The Group has significant operating leases. For future lease payment please refer to Note 34b). The Group is currently performing the detailed assessment of the impact resulting from the application of IFRS 16.

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016 (All amounts are in THOUSAND RON, if not otherwise stated)

8 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 Societatea de Distributie a Energiei Electrice Transilvania Sud SA, Societatea de Distributie a Energiei Electrice Transilvania Nord SA, Societatea de Distributie a Energiei Electrice Muntenia Nord SA, Electrica Serv SA and the investments in distribution activity done by Societatea Energetica Electrica SA)
External electricity network maintenance	Repairs, maintenance and other services for electricity networks owned by other distributors (includes Servicii Energetice Oltenia SA and Servicii Energetice Muntenia SA). For the year ended 31 December 2015 the segment included also the operations of Servicii Energetice Moldova, which was deconsolidated starting with January 2016, as a result of loss of control.
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 2016	Electricity supply	Electricity distribution	External electricity network maintenance	Headquarter	Total for reportable segments	Consolidation eliminations and adjustments	Consolidated total
External revenues	4,346,816	1,141,823	29,163	-	5,517,802	-	**5,517,802**
Inter-segment revenue	84,922	1,355,800	13,079	-	1,453,801	(1,453,801)	-
Segment revenue	**4,431,738**	**2,497,623**	**42,242**	**-**	**6,971,603**	**(1,453,801)**	**5,517,802**
Segment profit before tax	**173,781**	**397,660**	**70,491**	**318,439**	**960,371**	**(371,338)**	**589,033**
Net finance (cost)/ income	(1,346)	(12,093)	14	387,944	**374,519**	(371,338)	**3,181**
Depreciation, amortization and impairment, net	(10,197)	(350,352)	(7,622)	(5,620)	**(373,791)**	-	**(373,791)**
Gain on control loss over subsidiaries	-	-	73,693	-	**73,693**	-	**73,693**
EBITDA*	185,324	760,105	78,099	(63,885)	**959,643**	-	**959,643**
Segment net profit (loss)	139,174	311,612	71,011	318,439	**840,236**	(371,339)	**468,897**
Employee benefits	(81,864)	(529,382)	(22,634)	(20,503)	**(654,383)**	-	**(654,383)**
Segment assets	**1,225,799**	**5,128,477**	**154,704**	**2,224,487**	**8,733,467**	**(335,314)**	**8,398,153**
Trade and other receivables	669,372	544,644	24,080	-	**1,238,096**	(440,077)	**798,019**
Cash and cash equivalents	464,551	214,105	13,142	197,043	**888,841**	-	**888,841**
Restricted cash	-	-	-	134,492	**134,492**	-	**134,492**
Deposits, treasury bills and government bonds	-	7,939	-	1,867,115	**1,875,054**	-	**1,875,054**
Trade and other payables, and short term employee benefits	802,107	455,444	80,578	13,821	**1,351,950**	(349,597)	**1,002,353**
Bank overdrafts	-	142,626	-	-	**142,626**	-	**142,626**
Financing for network construction related to concession agreements and bank borrowings	-	254,863	-	-	**254,863**	-	**254,863**
Capital expenditure	10,143	546,480	-	-	**556,623**	-	**556,623**

** 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. 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.*

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016 (All amounts are in THOUSAND RON, if not otherwise stated)

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

Year ended 31 December 2016	Distribution Muntenia Nord	Distribution Transilvania Nord	Distribution Transilvania Sud	Electricity network maintenance	Eliminations	Total Electricity distribution
External revenues	339,275	423,131	350,164	29,253	-	**1,141,823**
Inter-segment revenue	461,592	434,348	439,666	335,657	(315,463)	**1,355,800**
Segment revenue	**800,867**	**857,479**	**789,830**	**364,910**	**(315,463)**	**2,497,623**
Segment profit / (loss) before tax	**118,606**	**144,913**	**130,208**	**3,933**	**-**	**397,660**
Net finance (cost)/ income	(6,110)	(896)	(4,739)	(348)	-	**(12,093)**
Depreciation, amortization and impairment, net	(102,308)	(123,030)	(121,510)	(13,179)	9,675	**(350,352)**
EBITDA*	227,024	268,839	256,457	17,460	(9,675)	**760,105**
Net profit	97,538	108,609	107,728	(2,263)	-	**311,612**
Employee benefits	(124,314)	(123,078)	(118,655)	(168,535)	5,200	**(529,382)**
Segment assets	**1,687,859**	**1,543,364**	**1,493,920**	**484,109**	**(80,775)**	**5,128,477**
Trade and other receivables	136,248	134,422	138,631	216,118	(80,775)	**544,644**
Cash and cash equivalents	127,658	16,691	56,454	13,302	-	**214,105**
Deposits, treasury bills and government bonds	7,939	-	-	-	-	**7,939**
Trade and other payables, and short term employee benefits	133,472	154,223	148,129	100,395	(80,775)	**455,444**
Bank overdrafts	-	100,474	42,152	-	-	**142,626**
Financing for network construction related to concession agreements and bank borrowings	50,611	107,364	96,888	-	-	**254,863**
Capital expenditure	162,395	234,244	148,104	1,737	-	**546,480**

Year ended 31 December 2015	Electricity supply	Electricity distribution	External electricity network maintenance	Head-quarter	Total for reportable segments	Consolida-tion elimi-nations and adjust-ments	Con-solidated total
External revenues	4,374,524	1,103,356	24,915	-	5,502,795	-	5,502,795
Inter-segment revenue	113,939	1,509,144	14,590	-	1,637,673	(1,637,673)	-
Segment revenue	**4,488,463**	**2,612,500**	**39,505**	**-**	**7,140,468**	**(1,637,673)**	**5,502,795**
Segment profit (loss) before tax	**160,169**	**464,202**	**12,006**	**297,394**	**933,771**	**(344,648)**	**589,123**
Net finance (cost)/income	2,759	(10,381)	16	372,737	**365,131**	(344,648)	**20,483**
Depreciation, amortization and impairment, net	(7,437)	(334,574)	(6,695)	(4,475)	**(353,181)**	-	**(353,181)**
Gain on control loss over subsidiaries	-	-	38,501	-	**38,501**	-	**38,501**
EBITDA*	164,847	809,157	18,685	(70,868)	**921,821**	**-**	**921,821**
Segment net profit (loss)	135,870	377,114	16,430	297,394	**826,808**	(344,648)	**482,160**
Employee benefits	(82,899)	(535,443)	(27,984)	(16,637)	**(662,963)**	-	**(662,963)**
Segment assets	**1,179,588**	**5,137,881**	**193,747**	**2,244,312**	**8,755,528**	**(364,243)**	**8,391,285**
Trade and other receivables	719,529	611,531	25,084	-	**1,356,144**	(481,558)	**874,586**
Cash and cash equivalents	337,912	268,262	4,253	283,065	**893,492**	-	**893,492**
Deposits, treasury bills and government bonds	-	87,486	-	1,900,395	**1,987,881**	-	**1,987,881**
Trade and other payables, and short term employee benefits	787,518	477,295	260,019	9,692	**1,534,524**	(463,312)	**1,071,212**
Bank overdrafts	-	65,963	-	-	**65,963**	-	**65,963**
Financing for network construction related to concession agreements and bank borrowings	-	281,462	-	-	**281,462**	-	**281,462**
Capital expenditure	19,187	535,984	-	-	**555,171**	-	**555,171**

** 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. 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.*

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016 (All amounts are in THOUSAND RON, if not otherwise stated)

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

Year ended 31 December 2015	Distribution Muntenia Nord	Distribution Transilvania Nord	Distribution Transilvania Sud	Electricity network maintenance	Eliminations	Total Electricity distribution
External revenues	338,764	381,813	349,941	32,838	-	**1,103,356**
Inter-segment revenue	532,897	475,776	490,301	362,661	(352,491)	**1,509,144**
Segment revenue	**871,661**	**857,589**	**840,242**	**395,499**	**(352,491)**	**2,612,500**
Segment profit (loss) before tax	**168,886**	**160,089**	**158,407**	**(23,180)**	**-**	**464,202**
Net finance (cost)/ income	(1,908)	(3,558)	(2,388)	(2,527)	-	**(10,381)**
Depreciation, amortization and impairment, net	(91,895)	(112,003)	(115,482)	(15,194)	-	**(334,574)**
EBITDA*	**262,689**	**275,650**	**276,277**	**(5,459)**	**-**	**809,157**
Net profit	134,646	136,621	132,189	(26,342)	-	**377,114**
Employee benefits	(131,147)	(122,030)	(117,700)	(164,566)	-	**(535,443)**
Segment assets	**1,746,442**	**1,440,592**	**1,526,887**	**537,146**	**(113,186)**	**5,137,881**
Trade and other receivables	183,566	140,218	153,593	247,340	(113,186)	**611,531**
Cash and cash equivalents	123,985	18,551	104,132	21,594	-	**268,262**
Deposits, treasury bills and government bonds	87,486	-	-	-	-	**87,486**
Trade and other payables, and short term employee benefits	134,883	165,742	174,050	115,806	(113,186)	**477,295**
Bank overdrafts	-	12,836	43,127	10,000	-	**65,963**
Financing for network construction related to concession agreements and bank borrowings	90,680	70,038	110,844	9,900	-	**281,462**
Capital expenditure	152,345	223,102	157,204	3,333	-	**535,984**

** 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. 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

	31 December 2016	31 December 2015
Total assets		
Total assets for reportable segments	8,733,467	8,755,528
Elimination of inter-segment assets	(373,733)	(413,016)
Unallocated amounts	38,419	48,773
Consolidated total assets	**8,398,153**	**8,391,285**
Trade and other receivables		
Trade and other receivables for reportable segments	1,238,096	1,356,144
Elimination of inter-segment trade and other receivables	(438,828)	(479,734)
Unallocated amounts	(1,249)	(1,824)
Consolidated trade and other receivables	**798,019**	**874,586**
Trade and other payables and short term employee benefits		
Trade and other payables and short term employee benefits for reportable segments	1,351,950	1,534,524
Elimination of inter-segment trade and other payables and short term employee benefits	(348,348)	(461,488)
Unallocated amounts	(1,249)	(1,824)
Consolidated trade and other payables and short term employee benefits	**1,002,353**	**1,071,212**

9 Revenue

	2016	2015
Electricity distribution and supply	4,892,158	4,915,539
Construction revenue related to concession agreements (Note 22)	537,872	502,641
Repairs and maintenance and other services rendered	69,544	61,082
Re-connection fees	9,454	9,083
Sales of merchandise	8,774	14,450
Total	**5,517,802**	**5,502,795**

10 Income and expenses

(A) OTHER INCOME

	2016	2015
Rent income	87,985	83,586
Late payment penalties from customers	24,443	54,900
Commissions for the collection of radio and TV taxes (Note 27)	14,312	13,956
Gain on loss of control over subsidiaries (Note 32)	73,693	38,501
Other	43,021	20,218
Total	**243,454**	**211,161**

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016 (All amounts are in THOUSAND RON, if not otherwise stated)

(B) OTHER OPERATING EXPENSES

	2016	2015
Rent	67,332	60,866
Meter readings	34,855	37,172
Printing and distribution of invoices	33,041	31,407
Cash collection services	30,964	25,951
IT services	32,258	44,181
Postage and telecommunication	18,984	18,280
Utilities	27,115	28,541
Security	9,921	8,767
Call centre	7,747	7,512
Penalties for late payment and other payments to the State	63,140	3,177
Other taxes and duties	48,262	91,774
Legal and consultancy fees	3,819	8,093
Cost of merchandise sold	4,791	10,830
Bank commissions	2,271	3,309
Other	57,459	75,459
Total	**441,959**	**455,319**

In 2015, following an adverse court decision, the Group made a provision of RON 31,252 thousand representing penalties disputed by Electrica SA with Agentia Nationala de Administrare Fiscala („ANAF"). Also, during 2016 the Group made additional provisions of RON 23,648 thousand, following the solution of the court to reject the appeal from execution. In December 2016, the Group made payments of RON 41,211 thousand as a result of the enforcement received in connection with these litigations and reversed the provisions (refer to Note 28) and the tax assets previously recorded in relation with these matters. All these amounts (RON 58,126 thousand) are included in the line "Penalties for late payment and other payments to the State" in the table above.

As a result of these litigations and enforcements the tax record of Electrica SA is in the process of settlement with ANAF. The management of the Group estimates that there will be no additional significant amounts.

11 Net finance income

	2016	2015
Interest income	17,935	34,513
Other finance income	2,102	3,338
Total finance income	**20,037**	**37,851**
Interest expense	(4,439)	(8,166)
Interest cost for employee benefits (Note 14)	(10,728)	(8,050)
Foreign exchange losses	(1,689)	(857)
Other finance costs	-	(295)
Total finance costs	**(16,856)**	**(17,368)**
Net finance income	**3,181**	**20,483**

12 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	2016	2015
Profit for the year attributable to the owners of the Company	356,566	362,675
Profit attributable to ordinary shareholders	**356,566**	**362,675**

Weighted-average number of ordinary shares (in number of shares)	2016	2015
Issued ordinary shares at 1 January (Note 23)	339,049,336	339,049,336
Weighted-average number of ordinary shares at 31 December	**339,049,336**	**339,049,336**

For the calculation of basic and diluted earnings per share, treasury share (6,890,593 shares) were not treated as outstanding ordinary shares and were deducted from the number of issued ordinary shares

Earnings per share	2016	2015
Basic and diluted earnings per share (RON)	1.05	1.07

13 Short-term employee benefits

	31 December 2016	31 December 2015
Personnel payables	36,743	32,465
Current portion of defined benefit liability and other long-term employee benefits	10,260	12,197
Social security charges	27,859	52,278
Tax on salaries	9,059	15,187
Termination benefits payable	51	22,498
Total	**83,972**	**134,625**

For details of the related employee benefit expenses, see Note 15.

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.

As at 31 December 2015 the termination benefit of RON 22,498 thousand referred to compensation indemnities for the employees, based on the voluntary redundancies during 2015.

In January 2016 the Group ceased the consolidation of Servicii Energetice Moldova (refer to Note 32). As a result, short-term employee benefits of RON 52,902 thousand were deconsolidated.

14 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 2016 and 2015, employee benefit obligations were computed by independent actuaries using the projected unit credit method with benefits calculated proportionally to period of service.

	31 December 2016	31 December 2015
Defined benefit liability	124,445	126,322
Other long-term employee benefits	78,780	79,790
Total	**203,225**	**206,112**
- Current portion*	10,260	12,197
- Non-current portion	192,965	193,915

**included in Personnel payables in Note 13*

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016 (All amounts are in THOUSAND RON, if not otherwise stated)

(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	**2016**	**2015**
Balance at 1 January	**126,322**	**141,988**
Included in profit or loss		
Current service cost	2,383	2,697
Interest (income) / cost	8,003	5,636
Included in other comprehensive income		
Remeasurements loss (gain)		
- Actuarial loss /(gain)	(4,792)	(16,707)
Other		
Benefits paid	(7,471)	(7,292)
Balance at 31 December	**124,445**	**126,322**

Other long-term employee benefits	**2016**	**2015**
Balance at 1 January	**79,790**	**91,184**
Included in profit or loss		
Current service cost	2,331	2,067
Actuarial gain	(3,432)	(12,037)
Interest cost	2,725	2,414
Benefits paid	(2,634)	(3,838)
Balance at 31 December	**78,780**	**79,790**

(ii) Actuarial assumptions

The following were the main actuarial assumptions at each 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 2016**	**Valuation date 31 December 2015**
2016	-	1.8%
2017	2.3%	2.5%
2018	2.3%	2.3%
2019	2.2%	2.2%
2020+	2%	2.2%

- the discount rate used was the yield for Romanian government bonds maturing in 10 years at the reporting date of 3.63% for the year 2016 (2015: 4.75%);
- the electricity price per KWh used is 0.4576 RON at 31 December 2016 (2015: 0.4847 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) Group specific assumptions:

- salaries increase mainly in line with the estimated inflation rates in the future periods;
- employees' turnover: turnover rates are based on statistical information regarding employees' mobility during 2003-2015. 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	**No of gross monthly base salaries**	
Seniority	**31 December 2016**	**31 December 2015**
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	**No of gross monthly base salaries**	
Seniority	**31 December 2016**	**31 December 2015**
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 based on years of seniority.

Termination benefits

(a) Termination benefits for individual lay-off at the Group's initiative

In accordance with the Collective labour contract concluded between the Group and the Unions, when individual labour contracts are terminated at the Group's initiative, the Group pays 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

(b) Termination benefits for collective lay-offs at the Group's initiative

For collective lay-offs, according to the Collective labour contract, the Group pays 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

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.

(c) Termination benefits for voluntary redundancies

In accordance with the Agreement dated 13 August 2015 signed between the Group and the Unions and the Addendums to Collective Labour Contract, in case the individual labour contracts are terminated as voluntary redundancy from the employee, the Group pays termination benefits depending on the period to reach the standard retirement age, the period of service in the Group and the seniority. The number of gross monthly base salaries paid as termination benefits vary between 4 and 18.

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016 (All amounts are in THOUSAND RON, if not otherwise stated)

15 Employee benefit expenses

	2016	2015
Average number of employees	10,000	11,029
Number of employees at 31 December	9,685	10,539
Wages and salaries*	481,867	498,286
Social security contributions	118,865	115,711
Meal tickets	19,433	20,878
Termination benefits	39,418	28,088
Total employees benefits for the year	**659,583**	**662,963**
Capitalised employee benefit expenses	(5,200)	-
Total employees benefits in the statement of profit or loss	**654,383**	**662,963**

**Wages and salaries includes also current service cost, defined benefits and other long-term employee benefits*

The overall decrease of wages and salaries is due mainly to:
- deconsolidation in January 2016 of Servicii Energetice Moldova;
- decrease in the number of employees.

Termination benefits for the year 2016 refer to compensations for voluntary redundancies in each of the companies. Out of the total amount for 2016, RON 24,762 thousand are related to the implementation of the restructuring programme of Electrica Serv approved in December 2015 (also refer to note 28).

Management remuneration is disclosed in Note 31 b).

16 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

	2016	2015
Current tax expense	85,473	95,726
Deferred tax expense	26,117	3,998
Adjustments for prior years' current tax	8,546	7,239
Total income tax expense	**120,136**	**106,963**

(ii) Amounts recognised in other comprehensive income

	2016			2015		
	Before tax	Tax (expense) benefit	Net of tax	Before tax	Tax (expense) benefit	Net of tax
Remeasurement of defined benefit liability	4,792	(768)	4,024	16,707	(2,674)	14,033
Total	**4,792**	**(768)**	**4,024**	**16,707**	**(2,674)**	**14,033**

(iii) Reconciliation of effective tax rate

	2016		2015	
Profit before tax		**589,033**		**589,123**
Tax using Company's domestic tax rate	**16%**	**94,245**	**16%**	**94,260**
Non-deductible expenses	1%	3,892	2%	12,044
Non-taxable income	-1%	(7,397)	-1%	(6,475)
Deduction of legal reserves	-1%	(3,285)	-1%	(4,481)
Other tax effects	-2%	(9,226)	-1%	(8,337)
Adjustment for prior years	1%	8,546	1%	7,239
Current-year tax losses for which no deferred tax asset is recognised	1%	8,614	1%	8,230
Deferred tax asset derecognized	1%	7,089	0%	290
Change in recognised temporary differences	3%	17,658	1%	4,193
Income tax	**20%**	**120,136**	**18%**	**106,963**

(iv) Movement in deferred tax balances

2016	Net balance at 1 January 2016	Recognised in profit or loss	Recognised in other comprehen-sive income	Effect of loss of control over subsidiary	Balance at 31 December 2016: Net	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	60,438	(2,004)	-	(1,520)	56,914	-	56,914
Intangible assets related to concession agreements	154,608	4,538	-	-	159,146	-	159,146
Employee benefits	(14,916)	1,347	768	-	(12,801)	(12,801)	-
Impairment of trade receivables	(48,360)	4,236	-	-	(44,124)	(44,124)	-
Tax loss carried forward	(14,001)	11,457	-	-	(2,544)	(2,544)	-
Other items	(7,113)	6,543	-	-	(570)	(570)	-
Tax liabilities (assets) before set-off	**130,656**	**26,117**	**768**	**(1,520)**	**156,021**	**(60,039)**	**216,060**
Set off of tax						20,371	(20,371)
Net tax liabilities (assets)						**(39,668)**	**195,689**

2015	Net balance at 1 January 2015	Recognised in profit or loss	Recognised in other comprehen-sive income	Effect of loss of control over subsidiary	Balance at 31 December 2015: Net	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	61,991	(1,409)	-	(144)	60,438	-	60,438
Intangible assets related to concession agreements	155,881	(1,273)	-	-	154,608	-	154,608
Employee benefits	(18,107)	517	2,674	-	(14,916)	(14,916)	-
Impairment of trade receivables	(55,906)	7,546	-	-	(48,360)	(48,360)	-
Tax loss carried forward	(18,765)	4,764	-	-	(14,001)	(14,001)	-
Other items	(966)	(6,147)	-	-	(7,113)	(7,113)	-
Tax liabilities (assets) before set-off	**124,128**	**3,998**	**2,674**	**(144)**	**130,656**	**(84,390)**	**215,046**
Set off of tax						33,793	(33,793)
Net tax liabilities (assets)						**(50,597)**	**181,253**

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016 (All amounts are in THOUSAND RON, if not otherwise stated)

(v) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the certain tax losses generated by several Companies within the Group, because it is not probable that future taxable profit will be available against which the entity generating it can use the benefits therefrom.

	2016	2015
Tax losses	**349,362**	**345,411**

Tax losses for which no deferred tax assets were recognised expire as follows:

	Tax losses	
Year when the tax loss was generated:	**2016**	**2015**
2016 (expiring in 2023)	53,838	-
2015 (expiring in 2022)	51,439	51,439
2014 (expiring in 2021)	84,206	84,206
2013 (expiring in 2020)	62,179	62,179
2012 (expiring in 2019)	70,175	70,175
2011 (expiring in 2018)	10,896	10,896
2010 (expiring in 2017)	16,629	66,516
Total	**349,362**	**345,411**

(vi) Income tax receivable

As at 31 December 2015, the income tax receivable include RON 16,916 thousand which were under litigation with Autoritatea Nationala de Administrare Fiscala ("ANAF"). During 2016, the Group derecognized the income tax receivable, due to the fact that the solution was not favourable (please see Note 10).

17 Trade receivables

	31 December 2016	**31 December 2015**
Trade receivables, gross	1,906,093	1,962,899
Bad debt allowance	(1,128,104)	(1,125,117)
Total trade receivables, net	**777,989**	**837,782**

Trade receivables from related parties are presented in Note 31.

Trade receivables gross comprise:

	31 December 2016	**31 December 2015**
Electricity distribution and supply	755,151	786,609
Late payment penalties receivable	113,781	142,681
Electricity receivables and late payment penalties from clients in litigation, insolvency and bankruptcy	926,148	945,482
Repairs, maintenance and other services	26,936	24,249
Other	84,077	63,878
Total trade receivables, gross	**1,906,093**	**1,962,899**

The movement in the bad debt allowance for trade receivables is as follows:

Bad debt allowance	**2016**	**2015**
Balance as at 1 January	**1,125,117**	**1,147,655**
Impairment recognized	74,145	16,880
Impairment reversed	(28,918)	(12,565)
Amounts written off	(42,240)	(22,320)
Effect of loss of control over subsidiaries	-	(4,533)
Balance as at 31 December	**1,128,104**	**1,125,117**

For the ageing of trade receivables refer to Note 30.

A significant part of the bad debt allowances refers to clients in litigation, insolvency or bankruptcy procedures, many of them being older than four years. The Group will derecognize these receivables together with the related allowances after the finalization of the bankruptcy process.

Amounts written off refer mainly to RON 35,483 thousand from Tractorul UTB Brasov, client of Electrica Furnizare, for which the bankruptcy procedure was closed.

Impairment recognized during the year refers mainly to doubtful receivables from Transenergo Com S.A., a trader of electricity whose financial situation deteriorated given the recent adverse changes in prices on the electricity spot market. The Group has initiated foreclosure proceedings against this client due to non-payment of invoices starting September 2016. On 1 February 2017 Transenergo Com S.A. entered into the insolvency procedure. The gross outstanding amount receivable from Transenergo Com S.A as at 31 December 2016 is RON 44,426 thousand, out of which Electrica SA benefits from an insurance policy for RON 4,000 thousand. The management estimates that the recoverability of the uninsured amount is reduced and therefore recorded an impairment loss of RON 40,426 thousand.

18 Deposits, treasury bills and government bonds

	31 December 2016	**31 December 2015**
Treasury bills and government bonds denominated in RON with original maturity of more than three months	1,757,746	1,756,339
Deposits with maturity of more than three months	117,308	231,542
Total deposits, treasury bills and government bonds	**1,875,054**	**1,987,881**

Treasury bills and government bonds with original maturity of more than three months have an average interest rate (yield) of 0.63% (2015: 0.93%) at the following banks: Citibank Europe PLC Dublin, Raiffeisen Bank, BRD, Marfin Bank, ING Bank.

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

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016 (All amounts are in THOUSAND RON, if not otherwise stated)

19 Other receivables

	31 December 2016	31 December 2015
Good performance guarantees	7,127	7,454
VAT receivable	2,301	5,095
Interest receivable	43	443
Structural funds	72	1,509
Other receivables	39,152	58,165
Bad debt allowance	(28,665)	(35,862)
Total other receivables, net	**20,030**	**36,804**

The movement in the bad debt allowance for other receivables is as follows:

Bad debt allowance	**2016**	**2015**
Balance as at 1 January	**35,862**	**37,127**
Impairment recognized	-	1,051
Amounts written off	(2,584)	-
Impairment reversed	(4,613)	(966)
Effect of loss of control over subsidiaries	-	(1,350)
Balance as at 31 December	**28,665**	**35,862**

20 Cash and cash equivalents

	31 December 2016	31 December 2015
Bank current accounts	148,111	123,713
Call deposits	740,487	678,612
Cash in hand	243	302
Treasury bills and government bonds with original maturities of less than 3 months	-	90,865
Total cash and cash equivalents in the consolidated statement of financial position	**888,841**	**893,492**
Overdrafts used for cash management purposes	(142,626)	(65,963)
Total cash and cash equivalents in the consolidated statement of cash flows	**746,215**	**827,529**

As at 31 December 2015 cash and cash equivalents include treasury bills and government bonds denominated in RON of RON 90,865 thousands with original maturities of 3 months or less at the following banks Citibank Europe PLC Dublin, Raiffeisen Bank, BRD-CSG, Marfin Bank, ING Bank. These bear an average interest rate (yield) of 0.56% p.a. (2014: 1.7% p.a).

The Group has overdrafts from ING and BCR, as follows:

Bank	Contract date	Facility type	Maturity	Overdraft limit (th RON)	Balance at 31 December 2016
BCR	28-Jan-16	overdraft facility for financing current activity	until 31 March 2017	150,000	100,474
ING Bank N.V. and BRD Groupe Societe Generale	8-Dec-16	working capital financing and issuance of potential commitments	1 year for overdraft, 2 years for potential commitments	80,000	42,152
Total				**230,000**	**142,626**

Bank	Contract date	Facility type	Maturity	Overdraft limit (th RON)	Balance at 31 December 2015
ING Bank N.V. and BRD Groupe Societe Generale	8-Dec-14	working capital financing and issuance of potential commitments	until February 2016 for overdraft, 2 years for potential commitments	70,000	12,836
OTP Bank Romania	7-Sep-15	working capital financing	1 year	20,000	10,000
ING Bank N.V. and BRD Groupe Societe Generale	9-Dec-15	working capital financing and issuance of potential commitments	1 year for overdraft, 2 years for potential commitments	60,000	43,127
Total				**150,000**	**65,963**

The security for these overdrafts is presented in Note 34 d).

As at 31 December 2016, Electrica SA has guarantees in the form of collateral deposits at BRD - Groupe Societe Generale on the withdrawals account made by Societatea de Distributie a Energiei Electrice Transilvania Sud and Societatea de Distributie a Energiei Electrice Transilvania Nord. The amount of the collateral deposits is RON 134,492 thousands. Refer also to Note 29.

The following information is relevant in the context of the consolidated statement of cash flows:
Non-cash activity includes:

- set-off between trade receivables and trade payables of RON 101 million in 2016 (2015: RON 64 million);
- effect of loss of control over subsidiaries under financial distress (see Note 32).

During 2016, the Group made payments related to property, plant and equipment acquired in the prior years, in amount of RON 200 million.

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016 (All amounts are in THOUSAND RON, if not otherwise stated)

21 Property, plant and equipment

The movements in property, plant and equipment in 2016 and 2015 were as follows:

	Land and land improvements	Buildings	Equipment	Vehicles, furniture and office equipment	Construction in progress	Total
Gross carrying amount						
Balance at 1 January 2015	**314,544**	**263,132**	**152,428**	**102,740**	**157,738**	**990,582**
Additions	18	2,926	5,350	684	34,797	43,775
Transfer from construction in progress	-	6,508	114,060	73	(120,641)	-
Disposals	(14,498)	(5,701)	(1,074)	(1,098)	-	(22,371)
Effect of loss of control over subsidiaries (Note 32)	(394)	(5,170)	(1,445)	(4,076)	-	(11,085)
Balance at 31 December 2015	**299,670**	**261,695**	**269,319**	**98,323**	**71,894**	**1,000,901**
Additions	2,283	-	5,515	227	3,196	11,221
Transfer from construction in progress	-	2,164	12,096	-	(14,260)	-
Disposals	(7,695)	(16,038)	(867)	(1,078)	-	(25,948)
Effect of loss of control over subsidiaries (Note 32)	(16,158)	(22,436)	-	(5,653)	-	(44,247)
Balance at 31 December 2016	**277,830**	**225,385**	**286,063**	**91,189**	**60,830**	**941,927**
Accumulated depreciation and impairment losses						
Balance at 1 January 2015	**-**	**24,944**	**53,616**	**77,949**	**29,250**	**185,759**
Depreciation	-	13,845	23,558	6,681	-	44,084
Accumulated depreciation of disposals	-	(1,424)	(674)	(826)	-	(2,924)
Impairment loss	2,500	-	-	-	-	2,500
Reversal of impairment loss	-	-	(132)	-	-	(132)
Effect of loss of control over subsidiaries (Note 32)	-	(2,857)	(717)	(4,076)	-	(7,650)
Balance at 31 December 2015	**2,500**	**34,508**	**75,651**	**79,728**	**29,250**	**221,637**
Depreciation	-	8,010	27,957	4,919	-	40,886
Accumulated depreciation of disposals	-	(4,189)	(867)	(1,078)	-	(6,134)
Impairment loss	-	695	-	-	-	695
Effect of loss of control over subsidiaries (Note 32)	(2,500)	(8,966)	-	(5,653)	-	(17,119)
Balance at 31 December 2016	**(2,500)**	**30,058**	**102,741**	**77,916**	**29,250**	**239,965**
Net carrying amounts						
At 1 January 2015	**314,544**	**238,188**	**98,812**	**24,791**	**128,488**	**804,823**
At 31 December 2015	**297,170**	**227,187**	**193,668**	**18,595**	**42,644**	**779,264**
At 31 December 2016	**277,830**	**195,327**	**183,322**	**13,903**	**31,580**	**701,962**

Equipment and construction in progress include mainly costs for the implementation of the AMR system (Automatic Meter Reading).
The restrictions on property, plant and equipment are presented in Note 34 d).

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 2016, as well as the significant unobservable inputs used.

Category	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Land	*Market approach* 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.	▶ Adjustment for liquidity, location, size	The estimated fair value would increase (decrease) if: ▶ Adjustment for liquidity, location, size was lower (higher)
Buildings	*Market approach and discounted cash-flows (DCF) method* 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.	▶ Occupancy rates (70-90%) ▶ Discount rates (10% on average) ▶ Costs not paid by tenants (average 10%) ▶ Annual rent per sqm ▶ Rental growth ▶ Adjustment for liquidity, location, size	The estimated fair value would increase (decrease) if: ▶ Occupancy rates were higher (lower) ▶ Discount rates were lower (higher) ▶ Costs not paid were lower (higher) ▶ Annual rent per sqm was higher (lower) ▶ Rental growth was higher (lower) ▶ Adjustment for liquidity, location, size was lower (higher)

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016 (All amounts are in THOUSAND RON, if not otherwise stated)

22 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
Gross book value				
Balance at 1 January 2015	**5,484,026**	**163,114**	**817**	**5,647,957**
Additions	502,641	6,267	2,488	511,396
Transfers from intangibles in progress	-	1,701	(1,701)	-
Disposals	-	(1,305)	-	(1,305)
Effect of loss on control on subsidiaries	-	(373)	-	(373)
Balance at 31 December 2015	**5,986,667**	**169,404**	**1,604**	**6,157,675**
Additions	537,872	7,530	-	545,402
Disposals	-	(359)	-	(359)
Balance at 31 December 2016	**6,524,539**	**176,575**	**1,604**	**6,702,718**
Accumulated amortisation and impairment losses				
Balance at 1 January 2015	**1,982,842**	**155,119**	**-**	**2,137,961**
Amortisation	303,614	3,115	-	306,729
Accumulated amortisation of disposals	-	(1,148)	-	(1,148)
Effect of loss on control on subsidiaries	-	(373)	-	(373)
Balance at 31 December 2015	**2,286,456**	**156,713**	**-**	**2,443,169**
Amortisation	327,695	4,515	-	332,210
Accumulated amortisation of disposals	-	(267)	-	(267)
Balance at 31 December 2016	**2,614,151**	**160,961**	**-**	**2,775,112**
At 1 January 2015	**3,501,184**	**7,995**	**817**	**3,509,996**
At 31 December 2015	**3,700,211**	**12,691**	**1,604**	**3,714,506**
At 31 December 2016	**3,910,388**	**15,614**	**1,604**	**3,927,606**

The distribution subsidiaries (as operators) concluded concession contracts with the Ministry of Economy concerning 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.

The Group applies IFRIC 12 for the accounting of the transactions under these concession contracts. (See further details in Notes 4 (a), 6(b) and 6(k)).

For the year ended 31 December 2016, the Group has recognized construction revenue related to the concession agreements of RON 537,872 thousand (2015: RON 502,641 thousand) and construction costs of RON 528,372 thousand (2015: RON 490,023 thousand).

Intangible assets in progress as at 31 December 2016 and 2015 include the cost of implementation for IT applications that imply a certain implementation period.

23 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 2016 (2015: 345,939,929) with a nominal value of RON 10 per share. 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, except for the 6,890,593 treasury shares purchased by the Group in July 2014, for the prices stabilization. All shares rank equally with regard to the Company's residual assets, except for treasury shares.

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.
The share premium resulted at IPO was RON 103,049 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 Depositary Receipts, equivalent to 1,684,000 shares (totalling 6,890,593 shares). The total amount paid for acquiring the shares and Global Depositary Receipts was RON 75,372 thousand.

(C) REVALUATION RESERVE

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

	2016	2015
Balance at 1 January	**140,358**	**156,018**
Release of revaluation reserve to retained earnings corresponding to depreciation and disposals of property, plant and equipment	(29,251)	(14,217)
Loss of control over subsidiaries	(6,426)	(1,443)
Balance as at 31 December	**104,681**	**140,358**

(D) LEGAL RESERVES

Legal reserves are 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;

	Legal reserves
Balance at 1 January 2015	**236,597**
Set-up of legal reserves	37,302
Balance at 31 December 2015	**273,899**
Set-up of legal reserves	28,337
Balance at 31 December 2016	**302,236**

(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 declared by the Company in 2016 and 2015 (from the statutory profits of preceding years) were as follows:

	Distribution of dividends	
	2016	**2015**
To the owners of the Company	291,582	244,692
To non-controlling interests	105,724	97,208
Total	**397,306**	**341,900**

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016 (All amounts are in THOUSAND RON, if not otherwise stated)

The dividends per share were: 2016: RON 0.8600, 2015: RON 0.7217, per share.

For the calculation of dividends shares to be paid to the owners of the Company, treasury share (6,890,593 shares) were not treated as outstanding ordinary shares and were deducted from the number of issued ordinary shares.

Out of the dividends declared by the Company of RON 291,582 thousands, the dividends paid were RON 291,198 thousands, the remaining differences represents dividends unclaimed by the shareholders from the Depository.

24 Non-controlling interests

The following tables summarises the information related to each of the Group's subsidiaries that has material non-controlling interest ("NCI"), before any intra-group elimination.

31 December 2016	**Electrica Distributie Muntenia Nord**	**Electrica Distributie Transilvania Nord**	**Electrica Distributie Transilvania Sud**	**Electrica Furnizare**	**Intra-group elimina-tions**	**Total**
NCI percentage	**22%**	**22%**	**22%**	**22%**		
Non-current assets	1,353,880	1,333,005	1,224,097	131,081		
Current assets	278,756	154,189	195,248	1,066,256		
Non-current liabilities	(139,224)	(175,814)	(123,059)	(71,462)		
Current liabilities	(174,077)	(269,906)	(267,963)	(719,819)		
Net assets	**1,319,335**	**1,041,474**	**1,028,323**	**406,056**		
Carrying amount of NCI	**290,254**	**229,124**	**226,231**	**89,332**	**1,658**	**836,599**
Revenues	800,867	857,479	789,830	4,140,730		
Net profit	107,122	115,760	114,885	172,520		
Other comprehensive income	1,445	1,287	2,597	(626)		
Total comprehensive income	**108,567**	**117,047**	**117,482**	**171,894**		
Profit allocated to NCI	**23,587**	**25,476**	**25,295**	**37,973**		**112,331**
Other comprehensive income allocated to NCI	**318**	**283**	**571**	**(137)**		**1,035**
Cash flows from operating activities	213,603	218,964	237,674	257,786		
Cash flows used in investing activities	(55,516)	(213,423)	(149,812)	(19,667)		
Cash flows used in financing activities**	(154,414)	(95,039)	(134,565)	(111,480)		
Net increase/(decrease) in cash and cash equivalents*	**3,673**	**(89,498)**	**(46,703)**	**126,639**		
Dividends paid to NCI during the year	**26,896**	**27,960**	**26,345**	**24,523**		**105,724**

**Amounts presented represent cash flows of the subsidiaries*

***Cash flows from financing activities include dividends paid to NCI*

31 December 2015	**Electrica Distributie Muntenia Nord**	**Electrica Distributie Transilvania Nord**	**Electrica Distributie Transilvania Sud**	**Electrica Furnizare**	**Intra-group elimina-tions**	**Total**
NCI percentage	**22%**	**22%**	**22%**	**22%**		
Non-current assets	1,288,375	1,217,033	1,195,298	133,944		
Current assets	399,710	161,166	262,649	1,005,095		
Non-current liabilities	(164,332)	(80,112)	(136,294)	(67,293)		
Current liabilities	(190,731)	(246,573)	(291,064)	(726,104)		
Net assets	**1,333,022**	**1,051,514**	**1,030,589**	**345,642**		
Carrying amount of NCI	**293,265**	**231,332**	**226,730**	**76,041**	**1,589**	**828,957**
Revenues	871,661	857,589	840,242	4,159,740		
Net profit	140,085	143,033	137,335	122,665		
Other comprehensive income	2,575	3,171	2,273	2,953		
Total comprehensive income	**142,660**	**146,204**	**139,608**	**125,618**		
Profit allocated to NCI	**30,819**	**31,467**	**30,214**	**26,985**		**119,485**
Other comprehensive income allocated to NCI	**567**	**698**	**500**	**649**		**2,414**
Cash flows from operating activities	179,668	242,102	270,443	124,725		
Cash flows used in investing activities	(14,980)	(160,123)	(78,064)	(16,275)		
Cash flows used in financing activities**	(135,242)	(54,673)	(137,947)	(174,024)		
Net increase/(decrease) in cash and cash equivalents*	**29,446**	**27,306**	**54,432**	**(65,574)**		
Dividends paid to NCI during the year	**24,653**	**16,702**	**17,568**	**38,285**		**97,208**

**Amounts presented represent cash flows of the subsidiaries*

***Cash flows from financing activities include dividends paid to NCI*

25 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 1.93% in 2016 (2015: 2.64%).

The amounts are due as follows:

	31 December 2016	**31 December 2015**
Less than 1 year	85,513	99,576
Between 1 and 5 years	41,617	122,065
Total	**127,130**	**221,641**

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016 (All amounts are in THOUSAND RON, if not otherwise stated)

26 Trade payables

	31 December 2016	31 December 2015
Electricity suppliers	308,056	302,267
Capital expenditure suppliers	214,749	181,945
Other suppliers	200,025	172,198
Total	**722,830**	**656,410**

Electricity suppliers are mainly state-owned power generators, as detailed in Note 31, but also other participants on the electricity market.
Other suppliers include suppliers of services, materials, consumables, etc.

27 Other payables

	31 December 2016		31 December 2015	
	Current	Non-current	Current	Non-current
VAT payable	85,346	-	119,262	-
Liabilities to the State	29,837	-	91,269	-
Payables related to radio and TV tax	9,981	-	13,428	-
Liabilities related to green certificates acquisition obligation	13,980	-	-	-
Other liabilities	21,746	44,921	25,347	43,068
Total	**160,890**	**44,921**	**249,306**	**43,068**

The decrease in liabilities to the State is mainly due to the deconsolidation of Servicii Energetice Moldova.

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 that should be paid according to the contract in the month following the reporting month.

Other liabilities include mainly guarantees and sundry creditors. Other non-current liabilities refer to guarantees from customers related to electricity supply.

28 Provisions

	Fiscal risks	Restructuring	Other	Total
Balance at 1 January 2016	**80,106**	**28,989**	**18,518**	**127,613**
Provisions made	27,697	8,488	7,657	43,842
Provisions used	(44,706)	(24,762)	(417)	(69,885)
Provisions reversed	(27,564)	-	(11,599)	(39,163)
Balance at 31 December 2016	**35,533**	**12,715**	**14,159**	**62,407**

As at 31 December 2016, provisions refer mainly to:
- RON 35,533 thousand representing potential tax charges of the Group (including interest and penalties);
- RON 12,715 thousand representing restructuring provision in respect of Electrica Serv;
- RON 3,043 thousand representing claims with a customer who claims reimbursement of connection fees.

The provisions made in 2016 refer mainly to:
- provision for restructuring of RON 8,488 thousand as a result of an additional restructuring plan approved by the Board of Directors of Electrica Serv in December 2016, representing the lay-off of an additional number of 234 employees.

- provision of RON 27,697 thousand representing additional potential taxes and penalties out of which RON 23,648 thousand refer to Electrica SA (see Note 10 for further details);
- Provision of RON 3,043 thousand for a litigation with a customer who claims reimbursement of connection fees.

The provisions used in 2016 refer mainly to:
- payment of compensatory indemnities of RON 24,762 thousand in respect of the restructuring plan of Electrica Serv approved in December 2015, for the lay-off of 500 employees of Electrica Serv;
- payment of RON 3,496 thousand by Distributie Muntenia Nord to tax authorities.
- Payment of RON 41,210 thousand representing amounts disputed with ANAF in court, paid by Electrica SA in December 2016 based on an enforcement title received from ANAF (see Note 10 for further details).

Provisions reversed in 2016 refer mainly to:
- reassessment of potential tax charges of Distributie Muntenia Nord by RON 6,940 thousand following an ANAF decision;
- reassessment of potential tax charges of Electrica SA by RON 13,691 thousand following the enforcement title received from ANAF mentioned above;
- reassessment of potential tax charges of Distributie Transilvania Sud by RON 6,933 thousand;
- the reversal of the provision representing claims of individuals in respect of land of the Group of RON 2,388 as a result of a favourable court decision.

As at 31 December 2015, provisions refer mainly to:
- RON 80,106 thousand representing potential tax charges of the Group (including interest and penalties);
- RON 28,989 thousand representing restructuring provision in respect of Electrica Serv;
- RON 2,388 thousand representing claims of individuals in respect of land of the Group.

29 Long-term bank borrowings

	31 December 2016	31 December 2015
Long-term bank borrowings	127,733	-
Total	**127,733**	**-**

On 17 October 2016 the Company's distribution subsidiaries (Societatea de Distribuție a Energiei Electrice Transilvania Sud, Societatea de Distribuție a Energiei Electrice Muntenia Nord and Societatea de Distribuție a Energiei Electrice Transilvania Nord) concluded loan contracts with BRD – Groupe Societe Generale, in which Electrica SA has the quality of guarantor.

The Group has long-term bank borrowings from BRD as follows:

Beneficiary	Facility type	Maturity	Loan amount (th RON)	Balance at 31 December 2016
Societatea de Distributie a Energiei Electrice Muntenia Nord	term loan, non-revolving facility, financing the treasury deficit generated by the investment activity	until 16 October 2021	80,000	-
Societatea de Distributie a Energiei Electrice Transilvania Nord	term loan, non-revolving facility, financing the treasury deficit generated by the investment activity	until 16 October 2021	114,000	95,502
Societatea de Distributie a Energiei Electrice Transilvania Sud	term loan, non-revolving facility, financing the treasury deficit generated by the investment activity	until 16 October 2021	126,000	32,231
Total			**320,000**	**127,733**

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016 (All amounts are in THOUSAND RON, if not otherwise stated)

30 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 justa			
		Loans and re-ceivables	Held to maturity financial assets	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2016									
Financial assets not measured at fair value									
Trade receivables	17	777,989			777,989				
Deposits, treasury bills and government bonds			1,875,054		1,875,054				
Cash and cash equivalents	20	888,841			888,841				
Restricted cash		134,492			134,492				
Total		**1,801,322**	**1,875,054**		**3,676,376**				
Financial liabilities not measured at fair value									
Bank overdrafts	20			142,626	142,626				
Financing for network construction related to concession agreements	25			127,130	127,130		129,383		129,383
Long-term bank borrowings				127,733	127,733				
Trade payables	26			722,830	722,830				
Total				**1,120,319**	**1,120,319**				
31 December 2015									
Financial assets not measured at fair value									
Trade receivables	17	837,782			837,782				
Deposits, treasury bills and government bonds			1,987,881		1,987,881				
Cash and cash equivalents	20	893,492			893,492				
Total		**1,731,274**	**1,987,881**		**3,719,155**				
Financial liabilities not measured at fair value									
Bank overdrafts	20			65,963	65,963				
Financing for network construction related to concession agreements	25			221,641	221,641		224,124		224,124
Short-term bank borrowings				59,821	59,821				
Trade payables	26			656,410	656,410				
Total				**1,003,835**	**1,003,835**				

(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	*Discounted cash flows (DCF) method* The discount rates used are the average 12 M ROBID-ROBOR interest rates of 0.98% as at 31 December 2016 (2015: 1.43%).	Not applicable

(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, restricted cash, 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 was concentrated in the past around state-controlled companies and in the recent years refers to clients that are facing financial difficulties in their industries due to specific changes in circumstances in their industry sector. The Group is in process of setting up a policy regarding insurance of the trade receivables. Also the electricity supply contracts include termination clauses in certain circumstances.

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 2016		31 December 2015	
	Gross value	Bad debt allowance	Gross value	Bad debt allowance
Neither past due nor impaired	603,467	-	654,679	-
Past due 1-90 days	209,205	(46,494)	189,243	(15,916)
Past due 90-180 days	16,616	(11,673)	12,525	(3,605)
Past due 180-360 days	14,087	(11,514)	9,864	(9,008)
Past due 1-2 years	30,872	(26,577)	33,561	(33,561)
Past due 2-3 years	21,618	(21,618)	19,388	(19,388)
Past due more than 3 years	1,010,228	(1,010,228)	1,043,639	(1,043,639)
Total	**1,906,093**	**(1,128,104)**	**1,962,899**	**(1,125,117)**

	Net trade receivables	
	31 December 2016	31 December 2015
Neither past due nor impaired	603,467	654,679
Past due 1-90 days	162,711	173,327
Past due 90-180 days	4,943	8,920
Past due 180-360 days	2,573	856
Past due 1-2 years	4,295	-
Total	**777,989**	**837,782**

Details of the main movements in the allowances for doubtful debts are disclosed in Note 17.

(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 20).
Also starting 2016, certain subsidiaries contracted also long-term loans in order to improve their liquidity position.

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
31 December 2016						
Bank overdrafts	142,626	142,626	142,626	-	-	-
Financing for network construction related to concession agreements	127,130	130,452	86,636	39,720	4,096	-
Long term bank borrowings	127,733	140,508	2,555	2,555	135,398	-
Trade payables	722,830	722,830	722,830	-	-	-
Total	**1,120,319**	**1,136,416**	**954,647**	**42,275**	**139,494**	**-**
31 December 2015						
Bank overdrafts	65,963	65,963	65,963	-	-	-
Financing for network construction related to concession agreements	221,641	228,332	100,248	97,002	31,082	-
Short-term bank borrowings	59,821	59,821	59,821	-	-	-
Trade payables	656,410	656,410	656,410	-	-	-
Total	**1,003,835**	**1,010,526**	**882,442**	**97,002**	**31,082**	**-**

As at 31 December 2015 the Group has loan contracts from OTP and BCR as follows:

Bank	Contract date	Facility type	Maturity	Credit limit (thousand RON)	Balance at 31 December 2015
OTP Bank Romania	13-Mar-15	financing of liabilities to Fiscal Authorities	until November 2017	18,000	9,900
BCR	7-Sep-15	working capital financing and refinancing of other loans	4 months	50,000	49,921
Total				**68,000**	**59,821**

In March 2015 Electrica Serv contracted a loan from OTP Bank Romania of RON 18,000 thousand in order to finance the subsidiary's payables to tax authorities. The loan bears an interest rate of ROBOR 3M plus a margin of 3.25% p.a. The loan is payable in equal monthly tranches until 11 November 2016. The loan is secured by pledges over part of the subsidiary's assets (bank accounts, trade receivables from the contracts concluded with related parties and buildings).

In September 2015 Electrica Distributie Transilvania Nord contracted a revolving credit facility from Banca Comerciala Romana in order to finance the operational activity and to refinance credit facilities contracted by the subsidiary from other banks. The credit has a maximum limit of RON 50,000 thousand.
These loans were paid in full during 2016.

(iii) Market risk
Market risk is the risk that changes in market prices – such as foreign exchange rates and 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 and USD). 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 is as follows:

	31 December 2016	31 December 2016	31 December 2015
in thousands of RON	**EUR**	**USD**	**EUR**
Cash and cash equivalents	2,533	4,669	10,241
Deposits (deposits, treasury bills and government bonds)	-	-	139,581
Financing for network construction related to concession agreements	(127,130)	-	(221,641)
Net statement of financial position exposure	**(124,597)**	**4,669**	**(71,819)**

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

	Average rate		Year-end spot rate	
RON	**2016**	**2015**	**2016**	**2015**
EUR 1	4.4900	4.4450	4.5411	4.4821
USD 1	4.0569	4.0057	4.3033	4.1477

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016 (All amounts are in THOUSAND RON, if not otherwise stated)

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.

	Profit before tax	
Effect	**Strengthening**	**Weakening**
31 December 2016	**(6,230)**	**6,230**
EUR (5% movement)		
31 December 2015		
EUR (5% movement)	(3,591)	3,591

A reasonably possible strengthening (weakening) of the USD 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.

	Profit before tax	
Effect	**Strengthening**	**Weakening**
31 December 2016	**233**	**(233)**
USD (5% movement)		
31 December 2015		
USD (5% movement)	-	-

Interest rate risk
Until 2016 the Group's policy was to mainly use supplier credit for financing its capital investments. Starting 2016 the Group started to use medium term bank loans (please see Note 20).

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

	31 December 2016	**31 December 2015**
Fixed-rate instruments		
Financial assets		
Bank accounts (cash and cash equivalent)	740,487	678,612
Treasury bills and government bonds (cash and cash equivalent)	-	90,865
Deposits, treasury bills and government bonds	1,875,054	1,987,881
Financial liabilities		
Financing for network construction related to concession agreements	(127,130)	(221,641)
Long-term bank borrowings	(127,733)	-
	2,360,678	**2,535,717**
Variable-rate instruments		
Financial liabilities		
Short term bank borrowings	-	(59,821)
Overdrafts	(142,626)	(65,963)
	(142,626)	**(125,784)**

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**
31 December 2016		
Variable-rate instruments	(713)	713
31 December 2015		
Variable-rate instruments	(629)	629

31 Related parties

(A) MAIN SHAREHOLDERS

As at 31 December 2016, the main shareholder of Electrica SA is the Romanian State, represented by the Ministry of Energy (48.78%), after the ownership dilution following an initial public offer. The second largest shareholder is the European Bank for Reconstruction and Development with 8.66%.

(B) MANAGEMENT AND ADMINISTRATORS' COMPENSATION

	2016	2015
Executive Management compensation	**4,573**	**5,540**

Executive management compensation refers to the managers with mandate contract, which are the General Managers of each subsidiary and the managers of Electrica SA.

The changes in 2016 refers to the following: at the beginning of 2016, Electrica SA management included five managers remunerated based on mandate contract. A mandate contract ceased in March 2016 and another one in October, while in October 2016 one new manager was hired based on the same type of contract. As at 31 December 2016 Electrica SA has four managers with mandate contracts.

Compensations granted to the members of the Board of Directors were as follows:

	2016	2015
Members of Board of Directors	**3,322**	**5,362**

Until 14 December 2015 the Board of Directors of Electrica SA comprised 5 members and afterwards 7 members. The amount of fixed monthly remuneration was also increased and an attendance fee was established for the Board of Directors and its committees' meetings. The annual number of meetings to be remunerated is limited to 12 for the Board of Directors and to 6 for each committee, according to the remuneration policy approved by the General Meeting of Shareholders on 31 March 2016.

In 2016 the composition of the Board of Directors of the subsidiaries was modified by the increase in the number of administrators from Electrica SA, who are not remunerated for this activity; therefore there was a significant decrease in the administrators' remuneration at subsidiaries level. Also in December 2016 the number of the members of the Board of Directors of distribution subsidiaries and of Electrica Serv was changed from 5 to 3.
No loans were granted to directors or administrators in 2016 and 2015.

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016 (All amounts are in THOUSAND RON, if not otherwise stated)

(C) 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:

Furnizor	**Purchases (without VAT)**		**Balance (including VAT)**	
	2016	**2015**	**31 December 2016**	**31 December 2015**
Nuclearelectrica	305,597	304,412	30,893	19,682
Transelectrica	614,439	651,045	141,474	119,065
Complexul Energetic Oltenia	57,166	242,181	8,395	39,622
Hidroelectrica	550,038	482,448	52,297	34,889
OPCOM	302,239	326,655	3,889	3,604
Electrocentrale Bucuresti	24,998	32,487	-	-
SNGN ROMGAZ	56,331	-	-	-
Societatea Comerciala "Cupru Min"	1,887	-	1,887	-
CN Posta Romana SA	348	5,654	6	437
E-Distributie Muntenia	25,460	32,190	4,230	6,908
E-Distributie Banat	9,286	9,517	1,731	2,106
E-Distributie Dobrogea	7,473	11,664	2,041	1,469
Others	12,453	19,558	2,544	5,802
Total	**1,967,715**	**2,117,811**	**249,387**	**233,584**

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:

	Sales (without VAT)	**Balance, gross (including VAT)**	**Allowance (including VAT)**	**Balance, net**
Client	**2016**	**31 December 2016**		
CFR Telecomunicatii	44,861	4,474	(53)	4,421
Electrificare CFR	10,839	1,203	-	1,203
SNGN ROMGAZ	14,151	1,256	-	1,256
OPCOM	28,285	2,590	-	2,590
Societatea Comerciala "Cupru Min"	26,627	-	-	-
Transelectrica	14,734	1,361	-	1,361
CN Romarm	9,635	62	-	62
CN Remin SA	343	71,180	(71,148)	32
C.N.C.A.F. MINVEST S.A.	-	78,735	(78,735)	-
Oltchim	-	715,259	(715,259)	-
Baita SA	1,541	5,002	(4,334)	668
E-Distributie Muntenia	18,034	9,101	-	9,101
Others	32,723	10,103	(6,713)	3,390
Total	**201,773**	**900,326**	**(876,242)**	**24,084**

	Sales (without VAT)	**Balance, gross (including VAT)**	**Allowance (including VAT)**	**Balance, net**
Client	**2015**	**31 December 2015**		
CFR Telecomunicatii	52,332	7,040	-	7,040
Electrificare CFR	12,660	1,139	-	1,139
SNGN ROMGAZ	20,145	1,497	-	1,497
OPCOM	28,316	3,537	-	3,537
Societatea Comerciala "Cupru Min"- S.A. Abrud	31,295	10,122	(10,122)	-
Transelectrica	5,536	1,403	-	1,403
CN Romarm	8,592	33	-	33
CN Remin SA	314	71,173	(71,173)	-
C.N.C.A.F. MINVEST S.A.	-	78,735	(78,735)	-
Oltchim	-	715,277	(715,277)	-
Baita SA	1,845	5,349	(4,770)	579
E-Distributie Muntenia	15,576	4,933	-	4,933
Others	56,784	15,253	(6,790)	8,463
Total	**233.395**	**915.491**	**(886.867)**	**28.624**

32 Subsidiaries in financial distress

The Company's subsidiaries Servicii Energetice Moldova and Servicii Energetice Dobrogea entered in bankruptcy in January 2016 and in January 2015, respectively, and consequently the Company discontinued their consolidation as of these dates as it no longer has control over these entities.

The individual assets and liabilities of Servicii Energetice Moldova and Servicii Energetice Dobrogea at the date the Company ceased their consolidation (31 January 2016 and 31 January 2015, respectively) were as follows:

	Carrying amount	**Carrying amount**
	Servicii Energetice Moldova as of 31 January 2016	**Servicii Energetice Dobrogea as of 31 January 2015**
Property, plant and equipment	21,709	3,435
Trade receivables	2,027	1,367
Cash and cash equivalents	1,609	2,863
Total assets	**25,345**	**7,665**
Trade payables	2,685	1,802
Other payables	41,931	22,006
Employee benefits	52,902	22,214
Deferred tax liabilities	1,520	144
Total liabilities	**99,038**	**46,166**
Gain on loss of control (Note 10)	**73,693**	**38,501**

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 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 measured the carrying amounts of the assets and liabilities of these subsidiaries on a liquidation basis starting the commencement of their insolvency procedures.

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016 (All amounts are in THOUSAND RON, if not otherwise stated)

As at 31 December 2016 and at 31 December 2015, the carrying amount of the assets and liabilities of these companies included in the consolidated financial information are as follows:

31 December 2016	Servicii Energetice Muntenia	Servicii Energetice Oltenia	Total
Property, plant and equipment	93,894	23,588	117,482
Trade receivables	8,251	8,406	16,657
Cash and cash equivalents	10,154	2,988	13,142
Total assets	**112,299**	**34,982**	**147,281**
Trade payables	(21,615)	(4,232)	(25,847)
Payables to the State budget	(183)	(8,859)	(9,042)
Social security and other salary taxes	(434)	(5,916)	(6,350)
Provisions, employee benefits and deferred taxes	(24,412)	(12,572)	(36,984)
Total liabilities	**(46,644)**	**(31,579)**	**(78,223)**

31 December 2015	Servicii Energetice Moldova	Servicii Energetice Muntenia	Servicii Energetice Oltenia	Total
Property, plant and equipment	21,709	106,389	32,312	160,410
Trade receivables	2,027	7,878	6,780	16,685
Cash and cash equivalents	1,609	2,252	392	4,253
Total assets	**25,345**	**116,519**	**39,484**	**181,348**
Trade payables	(2,854)	(26,144)	(3,059)	(32,057)
Payables to the State budget	(41,931)	(333)	(8,715)	(50,979)
Social security and other salary taxes	(34,610)	(447)	(7,798)	(42,855)
Provisions, employee benefits and deferred taxes	(19,412)	(24,752)	(14,329)	(58,493)
Total liabilities	**(98,807)**	**(51,676)**	**(33,901)**	**(184,384)**

The Group has not classified the assets and liabilities of these subsidiaries as held for sale as at 31 December 2016, as 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 2016.

The reorganization programs for Servicii Energetice Muntenia and Servicii Energetice Oltenia, which are due to finalize in 2018 and in 2019 respectively, will result either in their liquidation or in the continuation of their activities.

33 Contingencies

A) LITIGATION AND CLAIMS

The Group is involved in many litigations and claims (ie. with Property Fund – holder of minority interests in the Company's subsidiaries, ANRE, ANAF, Court of Accounts, claims for damages, claims over land titles, labour related litigations etc.).
As summarised in Note 28, the Group set-up provisions for the litigations or claims for which the management assessed as probable the outflow of resources embodying economic benefits due to low chances of favourable outcomes of those litigations or disputes. The Group does not present information in the financial statements and did not set-up provisions for items for which the management assessed as remote the possibility of outflow of economic benefits.
The Group discloses below information on the most significant items of litigations or claims for which the Group did not set-up provisions as they relate to possible obligations that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Group (ie. litigations for which different inconsistent sentences were issued by the Courts, or litigations which are in early stages and no preliminary ruling were issued so far):

- In 2010 Electrica SA was sued by Termoelectrica S.A., which claimed the payment of RON 25,047 thousand representing penalties related to certain electricity invoices, for the period 1 April 2007 – 31 March 2008. The first sentence in this case was favourable to Electrica SA. In November 2016, the Court of Appeal admitted Termoelectrica S.A.'s appeal, cancelled the first court ruling and pronounced a decision in favour of Termoelectrica S.A. In 2017 Electrica SA made an appeal against the civil decision execution.
- In 2015 Electrica SA was sued by Hidroelectrica S.A., which claimed the payment of RON 5,445 thousand and other damages, representing claims related to acquisition of electricity by the Company from Hidroelectrica S.A. at a price alleged to be unfair. There was no preliminary ruling in this case as of the date of these financial statements.

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.

As disclosed in Notes 10 (b) and 28, the Group incurred significant expense related to previous years' tax adjustments as a result of controls and litigations with tax authorities. The management of the Group believes that adequate provisions were recorded in the consolidated financial statements for all significant tax obligations; however a risk persists that the tax authorities might have different positions.

34 Commitments

(A) CONTRACTUAL COMMITMENTS

The Group has the following contractual commitments as at 31 December 2016:

	Amount
Purchase of electricity	1,223,717
Purchase of property, plant and equipment and intangible assets	410,208
	1,633,925

(B) OPERATING LEASES

The main operating leases refer to vehicles and equipment leased by Electrica Serv, as follows:

Supplier	Contractual amount
Operational Autoleasing SRL	60,241
Electrical Business Center SRL	77,467
RCI Finantare Romania	1,327
Energopetroleum Top Service SRL	7,578
Center TEA & Co SRL	12,179
Total	158,791

The future lease payments related to the operating lease contracts mentioned above are as follows:

	31 December 2016	31 December 2015
Less than 1 year	25,544	24,438
Between 1 and 5 year	33,163	57,383
Total	58,707	81,821

(C) INVESTMENT PROGRAM

The investment program approved for the year 2017 is as follows:

	2016
Distribution activity	874,000
Supply activity	12,775
Maintenance activity	12,237
Other/ shared	5,000
Total	904,012

The amounts actually incurred may differ from the ones planned.

(D) GUARANTEES AND PLEDGES

At 31 December 2016 and 2015, the Group has guarantees on its bank accounts opened at ING, BRD and BCR for the overdrafts contracted (please see Note 20).

At 31 December 2016 the Group has outstanding bank letters of guarantee of RON 459,421 thousand (2015: RON 188,084 thousand) issued in favour of its suppliers.

SOCIETATEA ENERGETICA ELECTRICA S.A.

INDEPENDENT AUDITORS' REPORT

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Independent Auditors' Report
(free translation[1])

TO THE SHAREHOLDERS OF
SOCIETATEA ENERGETICA ELECTRICA S.A.

Opinion

We have audited the consolidated financial statements of Societatea Energetica Electrica S.A. ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Romania, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[1]*TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian, which is the official and binding version.*

Revenue recognition – electricity distribution and supply

Revenue - Electricity distribution and supply (RON 4,892,158 thousand – Note 9)

Refer to Notes 6(b) (accounting policy) and 9 (financial disclosures) to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
Electricity distribution and supply is the Group's main revenue stream. This revenue is recognised when electricity is consumed by the customers, as described in Note 6(b) to the consolidated financial statements. Revenue recognition is a key matter in our audit due to the following factors: • The Group operates in a large number of locations throughout Romania, and the process of capturing, processing and transferring to the accounting system of the data relevant for revenue recognition is not centralized; • In the reporting period, significant changes were made to the accounting system used by the Group's supply subsidiary, including changes to the interface between the accounting and the billing system; • A significant amount of revenue refers to the accrual for electricity delivered and not yet billed by the year end. The computation of this amount is based on historical data and assumptions regarding consumption patterns; • There are significant revenue-related intra-group transactions, including intra-group services, sales of goods, capital expenditure and agent transactions. These transactions are reconciled and eliminated on consolidation, a process which involves significant manual input, and therefore more prone to misstatement.	Our audit procedures included, among others: • using our own IT specialists, testing of general and IT application controls over accounting and billing systems related to capturing and recording of revenue transactions; • testing of the controls over manual reconciliations between the billing and the accounting system of the data relevant for revenue recognition; • developing an independent expectation of the electricity revenue for the year based on our industry and entity knowledge; • obtaining external confirmation for a sample of trade receivables and performing procedures on other revenue related accounts, such as obtaining external confirmations for bank accounts; • assessing the reasonableness of the methodology used to compute unbilled revenue balances at year end, and of the related assumptions, such as, primarily, the estimated pattern of electricity consumption; • testing the accuracy of unbilled revenue reports by comparing a sample of items with the level of subsequent amounts invoiced; • testing the consolidation adjustments in respect of intra-group revenue transactions.

Capitalized expenditure related to the concession agreements

Intangible assets related to concession agreements (RON 3,910,388 thousand – Note 22)

Construction revenue related to concession agreements (RON 537,872 thousand – Note 9)

Construction costs related to concession agreements (RON 528,372 thousand – Consolidated Statement of Profit or Loss)

Amortization of intangible assets related to concession agreements (RON 327,695 thousand – Note 22)

Deferred tax liability from temporary differences related to Intangible assets related to concession agreements (RON 159,146 thousand – Note 16(iv))

Refer to Notes 4 (judgments), 6(b), 6(k) (accounting policy), 9, 16(iv) and 22 (financial disclosures) to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
The electricity distribution is a regulated activity. The Group's distribution subsidiaries, as operators, have in place service concession agreements with the Ministry of Economy, as grantor, to provide the electricity distribution service. According to these agreements, the Group builds the electricity distribution infrastructure which is used to provide the power distribution service, which shall ultimately be transferred to the grantor or a third party appointed by the grantor at the end of the concession period. The Group incurs significant expenditure in relation to the development and maintenance of the infrastructure. The construction and maintenance works are either performed internally, or outsourced to sub-contractors. We considered this area a key audit matter due to the magnitude of the amounts involved, as well as due to the complexities of the application of relevant financial reporting standards and of the management judgment, including those in respect of recognition of revenue based on the stage of completion of the services and separation of construction or upgrade services from operation services.	Our audit procedures included, among others: • assessing the Group's model used for the service concession accounting for compliance with relevant financial reporting standards; • understanding and assessing the separation of construction or upgrade services from operation services; • obtaining supporting documentation for a sample of items capitalised, assessing whether they meet the criteria for capitalization, and assessing their accuracy by tracing to supporting documents (i.e. contracts, invoices, work statements); • assessing the adequacy of related disclosures in the consolidated financial statements.

Taxation

Penalties to the State and other payments to the State budget (RON 63,140 thousand – Note 10(b))

Income tax expense (RON 120,136 thousand – Note 16)

Provisions for tax risks (RON 35,533 thousand – Note 28)

Change in provisions for tax risks during the year, net (RON 44,573 thousand – Note 28)

Refer to Notes 6(g), 6(s), 6(t) (accounting policy), 10(b), 16 and 28 (financial disclosures) to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
The Group has been subject to various adjustments related to corporate income tax and value added tax imposed by tax authorities as a result of their tax audits from prior periods. Certain Group entities are in litigation or disputes with tax authorities regarding findings of tax audits from prior years. Key judgments are made by management in estimating tax exposures and quantifying related liabilities, provisions and/or contingent liabilities.	Our audit procedures included, among others: • using our own tax specialists, assessing the Group's interpretation and application of relevant tax law, and evaluating the appropriateness of key assumptions used and the reasonableness of estimates in relation to uncertain tax positions and the level of tax liabilities or provisions; • obtaining and evaluating responses to our audit inquiry letters from the Group's in-house and external lawyers in relation to existing or potential tax proceedings and assessing the Group's position in relation to specific matters disputed; • inspecting the Group's correspondence with tax authorities during the reporting period and subsequently, until the date of our report; • assessing the adequacy of disclosures related to taxation in the consolidated financial statements, with particular focus on uncertain tax positions and tax-related contingencies.

Litigations and claims - provisions and contingent liabilities

Refer to Notes 6(s), 6(t) (accounting policy), 28 and 33 (financial disclosures) to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
In the normal course of the Group's business, potential exposures arise from administrative or court proceedings. As disclosed in Notes 28 and 33 to the consolidated financial statements, the Group entities are involved in litigations with different authorities, business partners or other parties. Whether a liability is recognized or disclosed as a contingent liability in the financial statements is inherently judgmental and dependent on a number of significant assumptions and assessments. The amounts involved are potentially significant and determining the amount, if any, to be recognised or disclosed in the financial statements, is inherently subjective.	Our audit procedures included, among others: • inspecting minutes of the shareholders' and board of directors' meetings; • obtaining and evaluating lawyers' responses to our audit inquiry letters and discussing the nature and status of the litigations and potential legal exposures with the Group's management and in-house legal counsels, with particular focus on the open litigation with Termoelectrica S.A. (RON 25,047 thousand); • critically assessing the Group's assumptions and estimates in respect of litigations and claims, including the liabilities or provisions recognized or contingent liabilities disclosed in the consolidated financial statements. This involved assessing the probability of an unfavourable outcome of a given proceeding and the reliability of estimates of related amount; • assessing whether the disclosures detailing significant legal proceedings adequately disclose the Group's potential liabilities.

Other information - Consolidated Administrators' Report

The other information comprises the consolidated Administrators' Report. The Administrators are responsible for the preparation and presentation of the consolidated Administrators' Report in accordance with Order of Minister of Public Finance no. 2844/2016, articles 26-27 of the accounting regulations in accordance with International Financial Reporting Standards, and for such internal control as Administrators determine is necessary to enable the preparation and presentation of consolidated Administrators' Report that is free from material misstatement, whether due to fraud or error.

The consolidated Administrators' Report presented from page 1 to 142 is not part of the consolidated financial statements.

Our opinion on the consolidated financial statements does not cover the consolidated Administrators' Report.

In connection with our audit of the consolidated financial statements as at and for the year ended 31 December 2016, our responsibility is to read the consolidated Administrators' Report and, in doing so, consider whether there is a material inconsistency between the Administrators' Report and the financial statements, whether the Administrators' Report includes, in all material respects, the information required by Order of Minister of Public Finance no. 2844/2016, articles 26-27 of the accounting regulations in accordance with International Financial Reporting Standards, and whether, based on our knowledge and understanding of the entity and its environment obtained during our audit of the consolidated financial statements, the information included in the consolidated Administrators' Report is materially misstated. We are required to report in respect of these matters. Based on the work performed we report that:

a) in the consolidated Administrators' Report we have not identified information which is not in accordance, in all material respects, with the information presented in the accompanying consolidated financial statements;

b) the consolidated Administrators' Report identified above includes, in all material respects, the information required by Order of Minister of Public Finance no. 2844/2016, articles 26-27 of the accounting regulations in accordance with International Financial Reporting Standards.

In addition, based on our knowledge and understanding of the entity and its environment acquired during our audit of the consolidated financial statements as at and for the year ended 31 December 2016, we have not identified information included in the consolidated Administrators' Report that is materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other matter

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 this report, or for the opinion we have formed.

The engagement partner on the audit resulting in this independent auditors' report is Razvan Mihai.

REFER TO THE ORIGINAL SIGNED ROMANIAN VERSION

For and on behalf of KPMG Audit S.R.L.:

Razvan Mihai

registered with the Chamber of Financial Auditors of Romania under no. 2561/2008

KPMG AUDIT S.R.L.

registered with the Chamber of Financial Auditors of Romania under no. 9/2001

Bucharest
9 March 2017

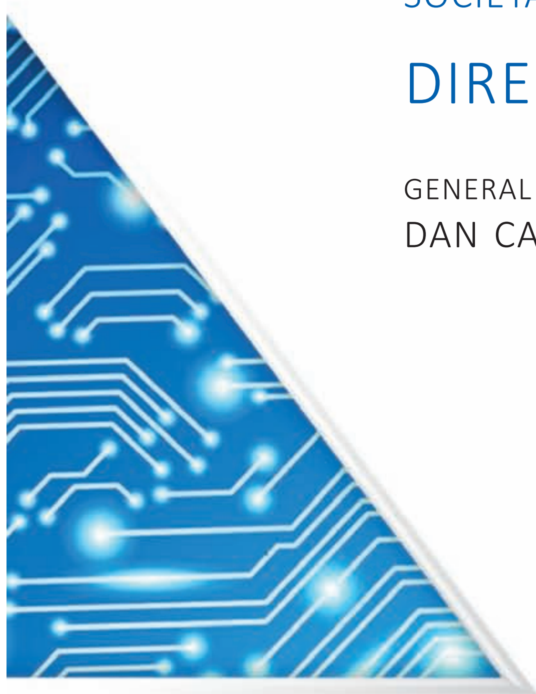
CHAIRMAN OF THE BOARD OF DIRECTORS,
CRISTIAN BUSU

SOCIETATEA ENERGETICA ELECTRICA S.A.

DIRECTORS' REPORT FOR 2016

GENERAL MANAGER
DAN CATALIN STANCU

CHIEF FINANCIAL OFFICER
IULIANA ANDRONACHE



SUMMARY

Identification details of the report and issuer

Report date: 9 March 2017
Issuer name: Societatea Energetica Electrica S.A.
Registered Office: no. 9 Grigore Alexandrescu Street, 1st District, Bucharest, Romania
Telephone/fax: +4021.208.5999; +4021.208.5998
Fiscal code: RO13267221
Registered with the Trade Register under no.: J40/7425/2000
Share Capital: RON 3,459,399,290 subscribed and paid up
The main characteristics 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 securities issued are traded: As at December 31st, 2016, the company's shares are listed on the Bucharest Stock Exchange and Global Depository Receipts are listed on the London Stock Exchange.

	Ordinary Shares	**GDRs**
ISIN	ROELECACNOR5	US83367Y2072
Bloomberg Symbol	0QVZ	ELSA: LI
Currency	RON	USD
Face value	RON 10	RON 40
Trading market	Bursa de Valori Bucuresti REGS	London Stock Exchange MAINMARKET
Market symbol	EL	ELSA

1 HIGHLIGHTS

Societatea Energetica Electrica S.A., herein after refer to as "Electrica SA" or "the Company", registered with the National Trade Registry Office under no. J40/7425/2000, with unique registration code 13267221 and having as main activity "Consulting activities and business management" - NACE Code 7022, aims at the coordination and efficient control of investments in subsidiaries carrying out electricity distribution and supply activities, as well as energy services.

Also, the Company carries out services in the electricity balancing market, import-export and trading.

A summary of the key indicators is presented below:

- In the period ended December 31, 2016, revenues collected by the Company from dividends distributed by its subsidiaries increased by RON 30 million compared to 2015;
- In the period ended December 31, 2016, the net profit amounted to RON 265 million, increasing by RON 36 million or 12% as compared to 2015.

2 ORGANISATIONAL STRUCTURE

The Company's subsidiaries as at December 31st 2016 are the following:

Subsidiary	Activity	Registration code	Headquarters	% stake as of December 31st, 2015
Societatea de Distributie a Energiei Electrice Muntenia Nord S.A.	Electricity distribution in North Muntenia geographical area	14506181	Ploiesti	78.0000021%
Societatea de Distributie a Energiei Electrice Transilvania Nord S.A.	Electricity distribution in Northern Transylvania geographical area	14476722	Cluj-Napoca	77.999999%
Societatea de Distributie a Energiei Electrice Transilvania Sud S.A.	Electricity distribution in Southern Transylvania geographical area	14493260	Brasov	78.0000019%
Electrica Furnizare S.A.	Electricity supply	28909028	Bucharest	77.9999700%
Electrica Serv S.A.	Services in the energy sector (maintenance, repair, construction)	17329505	Bucharest	100%
Servicii Energetice Muntenia S.A. (in reorganization)	Services in the energy sector (maintenance, repair, construction)	29384120	Bucharest	100%
Servicii Energetice Oltenia S.A. (in reorganization)	Services in the energy sector (maintenance, repair, construction)	29389861	Craiova	100%
Servicii Energetice Moldova S.A.* (in bankruptcy)	Services in the energy sector (maintenance, repair, construction)	29386768	Bacau	n/a
Servicii Energetice Dobrogea S.A.* (in bankruptcy)	Services in the energy sector (maintenance, repair, construction)	29388378	Constanta	n/a

**) Electrica S.A. lost control over Servicii Energetice Banat S.A. in November 2014 and over Servicii Energetice Dobrogea S.A. in January 2015. Also Electrica S.A. lost control of Moldova Energy Services since January 2016 due to the commencement of bankruptcy proceedings of subsidiary*

Source: Electrica

Electrica's subsidiaries do not hold any shares issued by the parent company.

3 KEY EVENTS IN 2016

THE MAIN EVENTS OF 2016:

▶ **Regarding corporate governance**

- Starting with July 4, 2014, the Company's shares were listed on the Bucharest Stock Exchange, and Global Depository Receipts were listed on London Stock Exchange. After admission to trading on regulated markets in Bucharest and London, Electrica has taken major steps to align to the best practices of listed companies, by defining and introducing an action plan regarding corporate governance, defining clear lines of responsibility and accountability, implementing a code of conduct, assessing the management by a third party consultant, implementing a whistle-blower policy and drawing up the insider dealing and market manipulation guidelines.
- The most important decisions of the General Meeting of Electrica's Shareholders in 2016 (31 March 2016, 27 April 2016, 21 October 2016) refer to:
    - Approval of the budgets for Electrica and its subsidiaries and of the consolidated investment plan at the level of the Electrica group (CAPEX plan) for the financial year 2016;
    - Approval of the financial statements and profit distribution for Electrica and its subsidiaries for 2015 ;
    - Approval of the remuneration policy of the members of the Board of Directors of Electrica, valid for the entire period of their mandates;
    - Approval of the framework management agreement to be concluded by Electrica with the BoD members;
    - Amendment of the Company name from "Societatea de Distributie si Furnizare a Energiei Electrice – "Electrica" SA" to "Societatea Energetică Electrica S.A.";
    - Re-appointment of KPMG Audit SRL as auditor for 2016 and 2017 financial years
    - Rejection of the sale of the automatic meter reading system (AMR System) by Electrica SA to its distribution subsidiaries;
    - Appointment of Mr. Willem Jan Antoon Henri Schoeber as an independent member of the Board of Directors following the vacancy of a position in the Board of Directors of Electrica, with mandate valid until December 14th, 2019;
    - Approval of the consolidated annual investment plan at Electrica group level (CAPEX plan) corresponding to the 2016 financial exercise supplemented up to RON 844,619 th.;
    - Approval of the proposals for amendment of the Articles of Association of Societatea Energetică Electrica S.A.

▶ **Regarding the non-executive and executive management**

- On January 13th, 2016 Electrica's Board appointed Mr. Cristian Busu as Chairman with a one-year mandate and established three consultative committees: Audit and Risk Committee, Nomination and Remuneration Committee and Strategy and Corporate Governance Committee;
- On February 10th 2016 Mr. Michael Boersma renounced to his position of member of the Board of Directors starting with May 1st 2016. Following Mr. Michael Boersma resignation, on April 26th 2016 the Board appointed Mr. Willem Jan Antoon Henri Schoeber as temporary member of the Board of Directors, starting with May 1st 2016; He was confirmed as an independent member of the Board of Directors by the General Meeting of Shareholders held on October 21st 2016 ;
- On February 26th, 2016 the Board of Directors and Mr. Ioan Rosca reached a mutual agreement to terminate his mandate as CEO of Electrica no later than June 2016. On March 11th, 2016 the Board of Directors revoked Mr. Ioan Rosca from the CEO position and appointed Ms. Iuliana Andronache, current CFO, as interim CEO of Electrica SA;
- On September 19th, 2016, the Board of Directors of Electrica SA appointed Mr. Dan Catalin Stancu as CEO of Electrica SA for a mandate of four years starting with October 24th 2016;
- On October 4th, 2016 the Board revoked Ms. Gabriela Marin from the position of executive manager coordinating the Human Resources Division of Electrica starting as of October 5th, 2016.

- **Other relevant events:**

- On January 8th, 2016 Electrica issued a report on its status of compliance with the new Bucharest Stock Exchange Corporate Governance Code;
- In H1 2016, Electrica set-up a project team dedicated to develop a network of fast chargers, in collaboration with OMV Petrom;
- Ongoing internal procedures streamlining, with a focus on Lean Six Sigma implementation at HQ level. Further to the implementation at HQ level, the LSS project will be gradually rolled-out at subsidiaries level;
- Adopting policies regarding zero tolerance of corruption, fraud and money laundering and combating and avoidance of conflicts of interest, gifts, protocol expenses and prohibition of facilitation payments, transparency and stakeholder engagement, in accordance with the Code of Ethics and Professional Conduct in force at the Electrica level and its subsidiaries, during 2016;
- The group-wide voluntary leave plan deployed is on track;
- Ongoing projects related to the supply segment: development of key IT and marketing infrastructure ongoing. Major projects started during H1 with some already implemented and the remaining being in the roll-out phase;
- FP negotiations: discussions ongoing throughout Q1, finalized with no-go decision due to material difference between buyer-seller price. Results of the negotiation process were made public on March 28th 2016;
- Media Campaign: kick-off of the first brand campaign in Electrica's history;
- Loans: Electrica signed three blocked account pledge agreements, with a total value of RON 320 million, related to the credits granted to its distribution subsidiaries to finance the cash shortage;
- During the month of september 2016 occurred the certification of Integrated Management System (IMS) for Quality-Environmental-Health and Occupational Safety according to requirements of international standards ISO 9001:2015 – "Quality management systems. Requirements.", ISO 14001:2015 – " Environmental management systems - Requirements with guidance for use" and OHSAS 18001:2007 – "Occupational health and safety management systems. Requirements";
- Certification was realized by the certification organization DEKRA CERTIFICATION, top global provider for audit and certification services;
- In the second semester of 2016, together with the external consultant ENVISO, the mapping of all processes associated to current organisational structure was realized.

4 DECLARATION ON CORPORATE GOVERNANCE

4.1 Ownership Structure

The General Meeting of Shareholders ("GMS") is the main corporate forum of Electrica S.A., with responsibilities of decision regarding matters mentioned in the Articles of Association. Convening, operating, voting process and other provisions regarding GMS are detailed in the Articles of Association of Electrica S.A.

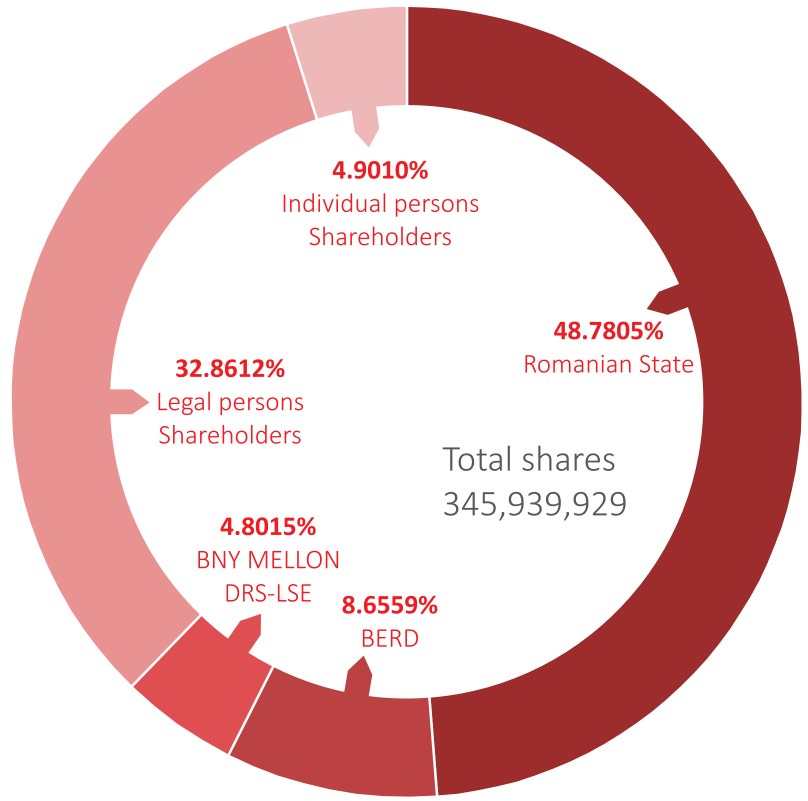
Until July 2014, the Romanian state, through the Ministry of Energy, was the sole shareholder of Electrica S.A. As of July 4, 2014, the Company's shares are listed on the Bucharest Stock Exchange, and Global Depository Receipts are listed on London Stock Exchange.

The latest information on ownership structure was made available by the Central Depository on 15 February 2017 and is presented in the following table:

Shareholder	Number of shares	Stake held (% of the share capital)
The Ministry of Energy, Bucharest, Romania	168,751,185	48.7805%
The European Bank for Reconstruction and Development, London, UK	29,944,090	8.6559%
BNY MELLON DRS, New York, USA	16,610,424	4.8015%
Legal entities	113,679,866	32.8612%
Individuals	16,954,364	4.9010%
TOTAL	**345,939,929**	**100%**

Source: Central Depository, Electrica S.A.

Figure 1: Ownership structure on 15 February 2017



Following the stabilization process after the June 2014 IPO, Electrica S.A. owns 6,890,593 of its treasury shares, representing 1.99% of the total share capital. These shares entitle Electrica neither to voting rights nor to dividends.

Source: Central Depository, Electrica

4.2 Electrica S.A General Meeting of Shareholders

According to the Articles of Association updated on 21 October 2016:

DUTIES OF THE GENERAL MEETING OF SHAREHOLDERS

1. The general meeting of the shareholders is the governing body of the Company.
2. The general meetings of the shareholders are ordinary and extraordinary.
3. The ordinary general meeting of the shareholders shall have the following main duties:

- to appoint and revoke the members of the Board and establish the level of their remuneration and other rights according to the legal provisions;
- to establish the income and expenses budget, to set out the activity schedule;
- to establish the income and expenses budget consolidated at the group level;
- to discuss, approve or amend the annual financial statements according to the reports submitted by the Board and the financial auditors;
- to approve the profit distribution according to the law and to establish the dividend;
- to decide on the management activity of the directors and on the discharge of liability, in accordance with the law;
- to decide to file legal actions against the directors, managers as well as financial auditors for damages they caused to the Company by breaching their obligations towards the Company;
- to decide on mortgaging or leasing or closing of one or more units of the company;
- to appoint and revokes the financial auditor and to set the minimum term of the financial audit contract;
- to carry out any other duties set out by the law.

4. The extraordinary general meeting of the shareholders shall decide on the following:

- withdrawal of the preference right of shareholders upon subscription of new shares issued by the Company;
- contracting any type of loans, debts or obligations representing a loan, as well as creating real or personal security related to these loans, in each case in accordance with the competence limits provided in Annex 1 to Articles of Association;
- operations regarding the acquisition, alienation, exchange or creation of encumbrances over fixed assets of the Company whose value

exceeds, individually or cumulated, during any financial year, 20% of the total fixed assets, less receivables, and leases of tangible assets for periods longer than one year, whose individual or cumulated value towards the same co-contractor or involved persons or with whom it acts in concert exceeds 20% of the fixed assets value, less receivables at the time of entering in the relevant operation, as well as joint ventures in excess of the same value and with a duration of over one year;

- approving investment projects in which the Company will be involved in accordance with the competence limits provided in Annex 1 to these Articles of Association, other than the ones provided in the annual investment plan of the Company;
- approving the issuance and admission to trading on a regulated market or on an alternative trading system of shares, depositary certificates, allotment rights or other similar financial instruments; approving the competencies delegated to the Board;
- changing the legal form;
- relocation of the registered office;
- changing the main or secondary business objects;
- increasing the share capital, as well as decreasing or the replenishment of the share capital by issuing new shares, according to the law;
- the merger and the spin-off;
- the dissolution of the Company;
- carrying out any bond issuance, as per the provisions of art. 10 of the Articles of Association, or conversion of a category of bonds in a different category or in shares;
- approving the conversion of preferential and nominative shares from one category to another, according to the law;
- any other amendment to the Articles of Association;
- the establishment or dissolution of secondary offices: branches, agencies, representative offices, working points or other similar units without legal status, according to the legal provisions;
- participation in the establishment of new legal persons;
- approval of the eligibility and independence criteria with respect to the Board members;
- approval of the corporate governance strategy of the Company, including the corporate governance action plan;
- donations within the limits of the competence provided in Appendix 1 to these Articles of Association; and
- approves granting of intragroup loans with a value of more than EUR 50 million per operation;
- any other decision that requires the approval of the extraordinary general meeting of the shareholders.

RIGHTS AND OBLIGATIONS DERIVING FROM THE SHARES

1. Each share subscribed and fully paid in by the shareholders, in accordance with the law, grants the shareholders (i) the right to one vote in the general meeting of the shareholders, (ii) the right to elect the management bodies, (iii) the right to participate to the profit distribution, as well as (iv) other rights provided by these Articles of Association and by the legal provisions.
2. The acquisition of the property right over a share by a person, directly or indirectly, has as effect the obtainment of the capacity of shareholder of the Company together with all rights and obligations deriving from this capacity, in accordance with the law and these Articles of Association.
3. The rights and obligations deriving from the shares are transferred to the new acquirers together with the shares.
4. When a nominative share is owned by several persons, the transfer shall be registered only if they appoint a sole representative for exercising the rights derived from the shares.
5. The obligations of the Company are secured by its social patrimony, and the liability of the shareholders is limited to the subscribed share capital.
6. The shareholder that has, in a certain operation, either personally or as representative of another person, an interest contrary to the interest of the Company, must refrain from deliberations regarding the respective operation.

THE EXERCISE OF THE RIGHTS BY THE HOLDERS OF THE DEPOSITARY CERTIFICATES

1. The rights and obligations related to the underlying shares based on which the depositary certificates were issued are exercised by the holders of the depositary certificates, proportionally to their holdings of depositary certificates and taking into account the conversion rate between underlying shares and the depositary certificates.
2. The issuer of the depositary certificates in the name of whom the underlying shares are registered, is the shareholder within the meaning and for the application of the Regulation no. 6/2009 regarding the exercise of certain rights of the shareholders in the general meetings of the companies. In this sense, the issuer of the depositary certificates is fully responsible for informing the holders of the depositary certificates in a correct, complete and timely manner, observing the provisions of the issuance documents of the depositary certificates, about the documents and the informative materials related to a general meeting of shareholders, as made available by the Company to the shareholders.
3. In order to exercise its rights and obligations related to a general meeting of shareholders, a holder of depositary certificates will send to the entity where it has opened its account for depositary certificates the voting instructions for the topics on the agenda of the general meeting of the shareholders, so that the respective information is sent to the issuer of the depositary certificates.
4. The issuer of the depositary certificates votes in the general meeting of the shareholders of the Company in accordance with and within the limits of the instructions of the holders of the depositary certificate which have this quality at the reference date.
5. The issuer of the depositary certificates may cast different votes for certain underlying shares in the general meeting of the shareholders than those expressed for other underlying shares.
6. The issuer of the depositary certificates is fully responsible for taking all necessary measures, so that the entity which keeps the records of the holders of the depositary certificates, the intermediaries involved in the custody services for holders of the depositary certificates on the market where the depositary certificates are traded and/or any other entities involved in recording the holders of the depositary certificates, to send the voting instructions of the holders of the depositary certificates related to the topics on the agenda of the general meeting of the shareholders.
7. Any reference date for the identification of the shareholders which have the right to take part and to vote in the general meeting of the shareholders of the Company and any registration date for the identification of the shareholders which have rights deriving from its shares, as well as any other similar date set by the Company related to any corporate events of the Company will be established in accordance with the applicable legal provisions and with a prior notice sent with at least 15 free calendar days (in Romanian, zile calendaristice libere), to the issuer of the depositary certificates, in the name of which the underlying shares are registered based on which the depositary certificates mentioned above are issued. The reference date will be prior with at least 15 working days to the deadline for submitting the power of attorney related to the vote.

TRANSFER OF SHARES

1. The shares are indivisible. The Company shall recognize a sole owner per each share, subject to the provisions of article 11 paragraph (4) from Articles of Association.
2. The partial or total transfer of shares between the shareholders or to third parties shall be carried out according to the terms and procedure provided by the applicable legal provisions, including the capital markets legislation.

Useful updated information is available for shareholders at the following website address: http://www.electrica.ro/en/investors/.

4.3 Electrica S.A. Board of Directors

During 2016, the Board of Directors has undergone some changes. At the beginning of the year, the Board of Directors consisted of seven non-executive members, appointed by the Ordinary General Meeting of Shareholders on December 14th, 2015. Their term of office, registered based on the decision of the General Meeting of Shareholders, is four years. Four of the seven directors fulfilled the independence criteria provided by the Articles of Association, according to statements presented on the occasion of their nomination.

The Board of Directors is responsible for taking all the necessary measures to carry out the activity of the Company as well as to supervise its activity. Its structure, organization, duties and responsibilities are established under the Articles of Association and the Regulation of the Board of Directors.

During December 14th, 2015 – May 1st, 2016, the Board of Directors had the following members:

- Mr. Cristian Busu – non-executive director, elected as Chairman of the Board of Directors until January 2017;
- Ms. Arielle Malard de Rothschild - non-executive independent director;
- Mr. Michael Boersma – non-executive independent director;
- Mr. Pedro Mielgo Alvarez – non-executive independent director;
- Mr. Bogdan Iliescu – non-executive independent director;
- Ms. Corina Georgeta Popescu - non-executive director;
- Ms. Ioana Alina Dragan - non-executive director.

Following Mr. Boersma's renunciation to his position of member of the Board of Directors of Electrica SA starting with 1st of May 2016, on April 26th, 2016 the Board of Directors appointed Mr. Willem Jan Antoon Henri Schoeber as interim member of the Board of Directors, until the next Ordinary General Meeting of Shareholders of the Company (i.e. October 21st, 2016).

On October 21st, 2016, the General Meeting of Shareholders elected Mr. Willem Jan Antoon Henri Schoeber as non-executive independent director with a mandate period equal with the remaining period until the expiration of the vacant mandate, respectively until 14 December 2019. Four of the seven directors fulfill the independence criteria provided by the Articles of Association, according to statements presented on the occasion of their nomination.

We present below the most relevant aspects regarding the professional experience of the members of the Board of Directors at the time of their appointment:

Name	Mandate	Professional experience
Cristian Busu	4 years	• State Secretary, Ministry of Energy (December 2015 – January 2017). • Member of the Board of Directors and of the Audit Committee at SIF OLTENIA. • Manager at the Central branch of Marfin Bank in Bucharest. • During 2009 – 2013, Financial Manager of Fondul Proprietatea and member of the Representatives Committee. • Economic Adviser for the Economic Department of the Romanian Government. • Lecturer at the Bucharest Academy of Economic Studies, in which capacity he conducted various teaching and research activities.
Arielle Malard de Rothschild	4 years	• Has an extensive experience in investment banking, spending over 25 years in companies such as Lazard Frères & Cie and Rothschild. She is the founder of the Emerging Markets Division at the Rothschild & Cie investment bank, part of the Rothschild group. • Before joining Rothschild & CIE in 1999, she spent 10 years as an investment banker at Lazard Frères & Cie, as part of the Sovereign Advisory team. • Her experience includes major privatization projects in Romania, Poland, Russia, Hungary and Morocco, coordinating the privatization of companies such as MOL, Nafta Polska, ZIL, BCR or Dacia. • Has experience in M&A projects, working in over 40 such projects in Eastern Europe and Africa. • Member of the Board of Directors of Imerys S.A. (SBF120) and of Rothschild & Co, both listed on the Paris Stock Exchange and of Groupe Lucien Barrière.
Michael Adriaan Boersma	4 years	• Professor of corporate governance at the TIAS School for Business and Society, University of Tilburg in the Netherlands • Senior adviser for First State European Diversified Infrastructure Fund, London, UK. • Non-executive independent director of Nynas AB, Stockholm, Sweden, a company owned by PDVE and Neste Oil Oyj, specializing in the production and trade of oils and bitumen. • Chairman of the Board of Directors of Prometheus Energy, based in Houston (Texas, U.S.A.). • Chairman of the Supervisory Board of TMG, a Dutch listed company, Amsterdam. • Member of the Supervisory Board of PostNl, a Dutch listed company, The Hague, the Netherlands. • Chairman of the Supervisory Board of the VieCuri Medical Center for Noord-Limburg in Venlo, the Netherlands. • Chairman/member of foundations/institutions/advisory bodies (e.g. Energy Fund Limburg, Jheronimus Bosch 500, Protective preference shares FUGRO). • From 2003 until the end of 2009 - CEO and Chairman of the Executive Board of Directors of Essent, the largest Dutch utility.
Pedro Mielgo Alvarez	4 years	• Non-executive Chairman, Madrilena Red de Gas, Madrid Spain. • Chairman and Managing Partner of the Fund GP, Nereo GreenCapital, Luxembourg. • Non-executive Chairman, Ingenio 3000, Madrid, Spain. • Independent Director, Landis & Gyr SAU, Sevilla, Spain. • From 2008 until 2011 - non-executive Chairman, Centimetri, Milan, Italy. • From 2008 until 2011 - Independent Director, Landis & Gyr AG, Zug, Switzerland. • From 1999 until 2004 - Director, Redesur, Lima, Peru. • From 1997 until 2004 – Chairman & CEO, Red Electrica de Espana, Madrid, Spain. • From 1995 until 1997 – General Manager, Iniexport, Madrid, Spain. • From 1991 until 1997 – Director, Marketing & Sales, Intec, Madrid, Spain.
Bogdan George Iliescu	4 years	• Board member, Nominalization and Remuneration Committee member, Rating and Audit Committee member, Strategy committee member, SNTGN Transgaz SA, Medias. • Executive Manager, Corporate Finance Department, BRD – Group Societe Generale. • From 2007 – 2014 – General Manager, BRD Corporate Finance. • From 2005 until 2009 – Board member, SAI INVESTICA ASSET MANAGEMENT SA, Bucharest. • From 2001 – 2007 – Project Manager, BRD/SG Corporate Finance. • From 1997 – 2001 – Analyst, BRD – Group Societe Generale.
Corina Georgeta Popescu	4 years	• State Secretary, Ministry of Energy. • Head of Power Assets Department, OMV Petrom SA. • From 2011 until 2015 – Bucharest Branch Manager, OMV Trading GmbH Viena, Austria. • From 2008 until 2011 – Manager of Energy Market Regulation and Supervision, E-ON Romania. • From 2007 until 2008, Head of Power Acquisition Department, E-ON Moldova Furnizare. • From 2001 until 2006 – Head of Distribution Service, Electrica SA • From 1998 until 2001 – Head of Operation Service, Electrica SA – Distribution & Supply Bucharest Branch • From 1996 until 1998 – Chief Deputy Division, North Network Division, CONEL - Distribution & Supply Bucharest Branch. • From 1991 until 1996 - North Network Division, RENEL - Distribution & Supply Bucharest Branch
Ioana Alina Dragan	4 years	• Expert, Department of Administration of State Ownership in Energy, Ministry of Energy. • Member of Shareholders General Assembly, OPCOM – Romanian Gas and electricity market operator. • Member of Board of Directors, National Company of Uranium SA; • From 2013 until 2014, Member of Board of Directors, SN Nuclearelectrica SA. • 2014, Adviser of Minister, Ministry of Energy. • From 2012 – 2013, Country Financial Specialist, Responsible for Siemens Financial Services Department, Siemens Romania. • From 2008 until 2012, Bonne GAMME Relationship Manager, BRD – Group Societe Generale – Beller Agency. • From 2007 until 2008, Grand Public Relationship Manager, BRD – Group Societe Generale – Beller Agency. • From 2005 until 2007, Front Desk Operator, BRD – Group Societe Generale – ASE Agency.

Willem Jan Antoon Henri Schoeber	4 years	• Independent business consultant (since 2013). • Member of the board of directors of Neste Oyj (Helsinki, Finland), of the supervisory board of Gasunie NV (Groningen, the Netherlands) and member of the audit committees of these boards (since 2013). • From 2010-2015: Chair of the Boards of Directors of EWE Turkey Holding AŞ (Istanbul, Turkey), Bursagaz (Bursa, Turkey), Kayserigaz (Kayseri, Turkey) • From 2010-2013: Member of the executive board of EWE AG (Oldenburg, Germany), responsible for power generation and for the EWE utility businesses in Turkey and Poland • From 2007-2011: Chair of the executive board of swb AG (Bremen, Germany) • From 1977-2007: Various positions in the Royal Dutch Shell group in the Netherlands, France, Germany and the USA, with senior management positions in refining, i.a. refinery manager in Reichstett (France) and Cologne (Germany)

Source: Electrica

At the date of this report, the members of the Board of Directors are as follows:

No.	Name	Term of office (starting with December 14th, 2015)	Status	Date of first election
1.	Cristian Busu	4 years	non-executive director, chairman	September 22nd, 2014
2.	Arielle Malard de Rothschild	4 years	non-executive, independent director	September 22nd, 2014
3.	Ioana Dragan	4 years	non-executive director	December 14th, 2015
4.	Corina Popescu	4 years	non-executive director	December 14th, 2015
5.	Bogdan Iliescu	4 years	non-executive, independent director	December 14th, 2015
6.	Pedro Mielgo Alvarez	4 years	non-executive, independent director	December 14th, 2015
7.	Willem Jan Antoon Henri Schoeber	4 years	non-executive, independent director	April 26th, 2016

Source: Electrica

More details on the Board members' biographies can be found on the company's website.

Mr. Cristian Busu was elected Chairman of the Board of Directors during the new Board's first meeting, which took place on January 13th, 2016, for a term of one year, and reelected in January 2017 for another year.

In its first meeting, held on January 13th, 2016, the new Board of Directors decided the composition of committees, as follows:

a) The Nomination and Remuneration Committee
- Mr. Bogdan Iliescu - Chair of the committee
- Ms. Arielle Malard de Rothschild
- Ms. Corina Popescu

b) The Audit Committee
- Mr. Pedro Mielgo Alvarez - Chair of the committee
- Ms. Arielle Malard de Rothschild
- Mr. Bogdan Iliescu

c) The Strategy and Corporate Governance Committee
- Mr. Michael Boersma - Chair of the committee (until his resignation as of May 1st, 2016, when his place was taken by Mr. Willem Schoeber)
- Ms. Ioana Dragan
- Mr. Cristian Busu.

Consultative committees' members are elected for a period of one year. The organization, duties and responsibilities of each committee are set under the Articles of Association of Electrica S.A., respectively in the committee charters - an integral part of the Corporate Governance Code of the Company. In its meeting held in January 2017, the Board decided to maintain the same composition of the committees, for another year.

According to the information held, there is no agreement, understanding or family relation between the directors of the Company and another person who may have contributed to their appointment as directors. At 1st March 2017, no member of the Board of Directors held any Electrica S.A. shares.
According to the available information, the Board members were not involved in litigations or administrative proceedings regarding their activity within the Company in the last five years or regarding their capacity to fulfill their duties within the Company.

4.4 The activity of the Board of Directors of Electrica S.A. and of its Consultative Committees

In 2016, the Board of Directors met 30 times. Out of the 30 meetings that took place in 2016, 16 meetings were organized with physical presence of the members and 14 were held electronically, in accordance with the provisions of art. 17 paragraph 22 (respectively art. 18 alin. 23 after October 21st, 2016) of the Articles of Association of the Company.

We present below the situation of Board members' presence in the meetings of the Board of Directors and its committees in 2016:

Name	The Board of Directors (no. of meetings - 30)	The Audit and Risk Committee (no. of meetings - 10)	The Nomination and Remuneration Committee (no. of meetings - 15)	The Strategy and Corporate Governance Committee (no. of meetings - 11)
Cristian Busu	30	-	-	10
Arielle Malard de Rothschild*	29	9	14	-
Corina Popescu	30	-	15	-
Ioana Dragan	30	-	-	11
Bogdan Iliescu	30	10	15	-
Pedro Mielgo Alvarez	29	10	-	-
Willem Schoeber*	19	-	-	8
Michael Boersma*	8	-	-	3

**Note: in one meeting of the Board of Directors, Ms. Arielle Malard de Rothschild was represented by Mr. Cristian Busu, based on the mandate given. The same, Mr. Willem Schoeber was represented in one meeting by Mr. Pedro Mielgo Alvarez, and Mr. Michael Boersma was represented in two meetings of the Board of Directors by Ms. Arielle Malard de Rothschild, based on the mandates given.*
Source: Electrica

The main areas of interest and decisions adopted by the Board of Directors in 2016 refer to:

- Election of the Chairman of the Board of Directors and establishment of the consultative committees and election of their chairman;
- Continuing the project started in 2015 aiming to review and align the Articles of Association of Electrica and of its subsidiaries, considering more clearly the scope of activity and the responsibilities by level of management, controlled delegation of competence and implementation of a new corporate governance at group level, based on the new Corporate Governance Code issued by the Bucharest Stock Exchange (BSE Code) and the key points underlined by the Board's evaluation process. The EGMS approved the proposed revised Articles of Association on October 21st, 2016.
- Revision and endorsement of ELSA subsidiaries Articles of Association;
- The update of the charter of the Board of Directors and of the charters of the committees set up by the Board;
- Revision and endorsement of Electrica SA's financial statements at individual and consolidated levels for the financial year of 2015;
- Revision and endorsement of financial statements of Company's subsidiaries for the financial year of 2015;
- Revision and endorsement of Electrica SA's income and expenses budget at standalone and consolidated levels for the financial year of 2016;
- Revision and endorsement of income and expenses budgets of company's subsidiaries for the financial year of 2016;
- Revision and endorsement of the consolidated investment plan for the 2016 financial year;
- Analysis, coordination and approval of different proposals submitted by the executive management regarding acquisitions and investment opportunities (e.g.: supervising the negotiations with Fondul Proprietatea regarding the acquisition of the minority stakes within distribution and supply operators);
- Preparing and submitting for the GMS approval the new Remuneration Policy and mandate contracts, including revised KPIs for the members of the Board of Directors.
- Reviewing proposals on reshaping Group's activity, aiming to implement improved processes flows and an increased efficiency for core business, but also to create the basis for better operational and financial results, at individual and consolidated level.
- Setting the annual calendar of the Board meetings and the key documents and reports to be presented by the executive management;
- Reviewing the BoD composition in subsidiaries, to assure a consistent approach and to support the subsidiaries development and market positioning, as well for strengthening the governance across the group;
- Approval of the Market Abuse Regulation.
- Approval of the Treasury Policy;
- Approval of the Delegation of Authority Policy;
- Approval of the Internal Audit Charter and of the Code of Ethics for the internal auditor.
- Approval of the audit plan for 2017;
- Approval of the Code of ethics of the internal auditor;
- Approval of the Internal Audit Policies and Manual of Procedures;
- Approval of the CSR Plan and Policies for 2016, aligned to the PR, Communication and CSR Strategy;
- The appointment of a new CEO starting with October 24th, 2016;
- Approval of the new organisational chart, to enter into force starting with January 1st, 2017, having as objective to streamline the reporting lines in Electrica and at the Group level and to use and combine the necessary competencies and responsibilities in more efficient way;
- Revision and approval of the executive management KPIs achievement for 2015 and the new ones for 2016 – at Electrica and Group level.

In 2017, until the date of the Report, the Board of Directors met seven times (out of which two meetings were held electronically) and adopted important decisions for both its organization and the development and operational orientation of the Company.

The main decisions adopted by the Board of Directors during meetings held in 2017 refer to:

- Election of the Chairman of the Board of Directors.
- Reviewing the consultative committees' composition and election of their chairpersons.
- Analysis and endorsement of Electrica SA's budget, of the budgets of its subsidiaries and of the consolidated budget at Group level for 2017.
- Decisions regarding the mandate agreements of the General Managers of subsidiaries (termination/ prolongation/ confirmation for specific period of time).
- The termination of the mandate agreement of the executive manager of the Sales Coordination Division of Electrica SA.
- The appointment of the Chief Distribution Officer of Electrica SA.
- The approval of Electrica Dividends Policy.
- The approval of Policy on ethical career management.
- Revision and endorsement of Electrica SA's financial statements at individual and consolidated levels for the financial year of 2016.
- Revision and endorsement of financial statements of Company's subsidiaries for the financial year of 2016.
- Revision and approval of the individual and consolidated investment plan for the 2016 financial year.

Based on the main conclusions and objectives set following the evaluation process carried out in 2015, the Board of Directors has undergone several important projects during 2016 and until the date of the Report:

▶ *Improving the corporate governance framework at Group level, having 2 main pillars:*

1. The revision of the Articles of Association of Electrica and of its subsidiaries - project started in late 2015, aiming to review and align the corporate governance rules within the Group, considering more clearly the scope of activity and the responsibilities by level of management, controlled delegation of competence and the implementation of a new corporate governance at group level. The EGMS finally approved the new Electrica Articles of Association on 21 October 2016;
2. Consequently, the charters of the Board and of the committees were approached, as the most important tools to address the main areas of partial or non-compliance with the new Bucharest Stock Exchange Code provisions and the action plan related to the improvement of the Board's activity. The new charters of Electrica were discussed an finally approved during the meetings of November and December;
3. The next step is to implement these principles within subsidiaries and to define and apply appropriate governance policies at group level;

▶ *Overseeing the activity at Group level:*

1. Asking, receiving and analysing more information on the activity of subsidiaries;
2. Improving the communication with the executive management and creating a relevant tool for the periodic reporting of Electrica and Group activity;
3. Discussing during several meetings and analysing the materials and proposals regarding the Strategy on natural gas supply, Business Plan for gas supply and the Marketing Strategy;

▶ *Consolidating the executive management team:*

1. Following the mutual agreement on the termination of Mr. Ioan Rosca's mandate as CEO of Electrica, in March the Board nominated Ms. Iuliana Andronache as interim CEO and in October appointed Mr. Catalin Stancu as CEO of Electrica;
2. Implementing changes in the executive management team (HR manager, Sales Coordination Division manager, Chief Distribution Officer) and redefining the roles and competencies and reviewing the split of responsibilities among the executive management team members. In this context, a process of recruiting executive managers for the positions of director of operations, IT and human resources and for defined key positions people was carried out;
3. Approving the new organizational chart and introducing positions of performance managers middle level (MKP – Management Key Positions);
4. Approving the 2017 KPIs structure for Electrica SA's managers and the way of cascading from the general manager level to managers and from ELSA to its subsidiaries;
5. Approving new remuneration (structure and level) and KPIs for subsidiaries.

BOARD OF DIRECTORS EVALUATION

The Board of Directors, whose term started on December 14, 2015, has carried out an evaluation of its activity – at the end of 2015 with the support of an external advisor, a well-established international company, with comprehensive experience in corporate governance. The results of this analysis have been reported in the annual report for 2015.

An internal evaluation of the Board activities was carried out in December 2016, based on a questionnaire defined and thoroughly discussed by the Board members.

The questionnaire served to establish a self-assessment of the 2016 achievements of the Board in the following areas:

- The main objectives defined by the General Meeting of Shareholders for the Board: Group strategy, Corporate Governance, Placing of financial investments and Investment achievement in the distribution companies
- Impact of the Board on the functioning of the company
- Quality of functioning of the Board and its internal processes, including Board culture
- Individual aspects of the Board work for each Board member
- Role and functioning of the Chair.

The results of the questionnaire were discussed among the Board members in their meeting of February 10th, 2017. The main conclusions and observations were the following:

1. The overall progress in the functioning of the company was not at the desired level, hampered by the fact, that the Board decided in March 2016 not to extend the mandate of the existing CEO and to start the recruitment of a new CEO with the support of an professional executive search agency. The new CEO could only be contracted in September 2016 and started his activities on October 24th, 2016. The CEO selection has been a top priority in the Board agenda 2016. The same holds for further reinforcements of the Company's top management that remain a priority for the Board in 2017.
2. The achievements on the Board's own KPIs, most notably on the investments realised and commissioned during 2016 in the distribution companies, that influence future profitability, have been below the Board's ambitions and expectations. The Board has taken organisational measures to improve this in the future and requested Management to proceed with restructuring and business process redesign, in particular (but not only) in this area.
3. The process for a profitable deployment of the funds available to the company has continuous attention in the Board. During 2016 several external growth projects were thoroughly analysed and negotiations in this respect were carried out and are still under way.
4. The governance and management of the company have been reinforced by taking measures in the areas of management composition, composition of boards of subsidiaries and revised board charters. In doing so, the Board is striving for a consistent execution of company strategies and operational excellence both in parent company and subsidiaries. The board focuses on reaching a high standard of corporate governance in the company.
5. The identification of risks and their mitigation has intensively been discussed in the Board at several occasions, in particular in the wider area of energy trading. Proprietary trading in Electrica has been stopped in this context. Further work is needed in the organisation to bring the company to an international standard of risk management.
6. The Board has identified the need to improve the distribution of its time over formal requirements and activities coming from the organisation on the one hand and its own agenda and key priorities on the other. It has established an annual rolling agenda where strategic items will get more attention and it has reinforced the follow-up of its own action items – also in reaction to previous year's evaluation. Attention remains needed to follow this through.
7. The Board's own meeting quality and culture are evaluated regularly with a feedback session planned after every meeting. All board members participate actively and the Board culture is stimulating for deviating opinions that are taken for consideration by other members. No conflicts of interests for Board members have been observed in their Board work.
8. The Chair received positive feedback and has been re-elected unanimously by the other Board members.

THE NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee consists of three non-executive Board of Directors members, the majority of them being independent members, while the chairman of the committee is an independent director.

The role of the Committee is to propose candidates for the Board of Directors, to develop and propose to the Board the selection procedure of candidates for the positions of managers and other management positions, to recommend to the Board candidates for the positions listed, to formulate proposals on the remuneration of directors and other management positions.

The Committee has the following responsibilities concerning nomination matters:

- recommending to the Board a nomination policy, including a target Board profile, process and principles for shareholders to consider when proposing candidates for director positions at the Company, and making recommendations to the Board regarding the appointment of interim directors in accordance with the policy;
- reviewing the implementation of the nomination policy, preparing a report to the Board on its implementation, and presenting a summary of this report in the Directors' Report;
- advising the Board on the appointment and dismissal of the General Manager, making recommendations on the appointment and dismissal of the Company's executive management team after considering the views of the General Manager, and making proposals on the appointment and dismissal of subsidiary board members in accordance with the Group Governance Policy;
- recommending to the Board policies in the human resources field, including those covering recruitment and termination, talent management and development, and succession planning across the Company and its subsidiaries (the Group);
- overseeing the process for the annual evaluation of the effectiveness of the Board and its consultative committees;
- periodically assessing the size, composition and committee structure of the Board and making recommendations to the Board with regard to any changes;
- making recommendations to the Board on continuous skill development programmes for Board members and executive management;
- overseeing the nomination process of the general managers and executive managers in the subsidiaries according to the nomination and remuneration Policy.

The Committee has the following duties in the field of remuneration:

- making recommendations to the Board in relation to the remuneration, incentive and severance compensation policies of the Company;
- advising the Board on the structure of the remuneration framework for Board members;
- making recommendations to the Board in relation to the remuneration of the General Manager and other executive managers, including the main remuneration components, performance objectives and appraisal methodology;
- making recommendations to the Board on the remuneration of subsidiary board members and the general limits of remuneration for subsidiary management;
- monitoring compensation trends within industries relevant to the Group;
- overseeing the remuneration process of the general managers and executive managers in the subsidiaries according to the Nomination and Remuneration Policy.

The Nomination and Remuneration Committee met 19 during January 1st, 2016 – March 9th, 2017. During these meetings, the following topics were discussed and referred to the Board of Directors for approval:

- Recommendations on the remuneration of Board members and their framework – management agreement.
- Recommendations on the structure and remuneration of the subsidiaries Board members.
- Recommendations on the appointment of executive directors and performance criteria.
- Recommendations on the organizational structure of the Electrica SA.
- Recommendation on the appointment of the new CEO of Electrica SA.
- Recommendation on the appointment of the new CEO of Electrica Serv.
- Recommendation as regards the mandate agreements of the General Managers of subsidiaries (termination/ prolongation/ confirmation for specific period of time).
- Recommendation on the appointment of the Chief Distribution Officer of Electrica SA.
- Reviewing the BoD composition in subsidiaries for strengthening the governance across the group.
- Revision of the executive management KPIs achievement for 2015 and the new ones for 2016 – at Electrica and Group level.
- Recommendation on implementing new mandate contracts for the executive management positions in Electrica and subsidiaries, as well as for other key positions.
- Recommendation on the 2017 KPIs structure for Electrica SA's managers and the way of cascading from the general manager level to managers and from ELSA to its subsidiaries;
- Recommendation on the new remuneration (structure and level) and KPIs for subsidiaries.

THE AUDIT AND RISK COMMITTEE

The Committee is made up of three members, most of them independent directors, the chairman is a non-executive independent director. This structure provided the necessary expertise in finance and risk management, according to legal requirements.

The main role of the Committee is to support the Board in fulfilling its duties of verifying the efficiency of Company's financial reporting, internal control and risk management. While fulfilling this role, the Committee advises the Board regarding the assessment of the Annual Report and Annual Financial Statements, whether the documents are accurate, balanced and comprehensive and provide all the necessary information for the shareholders' evaluation of the financial performance.

The Committee has the following duties in terms of financial reporting:

- examining the integrity of annual and interim financial statements or disclosures for Electrica and its subsidiaries (the Group) at standalone and consolidated levels;
- regularly reviewing the adequacy of the Group's accounting policies;
- reviewing and recommending the Company's financial forecast policy to the Board for approval;
- advising the Board on whether the content of the annual report, taken as a whole, represents a fair, balanced and understandable account for shareholders and provides them with the information necessary to assess the Company's performance.

Regarding the auditing and internal control matters, the Committee has the following responsibilities:

- approving a Group-wide, annual risk-based audit plan as well as any material changes to the plan, and receiving regular reports on activities, key findings, and follow up regarding internal audit reports;

- advising the Board on the appointment, removal and remuneration of the Head of Internal Audit;
- monitoring the adequacy, effectiveness and independence of the internal audit function;
- making recommendations to the Board on the appointment, rotation or dismissal of the Company's external auditor;
- reviewing the plan, work and findings of the external auditor;
- assessing the independence and objectivity of the external auditor and monitoring compliance with relevant ethical and professional guidance, including the requirements on the rotation of audit partners
- regularly reviewing the adequacy and implementation of key internal control policies, including policies for detecting fraud and the prevention of bribery;
- reviewing related party transactions in line with a policy developed by the Committee and approved by the Board;
- reviewing annually a report by the Head of Internal Audit assessing the effectiveness of the system of internal control across the Group.

The Committee has the following responsibilities concerning risk management matters:

- reviewing regularly the main risks facing the Company and Group, recommending to the Board relevant policies for their identification, mapping, management and mitigation of risk;
- reviewing annually a report from management assessing the effectiveness of the system of risk management across the Group;
- advising the Board on equity and debt financing, including proposals for contracting any type of loans and securities associated with these loans;
- advising the Board on its recommendations regarding major economic transactions within the authority of the General Meeting of Shareholders, assessing any associated risks regarding such transactions.

The Audit and Risk Committee met 13 times during January 1st, 2016 – March 9th, 2017. During these meetings, the following were discussed and referred to the Board of Directors for debate and, when applicable, approval/endorsement:

- The Audit Committee Charter.
- The audit plan for 2016.
- The internal audit policies and procedures manual.
- The internal audit charter.
- The financial statements of Electrica S.A. at standalone and consolidated levels for the financial year of 2015 and 2016, as well as financial statements of Company's subsidiaries for the financial year of 2015 and 2016.
- The income and expenses of Electrica S.A. at standalone and consolidated levels for the financial years of 2016 and the revenue and expenditure budgets of Company's subsidiaries for the financial years of 2016.
- Various reports submitted by the internal auditor on missions carried out within Electrica SA and its subsidiaries and as whistle blower reports.
- Annual report on the internal audit activity for 2016.
- Annual report on integrity warnings for 2016.
- 2016 Individual preliminary unaudited results of Electrica SA.
- Annual report on risk management activity for 2016.
- Report on the internal control effectiveness.

The internal audit activity is carried out by a separate division from a structural point of view (the Internal Audit Department), within the Company. In order to ensure the fulfilment of its main functions, it reports to the Board of Directors through the Audit and Risk Committee and administratively - to the CEO.

THE STRATEGY AND CORPORATE GOVERNANCE COMMITTEE

The Committee was made up of three non-executive directors, the chairman being a non-executive independent director.

The Committee has the following duties in terms of strategy:

- making proposals to the Board on the development of the medium-term strategic plan, making recommendations on the strategic direction, priorities and long term objectives of Electrica and its subsidiaries (the Group);
- reviewing management proposals on the Group's consolidated annual budget, subsidiary annual budgets, and CAPEX plans for the Group, and making relevant recommendations to the Board;
- supporting the Board in monitoring and assessing the Group's performance in light of the approved strategic plan, budgets, industry trends, local and regional market trends, competiveness and advances in technology;
- periodically reviewing the overall strategic planning process, including the process for developing a medium-term strategic plan;
- advising the Board on proposed acquisitions, divestments, investment projects, joint-ventures, and cooperation projects, particularly assessing their alignment with the Group's strategy;
- performing any other activities or responsibilities on strategy matters as may be delegated to the Committee, from time to time, by the Board.

Regarding the tasks of the Committee on restructuring, they mainly relate to:

- reviewing and making recommendations to the Board with respect to, the development and implementation of the Group's overall restructuring plans and objectives, including any determination regarding the disposition or rationalization of core businesses;
- regularly reviewing the organisational structure and chart of the Company, and making recommendations to the Board;
- performing any other activities or responsibilities on restructuring matters as may be delegated to the Committee, from time to time, by the Board.

At the same time, the Committee has duties in terms of corporate governance:

- overseeing and monitoring the Company's compliance with legal and contractual obligations on corporate governance, as well as other applicable corporate governance principles, and making recommendations to the Board;
- regularly reviewing the Company's Corporate Governance Code, Board Charter and the Company's Articles of Association, and making recommendations to the Board on relevant amendments to the Company's corporate governance policy and documentation;
- recommending the Group Governance Policy to the Board for approval and regularly reviewing it thereafter;
- reviewing the chart of authorities for the Company in order to ensure that the delegation of authorities to management allows for effective and efficient decision-making process, and making recommendations to the Board;
- reviewing the Company's policy for corporate social responsibility and stakeholder engagement, and making recommendations to the Board;
- making recommendations to the Board on improving the quality of information flows to the Board including the adequacy of reports to the Board, key performance indicators presented to the Board, and guidelines for Board papers and presentations;
- preparing other reports or materials on corporate governance as may be requested by the Board.

On June 30th, 2016, the Committee changed his name from The Strategy, Restructuring and Corporate Governance Committee to the Strategy and Corporate Governance Committee). During January 1st, 2016 – March 9th, 2017, the Committee met 16 times and discussed and referred to the Board of Directors for approval/endorsement:

- Revision of the Articles of Association of Electrica and of its subsidiaries, as well as of Electrica's Board and its committees' charters – this project required several iterations (overall 9 meetings of the Committee);
- Electrica Furnizare Strategy on the natural gas supply activity and the completion of the Electrica Furnizare object of activity; Electrica Furnizare Business Plan for gas supply.
- CSR Policies.
- ELSA Foundation.
- The rebranding of the subsidiaries.
- Risk Policy and Acquisition and Sales Strategy for gas and energy at Group level.
- Process for the improvement of the Board (BoD) functioning.
- The income and expenses budget of Electrica S.A. at standalone and consolidated levels for 2017 financial year and the revenue and expenditure budgets of Company's subsidiaries for 2017 financial year.
- Recommendation on different investment opportunities on the market.
- Recommendation on the Market Abuse Regulation.
- Recommendation on the Delegation of Authority Policy.
- Several reviews and recommendations regarding the Capex and Commissioning plans for 2016 and 2017 – quantitative and qualitative analysis.

4.5 Executive Management

In accordance with provisions of the Articles of Association of the Company (approved by GMS on 21 October 2016), the Board of Directors appoints and revokes the CEO, as well as the other executives with mandates and also approves their empowerments. The CEO carries out the activity according to the provisions of the mandate contract concluded with the Company.

On 26 February 2016, the Board of Directors and Mr. Ioan Rosca, CEO at that time, announced that they had reached a mutual agreement on terminating his mandate as CEO of Electrica S.A. no later than June 2016. On 11 March 2016, the Board of Directors revoked Mr. Rosca from the CEO position and appointed Ms. Iuliana Andronache, current CFO, as interim CEO of Electrica SA. During the meeting held on 19 September 2016, the Board of Directors appointed Mr. Dan Catalin Stancu as CEO of Electrica SA for a mandate of four years starting with October 24, 2016.

During the meeting held on 4 October 2016, the Board revoked Ms. Gabriela Marin from the position of executive manager coordinating the Human Resources Division of Electrica starting as of October 5th, 2016.

At the end of 2016, the executive managers are:

- Mr. Dan Catalin Stancu – CEO with a mandate of four years starting with 24 October 2016;
- Ms. Iuliana Andronache – CFO, with a mandate of four years starting with 27 October 2015;
- Ms. Alexandra Romana Augusta Popescu Borislavschi – Executive Manager of Strategy and Corporate Governance Division, with a mandate of four years starting with 4 August 2015;
- Mr. Ramiro-Robert-Eduard Angelescu – Executive Manager of Sales Coordination Division with a mandate of four years starting with 4 August 2015

According to the best practices applied by companies listed on international markets, regarding the implementation of a succession plan for key-positions, the Nomination and Remuneration Committee coordinates the process of selection suitable applicants for the vacant Director positions of Electrica SA. The Nomination and Remuneration Committee is supported in this approach by an international consulting firm specialized in recruiting top management, in order to complete the selection process as soon as possible.

According to information held by the Company, there is no contract, understanding or family relationship between the directors of the Company and another person who may have contributed to their appointment as directors.

4.6 The Corporate Governance Code

Electrica adhered to and has been willfully applying the provisions of the Corporate Governance Code since the fiscal year 2014. Electrica had officially adopted the Corporate Governance Code ("CGC ELSA") since February 2015 and made it available on the Company's website for all interested parties' benefit.

This Corporate Governance Code embeds Electrica's general principles and conduct rules which set forth the corporate values, the responsibilities, obligations and business conduct of the Company.

The ELSA CGC comprises also Electrica's Articles of Association, the charters of the Board of Directors and those of its committees, and all these documents together contain the terms of reference and responsibilities of the administrative and executive management of the company.

Electrica S.A. has continuously developed and updated its corporate governance principles in order to meet the capital market requirements and to apply the best practices in corporate governance as well as to develop opportunities and increase competitiveness. Therefore, in October 2016 the company's Articles of Association was updated, following the approval of the General Meeting of Shareholders held on October 21st, 2016. Later, in January 2017, the charter of the Board of Directors and the charters of the committees had also been updated.

In September 2015 the BSE issued a new Corporate Governance Code ("the BSE's Code" or "BSE's CGC), which entered into force as of January 4th, 2016. The provisions of the new Code are being carefully examined and Company's compliance therewith is being thoroughly assessed.

The "Comply or Explain" Statement presents the compliance level of the Company with the new provisions of BSE's CGC code. Electrica S.A. has been in full compliance with most of these requirements. Regarding the aspects in which the company is not in full compliance, we mention that concrete actions will be taken in order to improve the degree of compliance in the shortest time (more details can be found in Appendix 1). Further consideration will be applied to Code's provisions and any subsequent progress made by the Company in achieving compliance will be reported to the capital market. The CGC is also a guide for the management and the employees of Electrica S.A. and other stakeholders regarding 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, Appendix 7 of the CGC.

In compliance with Company's policies and with the procedures of the Code of Ethics and Professional Conduct, the Audit and Risk Committee ensures that the Company`s activity is carried on with honesty and integrity, including the approval of the whistleblower policy. The main purpose of the whistleblower policy is to protect the Company from ethical deviations, frauds and any other aspects of non-compliance that would otherwise could cause image and/or commercial prejudice or even involve legal sanctions, thus damaging the prestige and profitability of the Company. This procedure can be found on Electrica's website.

Whereas the shares of the Company are allowed for trading both on the regulated market administered by Bucharest Stock Exchange (BSE), and on the market managed by the London Stock Exchange (LSE), Electrica SA is subject to the imperative rules imposed by the national and European laws on market abuse regarding the arrangements applicable to inside information. Therefore, the inside trading and market manipulation guidelines are presented in Appendix 6 of the CGC.

4.7 The remuneration of Managers and Directors with mandate agreements

	2016	2015
Management remuneration	1,039,030	1,483,880

Source: Electrica

At the beginning of 2016, Electrica SA`s management consisted in five managers remunerated based on mandate agreement. For two out of the five managers, the mandate agreements ended in March 2016, respectively in October 2016, and in October 2016 a new manager was designated based on same mandate agreement type. As of December 31st 2016 the Company had four managers with mandate agreement.

The remuneration granted to the Board of Directors members and to representatives in General Shareholders Meeting were, as follows:

	2016	2015
Board of Directors members	2,136,888	863,361
Total	**2,136,888**	**863,361**

Source: Electrica

Until 14 December 2015, the Board of Directors was composed of five members and of seven members after this date. Also, the fixed monthly remuneration increased and remunerations were established for participations to the meetings of the Board of Directors and its committees. According to the remuneration policy approved by the General Shareholders Meeting from 31 March 2016, the maximum annual paid meetings is capped at 12 for Board of Directors and at six for each of the committees.

During 2016 and 2015 there were no loans granted to managers and directors.

4.8 Description of the main features of internal control and risk management systems in relation to the financial reporting process

The internal control represents all measures ordered by the ELSA management and their implementation by all personnel members regarding the organizational structure, the applied procedures, methods, techniques and instruments, for the purpose of achieving the organizational goals, including all control forms performed at company level.

The internal control and the risk management systems have the following main goals:

- protecting organizational resources against waste, negligence, abuses, fraud etc.;
- compliance with the legislation and with the internal regulations;
- the reliability of financial reporting (accuracy, completeness and correct presentation);
- ensuring an environment based on identifying, understanding and controlling risks, environment which will contribute to achieving the organizational goals;
- efficient and effective business operations.

The achievement of these goals is supported by means of:

- recruitment of personnel with an adequate level of competency, in accordance with the company's needs, and the existence of a plan of continuous training which would allow for an updating of specific knowledge or a supplementation of internal resources with external consultants, whenever necessary;
- clear definition of responsibilities of each person involved in the organizational process; segregation of duties regarding the carrying out of operations among the personnel, so that the approval, control and registration duties are adequately assigned to different persons (as per the Company's organizational chart);
- elaboration and implementation of regulations, policies, procedures, forms etc.;
- the existence of a Guide for Accounting Policies, elaborated in accordance with the requirements of the legislation in force, approved by the Board of Directors;
- the existence of a schedule and a well-defined process regarding the elaboration of accounting and financial information in accordance with the reporting requirements (financial and accounting, of the capital market) and their appropriate verification and approval by the Board of Directors, for the purpose of publishing them.

The framework of ELSA's internal control system consists of the following elements:

- **Control environment** – The existence of a control environment represents the basis of an efficient internal control system. It consists of the commitment towards integrity and ethical values (for this purpose, a series of policies on zero tolerance towards corruption, fraud and money-laundering, avoiding and fighting against conflicts of interest, gifts, protocol expenses, and forbidding facilitating payments, transparency and the involvement of stakeholders), as well as organizational measures (policies on the delegation of powers and responsibilities);

- **Evaluation of risks** – Generally, all processes are found within the scope of the internal control system. An identification is carried our regarding major or critical risks, related to particular activities for stimulating internal control methods;
- **Control activities meant to reduce the risks** – Control activities have different forms (managerial control, general control, preventive financial control, etc.) and they are implemented and carried out for the purpose of reducing significant operational and compliance risks;
- **Information and communication** – Information helps all other components of the internal control system by means of communication to employees their responsibilities regarding the control and the provision of information in an adequate and timely form, so that all employees may carry out their duties. Internal communication is performed by means of disseminating information to all levels (high, low and same levels), while the external one implies the dissemination of information to external parties, in accordance with the requirements and expectations;
- **Monitoring activities** – the Audit and Risk Committee and the Internal Audit Department assess the efficiency and the effective implementation of the internal control system.

The management monitors the functioning of internal controls by means of periodical analyses; for instance, the execution of the budget, the monitoring of security incidents, internal and external audit reports and internal control reports.

Deficiencies in the implementation or functioning of internal controls are noted in the internal control and internal audit reports and are presented to the operational management, for the purpose of issuing of corrective actions.

The internal audit missions evaluate the internal control system, the risks and the implemented control strategies, and present initiatives, proposals, solutions and recommendations for mitigating the risks of fraud and for improving control strategies (refer to Appendix 2 attached to this report).

The internal audit includes, but is not limited to, the examination and evaluation of the adequate nature and the efficiency of the organization's corporate governance, of risk management, as well as of internal controls and of quality performance in carrying out the assigned responsibilities, in order to achieve the declared purposes and goals of the organization.

The Guide for Accounting Policies is consistently applied in all companies within the Group, for the purpose of ensuring an accounting treatment equally applied for the same business situations. This guide is revised based on the changes made to the International Financial Reporting Standards.

5 FINANCIAL REPORTING

These individual financial statements have been prepared in accordance with the Minister of Public Finance Order no. 2844/2016 for approving the Accounting Regulations in accordance with International Financial Reporting Standards ("IFRS"). In acception of OMPF 2844/2016, 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.

5.1 Balance Sheet Items

Financial information selected from Company's balance sheet (thousands RON)

	31 decembrie 2016	31 decembrie 2015	Var.
ASSETS			
Non-current assets			
Property, plant and equipment	275,008	293,375	-6%
Intangible assets	1,837	1,499	23%
Investments in subsidiaries	1,430,819	1,430,819	0%
Restricted cash	134,492	-	100%
Deferred tax assets	-	7,250	-100%
Total non-current assets	**1,842,156**	**1,732,943**	**6%**
Current assets			
Cash and cash equivalents	197,644	283,366	-30%
Deposits, treasury bills and government bonds	1,867,115	1,900,395	-2%
Trade receivables	64,075	77,531	-17%
Other receivables	12,598	13,056	-4%
Inventories	161	117	38%
Prepayments	49	56	-13%
Income tax receivables	2,384	23,134	-90%
Total current assets	**2,144,027**	**2,297,656**	**-7%**
Total assets	**3,986,183**	**4,030,599**	**-1%**
EQUITY AND LIABILITIES			
Equity			
Share capital out of which:	3,459,399	3,459,399	0%
Subscribed and paid in share capital	3,459,399	3,459,399	0%
Inflation adjustment to share capital	-	-	-
Share premium	103,049	103,049	0%
Treasury shares	-75,372	-75,372	0%
Pre-paid capital contributions in kind from shareholders	5,144	2,862	80%
Revaluation reserves	710	769	-8%
Legal reserves	156,545	142,932	10%
Retained earnings	252,240	292,266	-14%
Total equity	**3,901,715**	**3,925,905**	**-1%**
Liabilities			
Non-current liabilities			
Employee benefits	1,581	1,796	-12%
Total non-current liabilities	**1,581**	**1,796**	**-12%**
Current liabilities			
Trade payables	67,591	60,634	11%
Other payables	11,717	7,632	54%
Deferred revenue	541	497	9%
Employee benefits	3,038	2,885	5%
Provisions	-	31,251	-100%
Total current liabilities	82,887	102,898	-19%
Total liabilities	**84,467**	**104,694**	**-19%**
Total equity and liabilities	**3,986,183**	**4,030,599**	**-1%**

Source: Electrica

NON-CURRENT ASSETS

On December 31, 2016 compared to December 31st, 2015, fixed assets increased by RON 109,213 thousand or 6.3%, to RON 1,842,156 thousands from RON 1,732,943 thousands.

Equipment and tangible assets in progress include mainly the costs of implementation of the AMR system (Automatic Meter Reading), for measuring activities and consumption dispatcher at Electrica Group level. The capitalized net book value related to this system is in amount of RON 176,159,847 as of December 31st, 2016 (2015: RON 197,238,723), out of which a part in amount of RON 21,942,902 as of December 31st, 2016 are assets in progress (2015: RON 21,524,137). During 2017, an evaluation of the entire AMR system will be made by a third party independent evaluator in order for the distribution subsidiaries to take over the AMR system. Starting with this sale, the company estimates that it will commission during 2017 the assets in progress related to the AMR system implementation costs.

In connection with the AMR system, the Company concluded service agreements with the distribution subsidiaries. The main services provided refers to obtaining in real time from measuring groups by the distribution subsidiaries of accurate data with increased frequency within Electrica Group, using remote reading systems, property of the Company located in the consumption points, respectively in distribution subsidiaries grid within Electrica Group. The Company assessed whether the arrangement contains a lease and concluded that it does not contain any lease due to the fact that the distribution subsidiaries do not have the right of usage of the assets.

TRADE RECEIVABLES

On December 31st, 2016, the Company's receivables dropped by RON 13,456 thousands or 17.36%, to RON 64,075 thousands, from RON 77,531 thousands on December 31st, 2015.

As regards the corporate tax receivable, due to the fact the company was the subject of enforcement procedure in December 2016, it dropped by RON 2,384 following the unfavourable Court decision no. 1029/17.04.2015.

RESTRICTED CASH AND SHORT-TERM INVESTMENTS

On December 31st, 2016, the category including cash and cash equivalents, restricted cash and deposits, treasury bills and government bonds increased by RON 15,490 thousands or 0,71%, to RON 2,199,251 thousands, from RON 2,183,761 thousands on December 31st, 2015.

Deposits, treasury bills and government bonds

	31 December 2016	31 December 2015
Deposits, treasury bills and RON government bonds with a maturity greater than three months	1,757,746	1,756,339
Deposits with a maturity greater than three months	109,369	144,056
Restricted cash	134,492	-
Total deposits, treasury bills and government bonds	**2,001,607**	**1,900,395**

Source: Electrica

Deposits, treasury bills and government bonds with an initial maturity over three months have an average interest rate (average yield) of 0.63% from the following financial institutions: Citibank Europe PLC Dublin, Raiffeisen Bank, BRD-CSG, Marfin Bank, ING Bank. Treasury bills and government bonds are presented as investments hold until maturity.

PROVISIONS

During the year 2015, the Company has recognized a provision for the amount of RON 31,250,650 for disputes with National Agency for Fiscal Administration "NAFA" having as object, penalties for delay in the payment claimed by the NAFA following the unfavorable decision 1029/17.04.2015. Also, during the year 2016 the Company has created additional provisions in the amount of 23,648,000 RON as a result of the court decision to reject the appeal made to the enforcement procedure. In December 2016, the Company made payments in the amount of RON 41,210,654 RON as a result of the forced execution received in connection with these litigations and reversed the provisions constituted.

SHARE CAPITAL

The subscribed share capital in nominal terms consists of 345,939,929 ordinary shares on December 31st, 2016 (345,939,929 ordinary shares on December 31st, 2015) with a nominal value of RON 10/share. Holders of ordinary shares are entitled to dividends and have the right to one vote per share in the General Meetings of Shareholders of the Company, with the exception of the 6,890,593 shares repurchased by the Company in July 2014 with the scope to stabilize the price. All shares give equal rights to the net assets of the Company, with the exception of the 6,890,593 shares repurchased by the Company in July 2014 with the scope to stabilize the price.
The Company recognizes the changes in share capital only after their approval in the General Meeting of Shareholders and their registration with the Trade Register.
During 2016 there were no changes in the share capital.
At December 31st, 2016 the Company meet the requirements of share capital as per the legislation in force.

DIVIDENDS

The Company can distribute dividends from the statutory profit, according to the individual statutory financial statements prepared in accordance with the Romanian accounting regulation.
Dividends distributed by the Company in past 3 years (from previous year's statutory profits) were as follows:

RON	2016	2015	2014
Distributed dividends	291,582,429	244,691,906	22,475,225

Source: Electrica

Dividends related to the year ended 31 December 2015, amounting to RON 291,582,429, were declared based on the standalone annual statutory financial statements of the Company.

The distribution of dividends was approved in the gross amount of RON 0.86 RON/share, related to 2015 financial year, under the Decision of the Ordinary General Meeting of Shareholders of April 27, 2016 and their payment started on July 18, 2016.

At 31 December 2016 the Company recorded dividends liabilities amounting to RON 992 thousands representing the dividends uncollected by the shareholders from the Depository, thus:

- the dividends uncollected for the year 2014 in the amount of RON 364 thousands;
- the dividends uncollected for the year 2015 in the amount of RON 646 thousands;

DESCRIPTION OF PURCHASE AND/OR LENDING OF ASSETS

The main purchases of assets done by the Company during 2016 are the following:

- Tangible assets in progress amounting to RON 1,314 thousands for the implementation of the AMR (Automatic Meter Reading) system, building rehabilitation and pilot project e-mobility (6 fast-charger stations);
- Treasury bills and government bonds purchase - please see "Cash and short term investments" for further details.

5.2 Operational Results

Financial data selected from the profit and loss account of the Company (th. RON)

	31 December 2016	31 December 2015	Var.
Revenues	362,388	383,708	-6%
Other income	1,710	1,533	11%
Electricity purchased	(347,593)	(368,684)	-6%
Employee benefits	(20,504)	(16,637)	23%
Depreciation and amortization	(23,507)	(20,242)	16%
Impairment of trade and other receivables, net	(38,392)	2,832	-1456%
Other operating expenses	(81,037)	(23,289)	248%
Movement in provisions, net	31,251	(31,251)	-200%
Operating profit	**(115,684)**	**(72,029)**	**61%**
Finance revenues	389,683	373,026	4%
Finance expenses	(1,739)	(289)	502%
Net finance income	387,944	372,737	4%
Profit before tax	**272,260**	**300,708**	**-9,46%**
Income tax expense	(7,234)	157	-4.708%
Profit for the year	**265,026**	**300,864**	**-12%**
Earnings per share			
Basic and diluted earnings per share	0,78	0,89	-12%
Profit for the year	265,026	300,864	-12%

	31 December 2016	31 December 2015	Var.
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Re-measurements of the defined benefit liability	100	704	-86%
Tax related to re-measurements of the defined benefit liability	(16)	(113)	-86%
Other comprehensive income, net of tax	84	591	-86%
Total comprehensive income	**265,110**	**301,456**	**-12%**

Source: Electrica

INCOME

In the year 2016, Electrica reported revenues of RON 362 million against RON 384 million reported in the year 2015. The variation is mainly caused by the unfavourable evolution of the activity carried out by Electrica SA as being balancing responsible party on the energy market, reporting a decrease of RON 22 million, respectively 5.82%.

The breakdown structure of the income is as follows:

Th. RON	Absolute values 2016	Revenue structure 2016	Absolute values 2015	Revenue structure 2015	Absolute values 2014	Revenue structure 2014
Energy supply on balancing energy market and day ahead market	356,982	98.50%	379,039	98.78%	230,731	94.36%
Management and consultancy services	-	-	-	-	9,051	3.7%
Electricity sale - Trading	723	0.20%	-	-	-	-
Revenue from services related to AMR system	4,683	1.30%	4,669	1.22%	4,735	1.94%
Total	**362,388**	**100%**	**383,708**	**100%**	**244,517**	**100%**

Source: Electrica

Other income
Other income mainly include income from rent and penalties applied to clients for delayed payments.

Electricity purchased
The purchased electricity includes the cost of the electricity purchased for the settlements on the balancing market and the Day-Ahead Market, and it reached RON 347,593 thousands in 2016 dropped by RON 21,091 thousands in 2015.

Amortisation of tangible and intangible assets
The amortisation expense increased by RON 3,265 thousands, reaching the amount of RON 23,507 thousands in 2016, from RON 20,242 thousands in 2015, due to the commissioning made in previous period.

Salaries and other benefits of the employees
In the year 2016, the expenses related to salaries and other benefits of the employees increased by RON 3.867 thousands, reaching RON 20,504 thousands from RON 16,637 thousands in 2015.

Adjustments on impairment of trade receivables and other receivables
In the year 2016, due to the fact that some clients (Romenergy Industries, Elektra Management and Transenergo Com) were subject to insolvency procedures, the Company accounted adjustments on impairment of trade receivable and other receivables in the amount of RON 38.392 thousands.

Change in provisions, net value
During the year 2015, the Company has recognized a provision for the amount of RON 31,250,650 for disputes with National Agency for Fiscal Administration "NAFA" having as object the penalties for delay in the payment claimed by the NAFA following the unfavourable decision 1029/17.04.2015. Also, during the year 2016 the Company has created additional provisions in the amount of 23,648,000 RON as a result of the court decision to reject the appeal made to the enforcement procedure. In December 2016, the Company made payments in the amount of RON 41,210,654 RON as a result of the forced execution received in connection with these litigations and reversed the provisions constituted.

Operational Profit
As a result of the above mentioned factors for the year 2016, the Company reported a loss resulting from the operating activity in amount of RON 115,684 thousands increased compared with RON 72,029 thousands in 2015.

Financial revenues
The major financial revenues of Electrica SA consist of the dividends distributed by its subsidiaries.

The income from the dividends distributed by subsidiaries in the year 2016 are in amount of RON 374,838 thousands compared to RON 344,648 thousands in the year 2015, its structure being as follows:

RON	2016	2015
Societatea de Distributie a Energiei Electrice Muntenia Nord SA	95,357,840	87,406,431
Societatea de Distributie a Energiei Electrice Transilvania Nord SA	99,130,118	59,214,482
Societatea de Distributie a Energiei Electrice Transilvania Sud SA	93,404,755	62,288,316
Societatea de furnizare a energiei electrice Electrica Furnizare SA	86,945,796	135,738,720
TOTAL	**374,838,509**	**344,647,949**

Source: Electrica

Another category of financial revenues is represented by interests, which decreased to RON 14,784 thousands in 2016 compared to the amount of RON 26,380 thousands in 2015.
The Company's strategy was focused on placing the funds from IPO through the banks that have subscribed, as part of the Consortium, in risk-free bonds and short-term deposits.

Profit before tax
In 2016, the profit before tax decreased by RON 28,448 thousands or 9.46%, to RON 272,260 thousands, from RON 300,708 thousands in 2015, due to an increase of operating expenses following the enforcement procedures conducted by fiscal authority.

Income tax expense
In the year 2016, the Company reversed the deferred tax expense in the amount of RON 7,230 thousands because in the future it is not expected to obtain a taxable profit to offset this tax.

Net Profit for the year
Due to the above mentioned factors, the net profit for the year 2016 decreased by 12% against the year 2015, to RON 265,026 thousands from RON 300,864 thousands.
The main objective of the Company is to maximize the net individual profit of Electrica SA, by efficient control and coordination of the investments in subsidiaries.

6 OTHER INFORMATION

6.1 Personnel

The average number of employees decreased in 2016 as compared to 2015 by eight employees, to 130 employees from 138 employees, as a result of the lay-offs made under the Company's reorganization and restructuring program, while the effective number of employees was 142 in 2016, respectively 136 in 2015.

On 31 December 2016, approximately 95% of the Company's employees were Union members, and their employment conditions are governed by the Collective Labor Contract, which was extended for a period of maximum 12 months starting with 1st of January 2017 and submitted to the Territorial Labor Inspectorate of Bucharest. Electrica did not faced strikes or other forms of labour disturbances that might have interfered with the Company's activity, and the Company's Management trusts that the relations with the employees are good. n 2016 the program of mutual voluntary leave with compensatory payments has been continued.

The Company issued internal regulations that mainly accommodate the provisions related to the general dispositions on employment, non-discrimination, complaint handling procedure, safety and health at work, rights and obligations of the employer and employees, rules concerning the discipline at work, disciplinary sanctions and disciplinary misconduct, rules concerning the disciplinary procedure, criteria and procedures concerning the professional evaluation of the employees and finale dispositions.
The Company focuses on training programs in order to continuously employees' improvement as well as specialization whenever applicable, ensuring employees providing professional development and processes optimization through optimal use of the existing resources.
The Company's Management believes that this approach on training and development helps the employees in efficiently cope with the professional challenges.

6.2 The predictable development of the Company

The Company estimates that for 2017 the income from dividends received from the subsidiaries will be higher than in 2016. The Company expects that the 2017 profit will be slightly higher than in 2016.
The company estimates a reduction of revenues and expenses from the electricity transactions on the balancing market, although with a higher margin than in 2016.

6.3 Main risk and uncertainties

- Fondul Proprietatea, as a minoritary shareholder of the distribution and supply subsidiaries of the Group, may try to block the decision making process;
- Romania's electricity demand is linked to various factors beyond control of the subsidiaries, such as economic, political and climate-changing instances;
- The supply segment may be exposed to increasing competition due to the liberalization of the market;
- Group's supply segment might lose its status of supplier of last resort; The regulation in place regarding the electricity supply envisages the liberalization calendar and the fact that costumers can chose the supplier. By eliminating the regulated prices according to the liberalization calendar new opportunities rise for the number of households' customers exercising their eligibility right to increase. Thus, supplier switching experienced by the households customers can influence the supply's subsidiaries client base in a negative way.

6.4 Financial Risk Management

To implement the risk management system as well as an internal control/management system at group level, the following provisions were considered:

- Order of the Ministry of Public Finance no. 946/2005 regarding the development of an internal control/ management system, with subsequent amendments and completions;
- Government Order no. 119/1999 regarding internal control and preventive financial control, with subsequent amendments and completions;
- Internal procedures adopted with this purpose;
- International Standards on Risk Management Systems;
- Best practices and methodologies applied in listed and non-listed companies.

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

In 2016, within Electrica Group, it was carried out the identification of risks and it has been proposed and adopted appropriate control measures, aiming to avoid or reduce such risks in the future.

For 2017, the Company considers the development of risk management system according to the provisions of the international standard SR ISO 31000:2010 "Risk Management – Principles and Guidelines" and its integration within Electrica Group.

From the risks regarding the activity and the section of Electrica Group identified in 2016 it could be named:

- Supply activity can confront with the risk of increased competition due to electricity market liberalization and could lose the title of supplier of last resort;
- Supply segment can confront with increased market volatility, from quantities and prices point of view;
- The financial performance may be negatively influenced by changing tariffs on the regulated market and by the electricity prices;
- Romania's electricity demand is linked to various factors beyond control of the subsidiaries, such as economic, political and climate-changing instances;
- The group has to comply with regulatory requirements and to maintain active the regulatory approvals, being exposed to significant liabilities in case of non-compliance;
- Components of the distribution subsidiaries' network are subject to deterioration over time;
- The assets or group activity may be negative impacted by natural disasters or unauthorized human interventions;
- The groups' IT systems are outdated and are not integrated;
- The implementation of a new integrated ERP system may experience difficulties and delays;
- The Group may face risks associated with restitution claims with regard to certain real estate properties;
- Electrica Furnizare may be prohibited by the legislation in place from suspending or interrupting the supply of electricity to certain customers, even if such customers are in payment default;
- Group position on supply and distribution markets could expose to actions related to dominant position abuse;
- Work strikes or other forms of activity interruption could have a negative effect on the Group activity;
- Failure to execute management's goals from the business strategy may lead to cost savings and revenue forecasts being lower than predicted;
- Reputation, future prospects or results of operations may be materially adversely affected by claims or litigation;
- Failure to execute public procurement legislation by the Group member s may lead to fines and voided contracts;
- Property rights related to certain real estate owned by the Group members could be considered uncertain;
- The Company may face additional claims from tax authorities for budgetary debts due for previous periods;
- The Romanian taxation system is subject to change and may issue inconsistent interpretations of tax legislation;
- After the Offering, the State will continue to have significant influence over the Company;
- Fondul Proprietatea, as a minoritary shareholder of the distribution and supply subsidiaries of the Group, may try to block the decision making process;
- The existence of companies involved in the electricity distribution and network construction in the area where the Group's distribution subsidiaries performed their activity;
- Regulation risk generated by frequently changes and without appropriate consulting sessions with the electricity distribution operators negatively influence the budget planning capabilities;
- The risk generated by regulation in area of part responsible with stability on energy market.

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. The Company is in progress of implementation of a policy regarding the insurance of receivables.

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.

Impairment

The ageing of trade receivables was as follows:

RON	December 31, 2016 Gross value	December 31, 2016 Bad debt allowance	December 31, 2015 Gross value	December 31, 2015 Bad debt allowance
Neither past due nor impaired	50,863,472	-	41,487,637	-
Past due 1-90 days	42,817,162	(32,097,026)	27,556,241	-
Past due 90-180 days	1,940,414	(1,543,044)	8,088,743	-
Past due 180-360 days	507,346	(507,346)	399,034	(194)
Past due 1-2 years	7,623,813	(5,530,018)	474,206	(474,206)
Past due 2-3 years	299,311	(299,311)	104,441	(104,441)
Past due more than 3 years	670,503,816	(670,503,816)	667,158,074	(667,158,074)
Total	**774,555,334**	**(710,480,561)**	**745,268,376**	**(667,736,915)**

Source: Electrica

Bad debt allowance related to Oltchim SA (RON 667,735,915) and to Transenergo (RON 31,561,656).

RON	December 31, 2016	December 31, 2016
Neither past due nor impaired	50,863,472	41,487,637
Past due 1-90 days	10,720,136	27,556,241
Past due 90-180 days	397,370	8,088,743
Past due 180-360 days	-	398,840
Past due 1 – 2 years	2,093,795	-
Total	**64,074,773**	**77,531,461**

Source: Electrica

(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,

thousands RON	Carrying value	Contractual cash flows	
Financial liabilities		Total	less than 1 year
December 31, 2016			
Trade payables	67,591	67,591	67,591
Total	**67,591**	**67,591**	**67,591**
December 31, 2015			
Trade payables	60,634	60,634	60,634
Total	**60,634**	**60,634**	**60,634**

Source: Electrica

(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 optimizing 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 the Company is the Romanian Leu (RON). The currencies in which these transactions are primarily denominated are RON, EUR and USD. The Company also has deposits and bank accounts denominated in foreign currency (EUR and USD). 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:

thousands RON	31 decembrie 2016 USD	31 decembrie 2016 EUR	31 decembrie 2015 EUR
Cash and cash equivalents	4,669	2,533	10,241
Deposits (deposits, treasury bills and government bonds)	-	-	139,581
Net statement of financial position exposure	**4,669**	**2,533**	**149,822**

Source: Electrica

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

Average rate			Year-end spot rate		
RON	**2016**	**2015**	**RON**	**2016**	**2015**
1 EUR	4.4908	4.4450	1 EUR	4.5411	4.5245
1 USD	4.0569	4.0057	1 USD	4.3033	4.1477

Source: Electrica

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 affected equity, respectively, 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 (Ron)	Profit before tax: Strengthening	Profit before tax: Impairment
December 31, 2016		
EUR (5% movement)	126,650	(126,650)
USD (5% movement)	233.454	(233.454)
December 31, 2015		
EUR (5% movement)	7,491,092	(7,491,092)
USD (5% movement)	-	-

Source: Electrica

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

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:

thousands RON	31 decembrie 2016	31 decembrie 2015
Fixed-rate instruments		
Financial assets		
Bank deposits (cash and cash equivalent)	193,788	181,248
Deposits, treasury bills and government bonds	1,867,115	1,900,395
Restricted cash	134,492	-
Total	**2,195,395**	**2,081,643**

Source: Electrica

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.

6.5 Environmental aspects

The company has implemented an Integrated Quality, Environmental, Occupational Health & Safety Management System which aims to improve the performances of environmental pollution, prevention and responsible waste management.

In 2016 have been identified and evaluated all environmental aspects associated processes developed in normal and emergency conditions that have an environmental impact.
For efficient management of their own procedures have been elaborated in accordance with the specific legislation and requirements of the reference standard ISO 14001.

Periodic evaluation of compliance was achieved by: audits, periodic environmental reports.

6.6 Research and development activity

In accordance with the "Elements of the S.E. Electrica's Board Strategic Plan for the period 2015-2018 Electrica Group currently carries Pilot Project "Green Highway" by introducing in investment program for 2016 of a pilot project with 6 stations standardized -fast chargers for electric vehicles - investment approved by the Board of Administration decision no.3 in February 10, 2016 and approved by the General Meeting of Shareholders decision no.1 from March 31, 2016 and no 3 from October 21, 2016.

In 2016 S.E. Electrica signed with OMV Petrom a Memorandum of Understanding to initiate a partnership in electromobility domain (MoU) for placement in public filling stations with commercial high interest of fast charging stations [fast chargers type tristandard].

In addition to integration with the "Elements of the Board Strategic Plan for the period 2015-2018 Electrica" fulfilling the requirements as benefits, promoting the pilot project "Green Highway" has a strong innovative character and enables the development of new business for S.E.Electrica , management of fast chargers impact on electricity networks.

Electrica is promoting technological innovation by participating in research and development co-financed / financed by European funds, having the possibility to test new technologies to manage and optimize energy efficiency and operational electrical networks distribution electricity are integrated a high level of distributed generation sources.

By participating in these research, development and innovation projects with financing / co-financing the grants Electrica has the following benefits:

- making access to cutting-edge technologies in the field of optimizing the operating modes of the electricity distribution network (EDN) in terms of network connection of renewable electricity production (distributed or concentrated)
- improving the safety and reliability of isolated electrical systems, power quality provided through the provision of rapid, low-cost reserves through flexible task;
- the possibility of identifying criteria in working to promote smart grids - smart grids and smart metering solutions;
- use the opportunities to develop self-financing business portfolio of Electrica;
- developing new skills through transfer of know-how;
- compliance with the best practices of similar companies in Europe by winning image;
- creating new opportunities for future participation of S.E. ELECTRICA S.A. projects funded by the European Commission.

Another important endeavour of S.E. Electrica S.A. in promoting technological innovation is to disseminate the solutions for updating its electric grid using a smart grids concept in the international conferences/symposia that S.E.Electrica S.A. holds every year in November and which propose as an alternative topic the smart grids and smart metering solutions. We mention that S.E. Electrica S.A. has supervised the organization of the international symposium called "Smart Grids 2016".

We emphasize the participation in the WEC conferences with presentations concerning technological innovation and promotion of new technologies that improve operational efficiency. Thus, in June 2016, Electrica SA participated with three papers accepted to FOREN2016.

6.7 Legal documents reported

Legal documents reported in 2016, according to art. 225 of Law 297/ 2004:

- Filiala de Intretinere si Servicii Energetice „Electrica Serv" SA – C241/28.12.2016 - valid until 30.06.2017 - Complex road transport services- value: RON 780 thousand.

6.8 Subsequent events

During the period between the 2016 financial year closing and the date of the present report, the following relevant events took place at Electrica SA level:

- On January 4th, 2017, the Company informed its shareholders and investors about the conclusion in the second semester of 2016 of a legal act with a value greater than EUR 50,000 with Filiala de Intretinere si Servicii Energetice „Electrica Serv" SA, affiliate, where Electrica is the sole shareholder. The auditor report of factual findings according to art. 225 of Law no. 297/2004 regarding the transactions reported in the second semester of 2016 was published on January 31st, 2017;
- On January 27th, 2017, the Board of Directors took note of the cases disputed by Electrica SA in contradiction with ANRE and approved the following:
    - Withdrawal of legal actions in cases on the suspension of applicability of ANRE orders by which the distribution tariffs were determined for 2015 and 2016;
    - Formulating motions of judgement suspension in cases on the annulment of ANRE orders by which the distribution tariffs were determined for 2015 and 2016, until the settlement of the case on the annulment of ANRE Order no. 146/2014, by which the regulatory rate (RRR) was changed.
- On January 27th, 2017, the Board of Directors decided to reappoint Mr. Cristian Busu as BoD chair for a mandate of one year. Also, the Board of Directors decided the same composition of the BoD's committees and re-elected their chairs for one year mandate. Detailed information is provided under chapter 4.4 of the present report;
- Also, during the same meeting, the Board of Directors decided:
    - To revoke Mr. Ramiro Robert Eduard Angelescu from the position of Executive Manager of the Sales Coordination Division of SE Electrica SA, starting as of January 27th 2017.
    - To appoint Ms. Livioara Sujdea, as Executive Manager - Chief Distribution Officer, starting with February 1st 2017.
- On January 30th, 2017, the shareholders and the investors were informed that as of January 27th, 2017, in its Balancing Responsible Party business line, Electrica SA had a 36.3 MRON exposure on one of its clients, Transenergo. As the client filed for its insolvency, with ELSA and another market player also filing separate insolvency requests, management expects low recoverability of the total exposure.

The Company has sent current reports to the market to inform the investors and all the other stakeholders on the events presented above.

Regarding energy supply subsidiary, in January 2017 took place Ordinary General Shareholders Meeting through which were implemented the stipulations of the new Article of Association approved in December 2016 namely the reduction of Board of Directors members from 5 members to 3 members. The Shareholders meeting decisions through which were adopted the mentioned decisions were appealed in court by the minority shareholder.

6.9 Key factors, important market directions and trends influencing Electrica's operational results

The Board of Directors acknowledges between key factors, important market directions and trends that it cannot control and those that it can control (although frequently to a limited extent).
The key factors, important market directions and trends that the Board of Directors cannot control are:

- the cost of electricity purchased,
- the macroeconomic trends of Romania
- the demand of electricity
- the domestic general regulatory and legal framework in which the Company operates, including ANRE policies.

The key factors and the directions that the Board of Directors can control, at least partially, include the Company's capital investments and the operational costs.

The Board of Directors considers that on the medium and long term the growth of Romania's real GDP and the overall economy will have to a certain extend a positive impact on the electricity consumption in Romania, which will positively affect Electrica's activity.

In particular, the Board of Directors considers that, as long as Romania's economic growth will continue to exceed EU one, electricity consumption per capita in Romania is expected to continue to grow. On the other hand, a significant slowdown in the growth of GDP and that of the Romanian economy in general could have some negative effect on electricity consumption in Romania and, respectively, on Electrica activity.

ANNEX 1

Current report - status of compliance with the new Bucharest Stock Exchange Corporate Governance Code as of 9 March 2017

Nr.	Provisions of BSE Corporate Governance Code	Compliance YES / NO / PARTIALLY	Reason for non-compliance	Additional information
Section A	**Responsibilities**			
A.1.	All companies should have internal regulation of the Board which includes terms of reference/ responsibilities for Board and key management functions of the company, applying, among others, the General Principles of this Section.	YES		ELSA CGC, adopted in February 2015 and published on the company's website, includes the Articles of Association of ELSA, the Charter of the BoD and of its committees. All the above mentioned documents encompass the terms of reference/the BoD's responsibilities, as well as those of the company's key management. In 2016, the Board conducted an extensive project to review the Articles of Association and the above mentioned Charters in order to detail the responsibilities of the Board, of its committees and of the management team, taking into consideration the recomendations retained in the Board activity evaluation report of the prevoius year. The last version of ELSA CGC was published on company's website on 19th of January 2017.
A.2.	Provisions for the management of conflict of interest should be included in Board regulation.	YES		Such provisions are mentioned in ELSA's CGC, in the Articles of Association, in the Code of Ethics, as well as in the revised BoD Charter
A.3.	The Board of Directors should have at least five members.	YES		ELSA's BoD comprises 7 members since 14 December 2015.
A.4.	The majority of the members of the Board of Directors should be non-executive. At least one member of the Board of Directors or Supervisory Board should be independent, in the case of Standard Tier companies. Not less than two non-executive members of the Board of Directors or Supervisory Board should be independent, in the case of Premium Tier Companies. Each member of the Board of Directors or Supervisory Board, as the case may be, should submit a declaration that he/she is independent at the moment of his/her nomination for election or re-election as well as when any change in his/her status arises, by demonstrating the ground on which he/she is considered independent in character and judgement in practice and according to the following criteria:A.4.1. Not to be the CEO/executive officer of the company or of a company controlled by it and not have been in such position for the previous 5 years;A.4.2. Not to be an employee of the company or of a company controlled by it and not have been in such position for the previous five (5) years;A.4.3. Not to receive and not have received additional remuneration or other advantages from the company or from a company controlled by it, apart from those corresponding to the quality of non-executive director;A.4.4. Is not or has not been an employee of, or has not or had not any contractual relationship, during the previous year, with a significant shareholder of the company, controlling more than 10% of voting rights or with a company controlled by it;A.4.5. Not to have and not have had during the previous year a business or professional relationship with the company or with a company controlled byit, either directly or as a customer, partner, shareholder, member of the Board/ Director, CEO/ executive officer or employee of a company having such a relationship if, by its substantial character, this relationship could affect his/her objectivity;A.4.6. Not to be and not have been in the last three years the external or internal auditor or a partner or salaried associate of the current external financial or internal auditor of the company or a company controlled by it;A.4.7. Not to be a CEO/executive officer in another company where another CEO/executive officer of the company is a non-executive director;A.4.8. Not to have been a non-executive director of the company for more than twelve years;A.4.9. Not to have family ties with a person in the situations referred to at points A.4.1. and A.4.4.	YES		All the members of ELSA's BoD are non-executive. Four out of seven are independent members.All the independent members submitted a declaration of independence, when they were nominated as candidates by the shareholders. The declaration was made in accordance with the criteria included in the company's Articles of Association, which are similar with those detailed by the Code.

A.5.	A Board member's other relatively permanent professional commitments and engagements, including executive and non- executive Board positions in companies and not-for-profit institutions, should be disclosed to shareholders and to potential investors before appointment and during his/her mandate.	YES		The professional biography of each Board member is published on ELSA's website in the IR section>2015 AGA >GMS from 14th of December 2015.
A.6.	Any member of the Board should submit to the Board, information on any relationship with a shareholder who holds directly or indirectly, shares representing more than 5% of all voting rights.	YES		When a member of the Board has entered into a relation with a shareholder who directly or indirectly holds shares representing more than 5% of all voting rights, he/she informed operatively the entire Board.
A.7.	The company should appoint a Board secretary responsible for supporting the work of the Board.	YES		The company has a General Secretariat, which functionally reports to the BoD.
A.8.	The corporate governance statement should inform on whether an evaluation of the Board has taken place under the leadership of the chairman or the nomination committee and, if it has, summarize key action points and changes resulting from it. The company should have a policy/guidance regarding the evaluation of the Board containing the purpose, criteria and frequency of the evaluation process.	YES		The A.8 provision was observed both in 2015 and in 2016 - the Board has carried out an annual review process of its activity - with the support of an external consultant in 2015, respectively by using a self-assessment questionnaire in 2016 (alternate). Additionally, the Board has decided to conduct that at the end of each meeting a brief analysis based on key aspects of its activity and to track the evolution of the recorded results. More details are provided in the Annual Reports 2015 and 2016 - cap 6.1 and 6.2.
A.9.	The corporate governance statement should contain information on the number of meetings of the Board and the committees during the past year, attendance by directors (in person and in absentia) and a report of the Board and committees on their activities.	YES		Details regarding the observance of this provision are presented in the Annual Reports 2015 and 2016- cap 6.1 and 6.2.
A.10.	The corporate governance statement should contain information on the precise number of the independent members of the Board of Directors or of the Supervisory Board.	YES		Four out of seven members of the BoD are independent.
A.11.	The Board of Premium Tier companies should set up a nomination committee formed of non-executives, which will lead the process for Board appointments and make recommendations to the Board. The majority of the members of the nomination committee should be independent.	YES		The A.11 provision was followed during the previous BoD's mandate. Additionally, the Articles of Association and ELSA's CGC highlight the existence of this committee (Nomination and Remuneration Committee), its structure and responsibilities.The committee and its structure were established in the first meeting of the new BoD (elected on 14 December 2015), meeting which took place on 13 January 2016 and revised in 2017 according to the provisions of the Charter. The committee composition is: Mr. Bogdan Iliescu (chair), Ms. Arielle Malard de Rothschild, Ms. Corina Popescu. Two members are independent.
Section B	**Risk management and internal control system**			
B.1.	The Board should set up an audit committee, and at least one member should be an independent non-executive. The majority of members, including the chairman, should have proven an adequate qualification relevant to the functions and responsibilities of the committee. At least one member of the audit committee should have proven and adequate auditing or accounting experience. In the case of Premium Tier companies, the audit committee should be composed of at least three members and the majority of the audit committee should be independent.	YES		The B.1 provision was followed during the previous BoD's mandate. Additionally, the Articles of Association and ELSA's CGC highlight the existence of this committee (Audit and Risk Committee) , its structure and responsibilities. The committee and its structure were established in the first meeting of the new BoD (elected on 14 December 2015), meeting which took place on 13 January 2016and revised in 2017 according to the provisions of the Charter. The committee composition is: Mr. Pedro Mielgo Alvarez (chair), Ms. Arielle Malard de Rothschild and Mr. Bogdan Iliescu. All members are independent.
B.2.	The audit committee should be chaired by an independent non-executive member.	YES		In 2016, the BoD has elected Mr. Pedro Mielgo Alvarez as chairman of the Audit Committee, independent non-executive board member, re-elected in 2017.
B.3.	Among its responsibilities, the audit committee should undertake an annual assessment of the system of internal control.	YES		According to the revised Charter, the Audit and Risk Committee (ARC) has the following responsabilities with regards to internal control matters: (i) regularly reviewing the adequacy and implementation of key internal control policies, including policies for detecting fraud and the prevention of bribery; (ii) reviewing related party transactions in line with a policy developed by the Committee and approved by the Board; (iii) reviewing annually a report by the Head of Internal Audit assessing the effectiveness of the system of internal control across the Group.
B.4.	The assessment should consider the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports to the audit committee of the Board, management's responsiveness and effectiveness in dealing with identified internal control failings or weaknesses and their submission of relevant reports to the Board.	YES		The evaluation report for 2016 provided by the CGC was prepared and discussed by ARC in its meeting of 8 March 2017.
B.5.	The audit committee should review conflicts of interests in transactions of the company and its subsidiaries with related parties.	YES		The evaluation report for 2016 provided by the CGC was prepared and discussed by ARC in its meeting of 8 March 2017.
B.6.	The audit committee should evaluate the efficiency of the internal control system and risk management system.	YES		The ARC has at least the following responsibilities with regards to risk management matters: (i) reviewing regularly the main risks facing the Company and Group, recommending to the Board relevant policies for their identification, mapping, management and mitigation of risk; (ii) reviewing annually a report from management assessing the effectiveness of the system of risk management across the Group; Based on the new provisions introduced in the ARC Charter, the evaluation report for year 2016 was prepared and discussed by ARC in its meeting of 8 March 2017.
B.7.	The audit committee should monitor the application of statutory and generally accepted standards of internal auditing. The audit committee should receive and evaluate the reports of the internal audit team.	YES		The ARC has the following responsibilities with regards to auditing matters: (i) approving a Group-wide, annual risk-based audit plan as well as any material changes to the plan, and receiving regular reports on activities, key findings, and follow up regarding internal audit reports; (ii) advising the Board on the appointment, removal and remuneration of the Head of Internal Audit; (iii) monitoring the adequacy, effectiveness and independence of the internal audit function;
B.8.	Whenever the Code mentions reviews or analysis to be exercised by the Audit Committee, these should be followed by cyclical (at least annual), or ad-hoc reports to be submitted to the Board afterwards.	YES		
B.9.	No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related parties.	YES		Provisions on this matter are included in ELSA's CGC.
B.10.	The Board should adopt a policy ensuring that any transaction of the company with any of the companies with which it has close relations, that is equal to or more than 5% of the net assets of the company (as stated in the latest financial report), should be approved by the Board following an obligatory opinion of the audit committee.	YES		Within the revised ARC Charter, it was included the committee responsability regading the review of related party transactions, according with a policy developed by the Committee and approved by the Board.The Board has initiated several discussions and analysis on the matter and set as objective to fynalize the policy by the end of the current year.
B.11.	The internal audits should be carried out by a separate structural division (internal audit department) within the company or by retaining an independent third-party entity.	YES		The internal audit is conducted by the Internal Audit Department.
B.12.	To ensure the fulfillment of the core functions of the internal audit department, it should report functionally to the Board via the audit committee. For administrative purposes and in the scope related to the obligations of the management to monitor and mitigate risks, it should report directly to the chief executive officer.	YES		The Internal Audit Department reports functionally to the BoD through the ARC, while administratively reports to the CEO.

Section C	**Fair rewards and motivation**			
C.1.	The company should publish a remuneration policy on its website and include in its annual report a remuneration statement on the implementation of this policy during the annual period under review The remuneration policy should be formulated in such a way that allows stakeholders to understand the principles and rationale behind the remuneration of the members of the Board and the CEO, as well as of the members of the Management Board in two-tier board systems. It should describe the remuneration governance and decision-making process, detail the components of executive remuneration (i.e. salaries, annual bonus, long term stock-linked incentives, benefits in kind, pensions, and others) and describe each component's purpose, principles and assumptions (including the general performance criteria related to any form of variable remuneration). In addition, the remuneration policy should disclose the duration of the executive's contract and their notice period and eventual compensation for revocation without cause. The remuneration report should present the implementation of the remuneration policy vis-à-vis the persons identified in the remuneration policy during the annual period under review. Any essential change of the remuneration policy should be published on the corporate website in a timely fashion.	YES		The remuneration limits of the General Manger and of the other mandate managers were approved by the General Meeting of Shareholders (GMS) on July 9th 2015. In March 2016 te GMS approved the new Directors Remuneration Policy. During the year 2016, the BoD revised the remuneration structure of the mandate managers within the company and the group. The remuneration Policy was discussed and approved by the Board in its meeting of 9 March 2017.
Section D	**Building value through investors' relations**			
D.1.	The company should have an Investor Relations function - indicated, by person (s) responsible or an organizational unit, to the general public. In addition to information required by legal provisions, the company should include on its corporate website a dedicated Investor Relations section, both in Romanian and English, with all relevant information of interest for investors, including: D.1.1. Principal corporate regulations: the articles of association, general shareholders' meeting procedures. D.1.2. Professional CVs of the members of its governing bodies, a Board member's other professional commitments, including executive and non-executive Board positions in companies and not-for-profit institutions; D.1.3. Current reports and periodic reports (quarterly, semi-annual and annual reports); D.1.4. Information related to general meetings of shareholders; D.1.5. Information on corporate events; D.1.6. The name and contact data of a person who should be able to provide knowledgeable information on request; D.1.7. Corporate presentations (e.g. IR presentations, quarterly results presentations, etc.), financial statements (quarterly, semi- annual, annual), auditor reports and annual reports.	YES		The company has both an Investor Relations function and a dedicated Investor Relation section on its website (both in Romanian and English). In the Investors section on Electrica's website are published all the relevant information for investors.
D.2.	A company should have an annual cash distribution or dividend policy, proposed by the CEO or the Management Board and adopted by the Board, as a set of directions the company intends to follow regarding the distribution of net profit. The annual cash distribution or dividend policy principles should be published on the corporate website.	YES		The BoD approved the Dividends Policy in its meeting of 27 January 2017.
D.3.	A company should have adopted a policy with respect to forecasts, whether they are distributed or not. Forecasts means the quantified conclusions of studies aimed at determining the total impact of a list of factors related to a future period (so called assumptions): by nature such a task is based upon a high level of uncertainty, with results sometimes significantly differing from forecasts initially presented. The policy should provide for the frequency, period envisaged, and content of forecasts. Forecasts, if published, may only be part of annual, semi-annual or quarterly reports. The forecast policy should be published on the corporate website.	NO		The Board has initiated several discussions and analysis on the matter and set as objective to fynalize the policy by the end of the current year.
D.4.	The rules of general meetings of shareholders should not restrict the participation of shareholders in general meetings and the exercising of their rights. Amendments of the rules should take effect, at the earliest, as of the next general meeting of shareholders.	YES		The rules of general meetings of shareholders are included within each convening notice, published in accordance with the legal requirements, approximately 45 days prior to the meeting.
D.5.	The external auditors should attend the shareholders' meetings when their reports are presented there.	YES		
D.6.	The Board should present to the annual general meeting of shareholders a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting.	YES		The annual directors' report, presented to the annual general meeting of shareholders, contains the BoD's comments on the internal controls and significant risk management system. In practice, all the documents submitted for the approval of the GMS are endorsed by the BoD; this is clearly stated in the documents presented to the shareholders.
D.7.	Any professional, consultant, expert or financial analyst may participate in the shareholders' meeting upon prior invitation from the Chairman of the Board. Accredited journalists may also participate in the general meeting of shareholders, unless the Chairman of the Board decides otherwise.	YES		On this aspect, shareholders' agreement present to the General Meetings was requested each time it was needed.
D.8.	The quarterly and semi-annual financial reports should include information in both Romanian and English regarding the key drivers influencing the change in sales, operating profit, net profit and other relevant financial indicators, both on quarter-on- quarter and year-on-year terms.	YES		
D.9.	A company should organize at least two meetings/ conference calls with analysts and investors each year. The information presented on these occasions should be published in the IR section of the company website at the time of the meetings/conference calls.	YES		Electrica holds quarterly teleconferences with analysts and investors.
D.10.	If a company supports various forms of artistic and cultural expression, sport activities, educational or scientific activities, and considers the resulting impact on the innovativeness and competitiveness of the company part of its business mission and development strategy, it should publish the policy guiding its activity in this area.	YES		In 2016, the BoD analyzed and approved the Corporate Social Responsibility Policy, including programs supporting the areas of activity / actions, grants and principles of granting sponsorships / donations. The most relevant information was published on the company website.

ANNEX 2 – INTERNAL AUDIT REPORT FOR 2016

The Annual Audit Plan for 2016, endorsed by the Audit Committee and approved by the Board of Directors by the Decision no.39/08.12.2015, provided for seven missions planned for 2016 in the following auditable areas: human resources, technical, acquisitions, transportation, risk management, BRP activity (Balance Responsible Part). This plan was drawn up in view of identifying the efficiency of internal controls within ELSA. On the date of audit missions planning, the Audit & Compliance Office team was made of two internal auditors, but after April the internal audit missions were conducted by five internal auditors.

In 2016, upon the request of the Board of Directors, were conducted two ad-hoc missions on human resources and acquisitions auditable areas.

During the first half year 2016, 5 audit missions were conducted in the company, 3 from Annual Internal Audit Plan and 2 ad-hoc missions. Seven audit reports were developed, containing 36 recommendations of witch 20 with high risk impact in case of non-implementing. The missions developed in first half of year:

- Acquisitions of services – ad-hoc mission;
- Enterprise risk management – planned mission;
- Human resources activity - ad-hoc mission;
- Transportation activity – planned mission;
- EDN access (Electric Distribution Network) - planned mission.

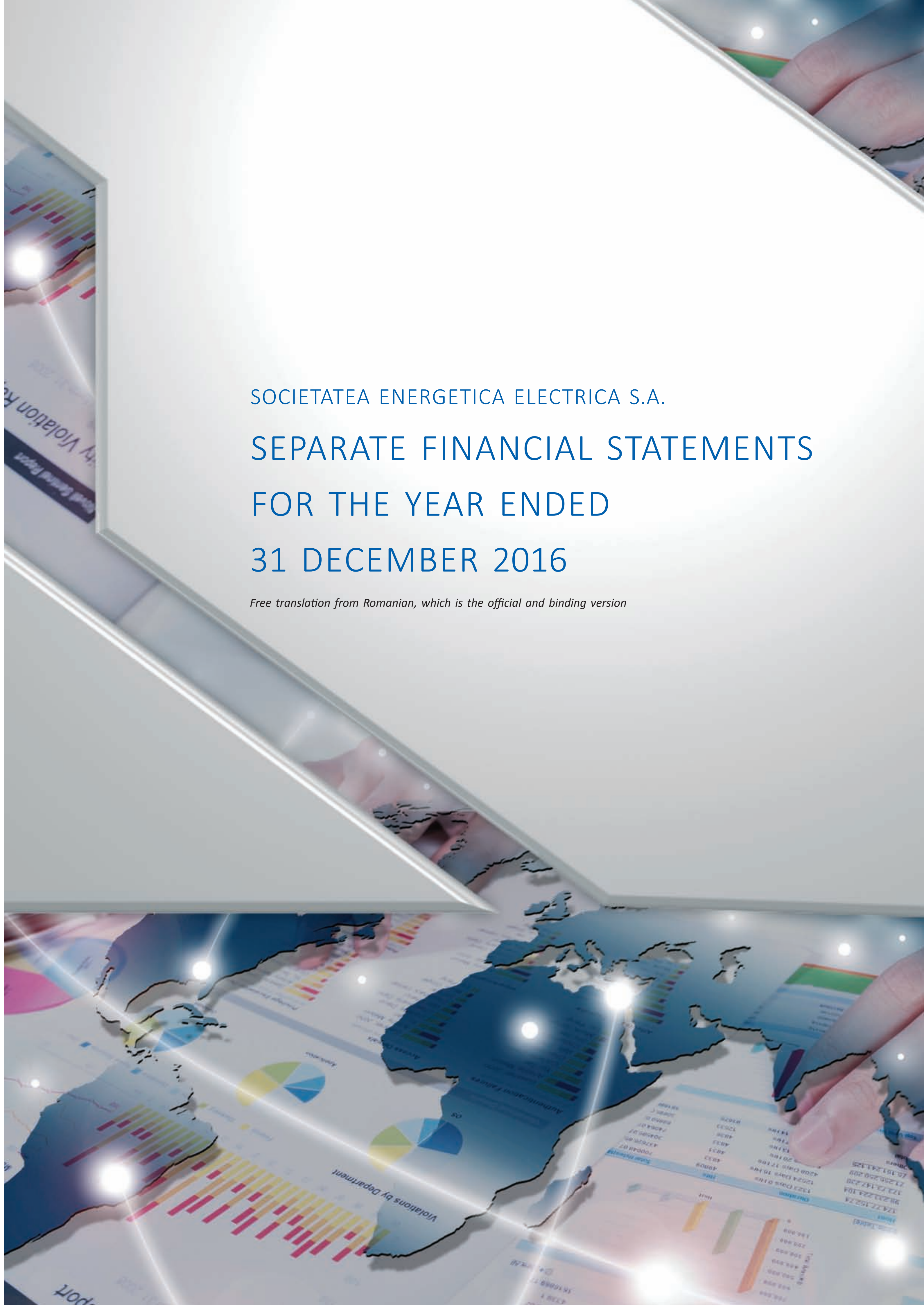
In the second half of 2016 were conducted 3 audit missions, planned and were developed 11 internal audit reports, containing 45 recommendations of which 18 with high risk impact in case of non-implementing. The missions developed in second half of year:

- Administrative activity;
- BRP activity;
- Acquisitions evaluation.

These missions were performed by teams made of two internal auditors supervised by the chief of internal audit department.

The internal audit report concluded as a result of the missions were acknowledged by the management of audited entities, endorsed by the Audit Committee and the implementation of their recommendations is consistently monitored by their follow up sheets. As a result of the audit missions and the acceptance of their recommendations by the audited entities and persons, the audited structures make up their own plans of measure to meet the recommendations.

During 2016 have been uptated Charta of internal audit and Code of ethic behaviour for internal auditors. Were developed Manual of politicies and procedures for internal audit, based on CAFR (Chamber of financial auditors) model, organization which appropriated entirely International Standards for the Professional Practice of Internal Auditor. All these procedures were endorsed by Audit Committee and approved by Board of Directors.



SOCIETATEA ENERGETICA ELECTRICA S.A.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Free translation from Romanian, which is the official and binding version

CONTENTS

SOCIETATEA ENERGETICA ELECTRICA SA
SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016
(All amounts are in RON)

	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	20	275,008,415	293,375,460
Other intangible assets	21	1,836,710	1,498,663
Investments in subsidiaries	22	1,430,819,457	1,430,819,457
Restricted cash	19	134,491,752	-
Deferred tax assets	15	-	7,249,634
Total non-current assets		**1,842,156,334**	**1,732,943,214**
Current assets			
Cash and cash equivalents	19	197,644,018	283,366,031
Deposits, treasury bills and government bonds	17	1,867,115,360	1,900,395,387
Trade receivables	16	64,074,773	77,531,461
Other receivables	18	12,597,869	13,056,225
Inventories		161,205	116,597
Prepayments		48,926	56,033
Income tax receivable	15	2,384,366	23,134,100
Total current assets		**2,144,026,517**	**2,297,655,834**
Total assets		**3,986,182,851**	**4,030,599,048**
EQUITY AND LIABILITIES			
Equity			
Share capital out of which:	23	3,459,399,290	3,459,399,290
Subscribed and paid in share capital	23	3,459,399,290	3,459,399,290
Inflation adjustment to share capital	23	-	-
Share premium	23	103,049,177	103,049,177
Treasury shares	23	(75,372,435)	(75,372,435)
Pre-paid capital contributions in kind from shareholders		5,144,025	2,861,525
Revaluation reserves	23	709,974	769,261
Legal reserves	23	156,545,204	142,932,218
Retained earnings		252,240,158	292,266,081
Total equity		**3,901,715,393**	**3,925,905,117**
Liabilities			
Non-current liabilities			
Employee benefits	13	1,580,589	1,795,588
Total non-current liabilities		**1,580,589**	**1,795,588**
Current liabilities			
Trade payables	24	67,591,033	60,633,718
Other payables	25	11,716,925	7,632,190
Deferred revenue		540,944	497,084
Employee benefits	12,13	3,037,967	2,884,701
Provisions	26	-	31,250,650
Total current liabilities		**82,886,869**	**102,898,343**
Total liabilities		**84,467,458**	**104,693,931**
Total equity and liabilities		**3,986,182,851**	**4,030,599,048**

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

General Manager Dan Catalin Stancu

Finance Manager Iuliana Andronache

SOCIETATEA ENERGETICA ELECTRICA SA
SEPARATE STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts are in RON)

	Note	2016	2015
Revenues	8	362,388,192	383,708,120
Other income	9	1,709,529	1,533,233
Electricity purchased	9	(347,592,754)	(368,683,747)
Employee benefits	14	(20,503,839)	(16,636,893)
Depreciation and amortization	20,21	(23,506,827)	(20,241,737)
Impairment of trade and other receivables, net	16,18	(38,391,976)	2,832,061
Change in provisions, net	26	31,250,650	(31,250,650)
Other operating expenses	9	(81,037,171)	(23,289,218)
Operating profit		**(115,684,196)**	**(72,028,831)**
Finance income	10	389,682,646	373,026,201
Finance costs	10	(1,738,725)	(289,466)
Net finance income		**387,943,921**	**372,736,735**
Profit before tax		**272,259,725**	**300,707,904**
Income tax expense	15	(7,233,616)	156,580
Profit for the year		**265,026,109**	**300,864,484**
Earnings per share			
Basic and diluted earnings per share (RON)	**11**	**0,78**	**0,89**

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

General Manager Dan Catalin Stancu

Finance Manager Iuliana Andronache

SOCIETATEA ENERGETICA ELECTRICA SA
SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts are in RON, if not otherwise stated)

	Note	2016	2015
Profit for the year		**265,026,109**	**300,864,484**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Re-measurements of the defined benefit liability	13	100,114	703,969
Tax related to re-measurements of the defined benefit liability	15	(16,018)	(112,635)
Other comprehensive income, net of tax		**84,096**	**591,334**
Total comprehensive income		**265,110,205**	**301,455,818**

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

General Manager Dan Catalin Stancu

Finance Manager Iuliana Andronache

SOCIETATEA ENERGETICA ELECTRICA SA
SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts are in RON)

	Note	Subscribed and paid in share capital	Inflation adjustment to share capital	Share premium	Treasury shares	Capital contributions in kind from shareholders	Revaluation reserves	Legal reserves	Retained earnings	Total equity
Balance at 1 January 2016		**3,459,399,290**	**103,049,177**	**(75,372,435)**	**2,861,525**	**769,261**	**142,932,218**	**292,266,081**	**3,925,905,117**	**3.925.905.117**
Comprehensive income										
Profit for the year		-	-	-	-	-	-	265,026,109	265,026,109	265.026.109
Other comprehensive income		-	-	-	-	-	-	84,096	84,096	84.096
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**	**265,110,205**	**265,110,205**	**265.110.205**
Transactions with owners of the Company										
Contributions and distributions										
Land for which ownership rights were obtained	23	-	-	-	2,282,500	-	-	-	2,282,500	2.282.500
Dividends to the owners of the Company	23	-	-	-	-	-	-	(291,582,429)	(291,582,429)	(291.582.429)
Total transactions with owners of the Company		**-**	**-**	**-**	**2,282,500**	**-**	**-**	**(291,582,429)**	**(289,299,929)**	**(289.299.929)**
Other changes in equity										
Set up of legal reserves		-	-	-	-	-	13,612,986	(13,612,986)	-	-
Transfer of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment		-	-	-	-	(59,287)	-	59,287	-	-
Balance at 31 December 2016		**3,459,399,290**	**103,049,177**	**(75,372,435)**	**5,144,025**	**709,974**	**156,545,204**	**252,240,158**	**3,901,715,393**	**3.901.715.393**
Balance at 1 January 2015										
Comprehensive income									**300,864,484**	**300,864,484**
Profit for the year		-	-	-	-	-	-			
Other comprehensive income		-	-	-	-	-	-		591,334	591,334
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**		**301,455,818**	**301,455,818**
Transactions with owners of the Company										
Contributions and distributions										
Lands for which ownership rights were obtained	23	-	-	-	-	(415,743)	-	-	-	(415,743)
Dividends to the owners of the Company	23	-	-	-	-	-	-	-	(244,691,906)	(244,691,906)
Total transactions with owners of the Company		**-**	**-**	**-**	**-**	**(415,743)**	**-**	**-**	**(244,691,906)**	**(245.107.649)**
Other changes in equity										
Set up of legal reserves		-	-	-	-	-	-	15,035,395	(15,035,395)	-
Covering the losses from previous years		-	(354,842,710)	-	-	-	-	-	354,842,710	-
Transfer of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment		-	-	-	-	-	(59,287)	-	59,287	-
Balance at 31 December 2015		**3,459,399,290**	**-**	**103,049,177**	**(75,372,435)**	**2,861,525**	**769,261**	**142,932,218**	**292,266,081**	**3,925,905,117**

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

SOCIETATEA ENERGETICA ELECTRICA SA
SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts are in RON)

	Note	2016	2015
Cash flows from operating activities			
Profit for the year		**265,026,109**	**300,864,484**
Adjustments for:			
Depreciation	20	23,087,773	20,028,254
Amortisation	21	419,054	213,483
Impairment of trade and other receivables, net	16,18	38,391,976	(2,832,061)
Net finance income	10	(387,943,921)	(372,736,735)
Changes in provisions, net	26	(31,250,650)	31,250,650
Income tax expense	15	7,233,616	(156,580)
		(85,036,043)	**(23,368,505)**
Changes in:			
Trade receivables		(57,437,525)	(23,028,726)
Other receivables		18,856,898	(631,077)
Restricted cash		(134,491,752)	-
Trade payables		49,579,305	10,426,415
Other payables		3,745,961	(1,369,714)
Employee benefits		22,363	123,858
Cash generated from operating activities		**(204,760,793)**	**(37,847,749)**
Interest paid		(1,677)	(38)
Net cash from operating activities		**(204,762,470)**	**(37,847,787)**
Cash flows from investing activities			
Payments for purchases of property, plant and equipment		(16,909,651)	(22,560,889)
Payments for purchase of other intangible assets		(757,101)	(1,034,480)
Payments for purchase of treasury bills and government bonds		(2,437,538,086)	(4,093,998,000)
Proceeds from maturity of treasury bills and government bonds		2,436,403,791	3,240,481,000
Increase in deposits with maturity of 3 months or longer		(109,087,392)	(144,056,000)
Proceeds from deposits with maturity of 3 months or longer		148,443,585	136,704,000
Interest received		14,844,919	29,494,629
Dividends received	10	374,838,510	344,647,949
Net cash used in investing activities		**410,238,575**	**(510,321,791)**
Cash flows from financing activities			
Dividends paid	23	(291,198,118)	(244,084,165)
Net cash used in financing activities		**(291,198,118)**	**(244,084,165)**
Net decrease in cash and cash equivalents		**(85,722,013)**	**(792,253,743)**
Cash and cash equivalents at 1 January	19	283,366,031	1,075,619,774
Cash and cash equivalents at 31 December	**19**	**197,644,018**	**283,366,031**

The accompanying notes are an integral part of these separate financial statements

Non-monetary transactions are presented in Note 19.

General Manager
Dan Catalin Stancu

Finance Manager
Iuliana Andronache

1 Reporting entity

These financial statements are the separate financial statements of Societatea Energetica Electrica S.A. ("Company" or "Electrica SA"). During 2016 the Company changed its name from Societatea de Distributie si Furnizare a Energiei Electrice Electrica S.A. to Societatea Energetica Electrica S.A.

Electrica was originally incorporated as a company in 1998 by Government Decision no. 365/1998, following the restructuring of the former National Electricity Company (RENEL). On 1 August 2000, following the restructuring of the former National Electricity Company (CONEL) 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, District 1, Bucharest, Romania. The Company has unique registration number 13267221 and Trade Register number J40/7425/2000.

As at 31 December 2016 the major shareholder of Electrica SA is the Romanian State, represented by the Ministry of Energy (48.78%), after the ownership dilution following an initial public offer. The next largest shareholder is the European Bank for Reconstruction and Development with 8.66%.

As at 31 December 2016 and 2015, Electrica SA has the following investments in subsidiaries:

Subsidiary	Activity	Tax code	Head Office	% shareholding as at 31 Dec 2016	% shareholding as at 31 Dec 2015
Societatea de Distributie a Energiei Electrice Muntenia Nord SA	Electricity distribution in geographical area of Muntenia Nord	14506181	Ploiesti	78.0000021%	78.0000021%
Societatea de Distributie a Energiei Electrice Transilvania Nord SA	Electricity distribution in geographical area of Transilvania Nord	14476722	Cluj-Napoca	77.99999%	77.99999%
Societatea de Distributie a Energiei Electrice 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 (In reorganization)	Services in the energy sector (maintenance, repairs, construction)	29384120	Bucuresti	100%	100%
Servicii Energetice Oltenia SA (In reorganization)	Services in the energy sector (maintenance, repairs, construction)	29389861	Craiova	100%	100%
Servicii Energetice Moldova SA (In bankruptcy)*	Services in the energy sector (maintenance, repairs, construction)	29386768	Bacau	100%	100%
Servicii Energetice Dobrogea SA (In bankruptcy)*	Services in the energy sector (maintenance, repairs, construction)	29388378	Constanta	100%	100%

**Electrica SA lost control over Servicii Energetice Dobrogea in January 2015 and over Servicii Energetice Moldova in January 2016 as a consequence of starting the subsidiary's bankruptcy procedure (see Note 22).*

THE COMPANY'S MAIN ACTIVITIES

Currently, the core business of the Company, per the Statute, annex to Government Decision no, 627/2000, consolidated, amended and supplemented, is "Activities of business and management consulting". The Company also covers services on the balancing electricity market and trading.

According to the Commercial Code of the wholesale electricity market, the 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 part 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 through 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 as Global Depository Receipts ("GDRs") on the UK market.

The IPO was organised between 11 and 27 June 2014 and referred to an offering by the Company of 177,188,744 ordinary shares in the form of shares and GDRs, each GDR representing four shares. Following the IPO, the Company sold 142,007,744 shares and 8,795,250 GDRs, at the offer price of RON 11 per share and USD 13.66 per GDR. The allocation of shares and GDRs was 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 at 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 preparation

These separate financial statements have been prepared in accordance with the Ministry of Public Finance Order no. 2844/2016 for approving the Accounting Regulations in accordance with International Financial Reporting Standards ("OMFP 2844/2016"). In acceptance of OMFP 2844/2016, 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 separate financial statements were authorized for issue by the Board of Directors on 9 March 2017. The financial statements will be submitted for shareholders' approval in the meeting scheduled on 27 April 2017.

3 Functional and presentation currency

These separate financial statements are presented in Lei (RON), which is the functional currency of the Company. All amounts are in RON, if not otherwise stated.

4 Use of judgements and estimates

In preparing these separate 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, revenues and expenses. Actual results may differ from these estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are prospectively recognised.

(a) Judgements
Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the separate financial statements is included below:

Commissions
Company assesses its revenue arrangements based on 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 recognised revenue 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) – estimates regarding the useful lives of property, plant and equipment and of intangible assets;
- Notes 16 and 27 – assumptions and estimates about the recoverability of trade receivables;
- Note 20- assumptions regarding the revalued amount of property, plant and equipment;
- Note 22 – assumptions and estimates regarding the valuation of shareholdings in the subsidiaries;
- Note 15 – recognition of deferred tax assets: availability of future taxable profit against which tax loss carried forward can be used;
- Notes 26 and 29 – 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 an agreement 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 observable market data as far as possible. Fair values are categorised into different levels in the 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 are categorised into different levels of the fair value hierarchy, then the fair value measurement is entirety categorised on the level of 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 used in measuring fair values is included in Note 20: Property, plant and equipment.

5 Basis of measurement

The separate financial statements have been prepared on the historical cost basis, except for the land and buildings 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 separate 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 reliably measured. 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 the statements of work performed, regardless of when paid or received, in accordance with the accrual accounting principle.
Sales of goods
Revenues from sale of goods are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

(B) COMMISSIONS

Company assesses its revenue arrangements based on specific criteria to determine if it is acting as principal or agent. If the Company acts in the capacity of an agent rather than as the principal in a transaction, then the recognised revenue 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;
- dividend income;
- 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 to the functional currency.

(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 services provided by the employee and the obligation can be reliably estimated.

(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, updating that amount at the present value.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method.
Re-measurements 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, considering 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. Re-measurements 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 for the items recognised directly in equity or in other comprehensive income, case in which it will be recognized 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 arising from the initial recognition of assets and liabilities resulting from transactions that are not business combinations and that affect neither accounting nor taxable profit or loss;
- temporary differences resulting from investments in subsidiaries, associates and jointly controlled entities, to the extent that the Company can exercise control over the reversal period of the temporary differences and it is probable that they will not be reversed in the foreseeable future.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences only to the extent that it is probable that future taxable profits will be available to be used for covering them. 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 based on the tax rates that are expected to be applicable to temporary differences when they are reversed, using tax rates enacted or substantively enacted at the reporting date.

The measurement of the deferred tax reflects the tax consequences that would follow from the manner in which the Company expects to recover or settle the carrying amount of its assets and liabilities at the reporting date.
Deferred tax assets and liabilities are offset only if certain criteria are met.

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

(G) INVENTORIES

Inventories consist mainly of consumables and other materials.
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 perform 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 performed with sufficient regularity to ensure that the carrying amount does not materially differ from the one 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 other non-current assets 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)
Vehicles, furniture and office equipment	3-10 (average 7 years)

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

(I) INTANGIBLE ASSETS

(i) Recognition and measurement
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 recognised in profit or loss.
The estimated useful lives of software and licenses are 3-5 years.
The amortisation method, the useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(J) ASSETS HELD FOR DISTRIBUTION

Non-current assets, or groups to be disposed 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 groups to be disposed, are measured at the lower of their carrying amount and fair value less costs of distribution.
Impairment losses and subsequent gains and losses on re-measurement are recognised in profit or loss in case they refer to an asset that is initially classified as held-for-distribution.

(K) FINANCIAL INSTRUMENTS

The Company classifies non-derivative financial assets into the following categories: loans and receivables, held to maturity investments and available-for-sale financial assets.
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 expired. 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 the reporting date for the balancing electricity market settlements, late payment penalties and accrued revenue for the balancing electricity market settlements until the end of the year, but invoiced after the end of the year. Trade receivables include also invoices issued or to be issued to the subsidiaries for the 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, that 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, held-to-maturity financial assets are measured at amortized cost using the effective interest method.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale. Available-for-sale financial assets 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 is not 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 loans, 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 and 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.

(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 otherwise accept;
- 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 a measurable decrease in expected cash flows for 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 the assets that are individually significant 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. 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 objectively related 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 RESERVES

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 financial statements when their distribution is proposed after the reporting date and before the date of the issuance of the financial statements.

(O) 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. No provisions are provided for future operating losses.

(Q) CONTINGENT ASSETS AND LIABILITIES

A contingent liability is:

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

(b) a current obligation arising as a result of previous events, but which is not recognized because:

  i. it is unlikely that outputs of resources incorporating economic benefits to be required for the settlement of the obligation; or

  ii. the value of the obligation may not be evaluated credibly enough.

Contingent liabilities are not recognized in the financial statements of the Company. They are presented in case the output of resources incorporating economic benefits is possible and not probable.

A contingent asset is a potential asset that appears as a result of previous events and whose existence will be confirmed only by the occurrence or the non-occurrence of one or more uncertain future events, which are not fully controlled by the Company.

A contingent asset is not recognized in the financial statements of the Company, but it is shown when an input of economic benefits is likely to arise.

(R) 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 substantially all the risks and rewards of ownership to the Company are classified as finance leases. The leased assets and finance lease liability are initially measured 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) Rent income
Rental income from property, plant and equipment other than property investment is recognised as other income. Rental income is recognised on a straight-line basis over the term of the lease.

(S) SUBSEQUENT EVENTS

Events occurring after the reporting date which provide additional information about conditions prevailing at those reporting dates (adjusting events) are reflected in the separate financial statements. Events occurring after the reporting dates that provide information on events that occurred after the reporting dates (non-adjusting events), when material, are disclosed in the notes to the separate 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 New standards and interpretations not yet adopted

The European Union has adopted a series of standards whose application is not yet mandatory for the year ended on 31 December 2016 and which have not been applied for the present individual financial situations:

- IFRS 9 "Financial Instruments". IFRS 9 is applicable for annual periods that begin on or after 1 January 2018, early adoption being permitted. The company intends to apply IFRS 9 the first time on 1 January 2018. IFRS 9 implementation impact on the 2018 individual financial statements of the Company is not known and cannot be reasonably estimated, as it will depend on the financial instruments that will be held by the Company and of the economic situation at that date, as well as of the future chosen accounting treatments and judgements. The company has carried out a preliminary analysis of the impact of the application of IFRS 9 in view of the situation at 31 December 2016, and it does not consider that the new requirements would have had a significant impact on the financial statements, if applied at 31 December 2016.
- IFRS 15 "Revenues from contracts with customers". IFRS 15 introduces a common model for revenues' recognition and measurement. The standard replaces the criteria for the recognition of revenues, replacing the standards IAS 18 Revenue, IAS 11 Building contracts and IFRIC 13 Loyalty programs for customers. IFRS 15 shall apply for the annual periods that start on or after 1 January 2018, early adoption being permitted. The company has carried out a preliminary analysis of the impact of the application of IFRS 15 on the financial statements.

THE SERVICES RENDERING

The Company does not anticipate significant differences on the moment of recognition of revenues or the net impact on the outcome of the financial year.

TRANSITION

The company intends to adopt IFRS 15 in the financial statements for the year ending on 31 December 2018 using the retrospective approach. Therefore, the Company will apply all the requirements of the IFRS 15 for each comparative period presented and will adjust the financial statements.
The company has started a detailed analysis of the impact resulting from the application of IFRS 15.

8 Revenue

	2016	2015
Supply energy in balancing market and day-ahead-market	357,705,156	379,038,959
Revenues from services contracts with the subsidiaries related to the Automatic Meter Reading System (Note 20)	4,683,036	4,669,161
Total	**362,388,192**	**383,708,120**

9 Other operating revenues and expenses

(a) Other operating revenues
Other income mainly includes rent revenue and late payment penalties from customers.

(b) Purchased electricity
Purchased electricity includes the cost of electricity purchased for settlements on balancing market and day-ahead-market.

(c) Other operating expenses

	2016	2015
Rent	17,088	76,424
Repair and maintenance expenses	1,466,533	2,305,640
IT services	494,340	1,409,652
Postage and telecommunication	3,354,655	3,105,028
Penalties for late payment and other payments to the State	62,417,320	299,467
Other taxes and duties	626,058	495,698
Legal and consultancy fees	3,818,706	8,104,919
Bank commissions	254,051	501,554
Other	8,588,420	6,990,836
Total	**81,037,171**	**23,289,218**

During 2015, the Company has recognized a provision for the amount of RON 31,250,650 for disputes with National Agency for Fiscal Administration "NAFA" having as its object the penalties for delay in the payment claimed by the NAFA. Also, during 2016 the Company has created additional provisions in the amount of RON 23,648,000 as a result of the court of first instance's decision of rejecting the appeal against enforcement. In December 2016, the company made payments in amount of RON 41,210,654 as a result of the forced execution received in connection with these litigations and reversed the provisions constituted (see Note 26) and the claims to the tax previously recognized. The above line: "Penalties for delay in the payment of taxes and fees and other payments to the State" includes the amount of RON 58,126,604 in connection with these disputes.

10 Net finance income

	2016	2015
Interest income	14,784,494	26,379,877
Dividends income	374,838,510	344,647,949
Foreign exchange gains	-	1,932,933
Other finance income	59,642	65,442
Total finance income	**389,682,646**	**373,026,201**
Interest expense	(1,677)	(38)
Interest cost for employee benefits (Note 13)	(56,739)	(93,404)
Foreign exchange losses	(1,680,309)	-
Other financial costs	-	(196,024)
Total finance costs	**(1,738,725)**	**(289,466)**
Net finance income	**387,943,921**	**372,736,735**

In 2016, the Company received a total amount of RON 374,838,510 as dividends from its subsidiaries (2015: RON 344,647,949).
The average interest rate for deposits, treasury bills and government bonds with original maturity of three months increased from 0.93% in 2015 to 0.63% in 2016.

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

	2016	2015
Profit for the year attributable to the owners of the Company	265,026,109	300,864,484
Profit attributable to ordinary shareholders	**265,026,109**	**300,864,484**

Weighted-average number of ordinary shares (in number of shares)

	2016	2015
Issued ordinary shares at 1 January	339,049,336	339,049,336
Weighted-average number of ordinary shares at 31 December	**339,049,336**	**339,049,336**

For the calculation of basic and diluted earnings per share, the own shares repurchased by the Company (6,890,593 shares) were not treated as outstanding shares and are deducted from the total number of issued ordinary shares.

Earnings per share	2016	2015
Basic and diluted earnings per share (RON)	**0.78**	**0.89**

12 Short-term employee benefits

	31 December 2016	31 December 2015
Personnel payables	1,891,629	1,509,846
Current portion of defined benefit liability and other long-term employee benefits	178,350	344,582
Social security charges	680,514	629,642
Tax on salaries	287,474	285,750
Termination benefits payable	-	114,881
Total	**3,037,967**	**2,884,701**

Details related to employee benefit expenses are presented in Note 13.

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, child benefit, temporary incapacity for work situations, risks of work accidents and professional diseases and other social assistance services, redundancy payments and incentives granted to employers to creating new jobs.

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 2016 and 2015, employee benefit obligations were computed by independent actuary using the projected unit credit method with benefits calculated proportionally to the period of service.

	31 December 2016	31 December 2015
Defined benefit liability	976,762	1,043,453
Other long-term employee benefits	782,177	1,096,717
Total	**1,758,939**	**2,140,170**
- Current portion*	178,350	344,582
- Non-current portion	1,580,589	1,795,588

**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 between the opening balances and the closing balances of the defined benefit liability and other long-term employee benefits and their components. There are no plan assets.

Defined benefit liability	**2016**	**2015**
Balance at 1 January	**1,043,453**	**1,731,636**
Included in profit or loss		
Current service cost	32,481	38,417
Interest (income) / cost	30,491	45,575
	62,972	**83,992**
Included in other comprehensive income		
Re-measurements loss (gain)		
- Actuarial loss / (gain)	(100,114)	(703,969)
Other		
Benefits paid	(29,549)	(68,206)
Balance at 31 December	**976,762**	**1,043,453**

Other long-term employee benefits	**2016**	**2015**
Balance at 1 January	**1,096,717**	**1,511,720**
Included in profit or loss		
Current service cost	33,852	41,971
Actuarial gain	(279,897)	(414,894)
Interest cost	26,248	47,829
Benefits paid	(94,743)	(89,909)
Balance at 31 December	**782,177**	**1,096,717**

(II) ACTUARIAL ASSUMPTIONS

The following are the main actuarial assumptions at the respective reporting date:

(a) Macroeconomic assumptions:

- Inflation. The actuary used the Consumer Price Index (CPI) published by the Economist Intelligence Unit:

Year	Valuation date 31 December 2016	Valuation date 31 December 2015
2016	-	1.8%
2017	2.3%	2.5%
2018	2.3%	2.3%
2019	2.2%	2.2%
2020+	2%	2.2%

- the discount rate used was the yield for Romanian government bonds maturing in 10 years at the reporting date, 3.63% for the year 2016 (2015: 4.75%);
- the electricity price per KWh used in the actuarial computation is 0.4576 RON at 31 December 2016 (2015: 0.4847 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' growth rate was correlated mainly with the estimated inflation rates in the future periods;
- employees' turnover: turnover rates are based on statistical information regarding employees' mobility during 2003-2015. Considering historical leaving data, it is assumed that the personnel turnover rate decreases with the employees' age;
- jubilee and retirement bonuses granted based on seniority per the collective labour contract, as follows:

Jubilee bonuses based on years of service

Seniority	No. of gross monthly base salaries 31 December 2016	No. of gross monthly base salaries 31 December 2015
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 bonuses based on years of service in the Company

Seniority	No. of gross monthly base salaries 31 December 2016	No. of gross monthly base salaries 31 December 2015
Between 8 and 10 years	1	1
Between 10 and 25 years	2	2
More than 25 years	3	3

In case the conditions related to years of service are met, the Company offers as benefit free electricity in quantity of 1,200 kWh per year to retired employees of the Company. In the event of pensioner's death, husband/wife is entitled to receive the same benefit until he/she will marry again.

Termination benefits

a. Termination benefits for individual lay-offs at the Company's initiative
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:

Seniority	No. of gross monthly base salaries
1 - 5 years	4
5 - 10 years	6
10 - 20 years	7
More than 20 years	10

b. Termination benefits for collective lay-offs at the Company's initiative
For collective lay-offs, per the Collective labour contract, the Company will pay termination benefits to the employees depending on their period of service, as follows:

Seniority	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

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 Company's reorganization and restructuring. Employees who are re-employed within the Company after layoff are not entitled to the above-mentioned benefits.

The financial statements do not include any provision for liabilities relating to compensation payments because there does not exist a present obligation in this regard.

c. Termination benefits for voluntary redundancies
According to the Collective labour contract from 13 August 2015 and to the Addendum on 1 October 2015, signed by the Company and the Union, in case the individual labour contract is terminated as voluntary redundancy of the employee, the Company will make severance payment depending on the employee's remaining period to reach the standard retirement age, his period of service in the Company and his seniority. The number of gross monthly base salaries paid as termination benefits vary between 4 and 18.

14 Employee benefit expenses

	2016	2015
Average number of employees	130	138
Number of employees at 31 December	142	136
Wages and salaries	16,631,440	12,819,916
Social security contributions	3,605,695	2,598,117
Meal tickets	266,704	269,909
Termination benefits	-	948,951
Total	**20,503,839**	**16,636,893**

The termination benefits represent compensation payments in case of employees' voluntary departure (see Note 13 c). Management remuneration is presented within Note 28 – Related parties.

15 Income tax

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 fiscal 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 the income tax expense in the period that such a determination is made.

(i) Amounts recognised in profit or loss

	2016	2015
Deferred tax expense / (gains)	7,233,616	(156,580)
Total expense/ (gain) related to income tax	**7,233,616**	**(156,580)**

(ii) Amounts recognised in other comprehensive income

	2016 Before tax	2016 Fiscal benefit (expense)	2016 Net of tax	2015 Before tax	2015 Fiscal benefit (expense)	2015 Net of tax
Re-measurement of defined benefit liability	100,114	(16,018)	84,096	703,969	(112,635)	591,334
Total	**100,114**	**(16,018)**	**84,096**	**703,969**	**(112,635)**	**591,334**

(iii) Reconciliation of effective tax rate

		2016		2015
Profit before tax		**272,259,725**		**300,707,904**
Tax using Company's domestic tax rate	**16%**	**43,561,556**	**16%**	**48,113,265**
Non-deductible expenses	3%	8,639,798	2%	4,655,583
Non-taxable income	-20%	(59,974,162)	-18%	(55,143,672)
Current-year tax losses for which no deferred tax asset is recognised	3%	7,718,132	1%	2,232,507
Deferred tax asset derecognised	2%	7,229,222	0%	-
Other tax effects	0%	59,070	0%	(14,263)
Income tax – expense/(income)	**2%**	**7,233,616**	**0%**	**(156,580)**

Non-taxable income represents dividend income in amount of RON 374,838,510 (2015: RON 344,647,949).

(iv) Movement in deferred tax balances

2016	Net balance at 1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	Balance at 31 December 2016 Deferred tax assets, net	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	2,783,522	(40,288)	-	2,743,234	-	2,743,234
Employee benefits	(260,885)	44,682	16,018	(200,185)	(200,185)	-
Tax loss carried forward	(9,772,271)	7,229,222	-	(2,543,049)	(2,543,049)	
Tax liabilities (assets) before set-off	**(7,249,634)**	**7,233,616**	**16,018**	**-**	**(2,743,234)**	**2,743,234**
Set off of tax	-	-	-	-	2,743,234	(2,743,234)
Net tax liabilities (assets)	**(7,249,634)**	**7,233,616**	**16,018**	**-**	**-**	**-**

2015	Net balance at 1 January 2015	Recognised in profit or loss	Recognised in other comprehensive income	Balance at 31 December 2015 Deferred tax assets, net	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	2,953,090	(169,568)	-	2,783,522	-	2,783,522
Employee benefits	(386,508)	12,988	112,635	(260,885)	(260,885)	-
Tax loss carried forward	(9,772,271)	-	-	(9,772,271)	(9,772,271)	
Tax liabilities (assets) before set-off	**(7,205,689)**	**(156,580)**	**112,635**	**(7,249,634)**	**(10,033,156)**	**2,783,522**
Set off of tax	-	-	-	-	2,783,522	(2,783,522)
Net tax liabilities (assets)	**(7,205,689)**	**(156,580)**	**112,635**	**(7,249,634)**	**(7,249,634)**	**-**

(v) Unrecognised deferred tax assets

The Company had not recognized deferred tax assets in respect of the 2016 and 2015 tax losses as it is not probable that future taxable profit will be available against which the Company can use the benefits therefrom.

Tax losses for which no deferred tax assets were recognised expire as follows:

	Tax losses	
Year when the tax loss was generated:	**2016**	**2015**
2016 (expiring in 2023)	48,238,325	-
2015 (expiring in 2022)	-	13,953,169
Total	**48,238,325**	**13,953,169**

(vi) Receivables regarding current income tax

As at 31 December 2015, current income tax receivables include the amount of RON 16,915,950 which is under litigation with National Agency for Fiscal Administration ("NAFA"). During 2016, the Company has derecognized these receivables as the dispute resolution was not favourable (see also Note 9).

16 Trade receivables

	31 Decembrer 2016	31 December 2015
Trade receivables, gross	774,555,334	745,268,376
Bad debt allowance	(710,480,561)	(667,736,915)
Total trade receivables, net	**64,074,773**	**77,531,461**

Receivables from related parties are presented in Note 28.

Trade receivables, gross, comprise:

	31 December 2016	31 December 2015
Electricity supply on the balancing market	80,757,358	83,032,806
Electricity receivables from clients in litigation, insolvency and bankruptcy (mainly Oltchim SA, Transenergo)	601,372,888	569,811,232
Late payment penalties from clients in litigation, insolvency and bankruptcy (Oltchim SA)	88,968,313	88,968,313
Other	3,456,775	3,456,025
Total trade receivables, gross	**774,555,334**	**745,268,376**

The reconciliation between the opening balances and the closing balances of the impairment for trade receivables is as follows:

Bad debt allowance	2016	2015
Balance as at 1 January	**667,736,915**	**670,398,254**
Impairment recognized	42,847,186	-
Impairment reversed	(103,540)	(2,661,339)
Balance as at 31 December	**710,480,561**	**667,736,915**

The ageing of trade receivables is presented in Note 27.

Oltchim SA (a state-controlled company) was a significant customer of the Company until January 2012, 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 impairment for trade receivables to the total amount of receivables. The procedure is ongoing, the Company being registered in the creditors' body.

The adjustments recognized during 2016 comprise the amount of RON 31,561,656 refering to receivables from Transenergo Com S.A., trader of energy whose financial situation has deteriorated as a result of the recent changes in prices on the spot market of electrical energy. Electrica SA has initiated the procedure of enforcement against Transenergo Com S.A. due to non-collection of bills starting from September. On 1 February 2017, the procedure of insolvency of Transenergo Com S.A. has been opened. The balance of the debt at the gross value from Transenergo Com S.A. at 31 December 2016 is RON 35,561,656. Electrica SA is the beneficiary of an insurance policy for an amount of RON 4,000,000. The management estimates that the degree of recovery of the uninsured debt is reduced and consequently impairments were recorded.

17 Deposits, treasury bills and government bonds

	31 December 2016	31 December 2015
Treasury bills and government bonds denominated in RON with original maturity of more than three months	1,757,746,279	1,756,339,194
Deposits with maturity of more than three months	109,369,081	144,056,193
Total deposits, treasury bills and government bonds	**1,867,115,360**	**1,900,395,387**

Deposits, treasury bills and government bonds with original maturity of more than three months have an average interest rate (yield) of 0.63% (2015: 0.93%) at the following banks: Citibank Europe PLC Dublin, Raiffeisen Bank, BRD-GSG, Marfin Bank, ING Bank. The treasury bills and government bonds are classified as investments held-to-maturity.

18 Other receivables

	31 December 2016	31 December 2015
Interest receivable	-	60,425
Other receivables	22,536,204	27,285,805
Bad debt allowance	(9,938,335)	(14,290,005)
Total other receivables, net	**12,597,869**	**13,056,225**

Other receivables, net, include loans granted by the Company to Electrica Serv (see Note 28).

The reconciliation between the opening balances and the closing balances of the impairment for other receivables is as follows:

Bad debt allowance	**2016**	**2015**
Balance as at 1 January	**14,290,005**	**14,460,727**
Impairment recognized	-	795,686
Impairment reversed	(4,351,670)	(966,408)
Balance as at 31 December	**9,938,335**	**14,290,005**

19 Cash and cash equivalents

	31 December 2016	31 December 2015
Bank current accounts	3,825,171	11,205,203
Call deposits	193,787,807	181,248,010
Cash in hand	31,040	47,403
Treasury bills and government bonds with original maturity of less than 3 months	-	90,865,415
Total cash and cash equivalents in the individual statement of financial position and in the individual statement of cash flow	**197,644,018**	**283,366,031**

In 2015, cash and cash equivalents included treasury bills and government bonds denominated in RON of RON 90,865,415 and an average interest rate (yield) of 0.56% p.a., at the following banks: Citibank Europe PLC Dublin, Raiffeisen Bank, BRD-CSG, Marfin Bank, ING Bank.

The following information is relevant in the context of the statement of cash-flows:

Non-cash activity includes:

- Compensations between trade receivables and trade payables, especially related to the Company's subsidiaries of RON 33,193,031 in 2015 (2014: RON 55,983,780)

Also, during 2016, the Company made payments for tangible assets in amount of RON 14,471,423 (2015: RON 0).
On 17 October 2016, Societatea de Distributie a Energiei Electrice Muntenia Nord SA, Societatea de Distributie a Energiei Electrice Transilvania Nord SA and Societatea de Distributie a Energiei Electrice Transilvania Sud SA have concluded credit agreements with BRD – Groupe Societe Generale, in which the Company is guarantor. The contracts relate to facilities for non-revolving term loans, with maturity on 15 October 2021. The total amount of the loan is RON 320 million.

On 31 December 2016, the Company has guarantees as collateral deposits at BRD – Groupe Societe Generale for the withdrawals made by the Societatea de Distributie a Energiei Electrice Transilvania Sud SA and Societatea de Distributie a Energiei Electrice Transilvania Nord SA.

The amount of such collateral deposits at 31 December 2016 is RON 134,491,752. The company has classified these deposits as restricted cash.

20 Property, plant and equipment

The movements in property, plant and equipment in 2016 and 2015 were as follows:

	Land and land improvements	Buildings	Equipment	Vehicles, furniture and office equipment	Construction in progress	Total
Gross carrying amount						
Balance at 1 January 2015	**79,131,847**	**16,758,572**	**122,716,040**	**743,554**	**123,284,282**	**342,634,295**
Additions	-	-	892,742	-	25,130,148	26,022,890
Transfers from assets in progress	-	-	112,858,356	-	(112,858,356)	-
Disposals	(3,874,652)	-	(15,680)	(10,877)	-	(3,901,209)
Balance at 31 December 2015	**75,257,195**	**16,758,572**	**236,451,458**	**732,677**	**35,556,074**	**364,755,976**
Additions	2,282,500	-	966,948	157,526	1,313,754	4,720,728
Balance at 31 December 2016	**77,539,695**	**16,758,572**	**237,418,406**	**890,203**	**36,869,828**	**369,476,704**
Accumulated depreciation and impairment losses						
Balance at 1 January 2015	**-**	**18,572**	**38,195,658**	**695,967**	**12,465,531**	**51,375,727**
Depreciation	-	230,237	19,775,652	22,365	-	20,028,254
Accumulated depreciation of disposals	-	-	(12,589)	(10,876)	-	(23,465)
Balance at 31 December 2015	**-**	**248,809**	**57,958,721**	**707,456**	**12,465,531**	**71,380,516**
Depreciation	-	230,240	22,847,888	9,645	-	23,087,773
Balance at 31 December 2016	**-**	**479,049**	**80,806,609**	**717,101**	**12,465,531**	**94,468,289**
Net carrying amounts						
At 1 January 2015	**79,131,847**	**16,740,000**	**84,520,382**	**47,587**	**110,818,751**	**291,258,568**
At 31 December 2015	**75,257,195**	**16,509,763**	**178,492,737**	**25,221**	**23,090,543**	**293,375,460**
At 31 December 2016	**77,539,695**	**16,279,523**	**156,611,797**	**173,102**	**24,404,297**	**275,008,415**

On 31 December 2016, the buildings and lands include the administrative office of the Company and the corresponding land and the lands over which the Company has obtained title deeds which will be used as capital injection for subsidiaries. The administrative headquarter has a net book value of RON 16,134,462 (2015: RON 16,360,119) while the related land is worth RON 13,410,443 of net book value at 31 December 2016 (2015: RON 13,410,443).

Equipment and tangible assets in progress mainly include costs related to the implementation of the AMR system (Automatic Meter Reading) for electricity measuring and dispatch activity of the entire Group. On 31 December 2016, the net capitalized amount regarding the system is RON 176,159,847 (2015: RON 197,238,723), out of which a part is recognized as tangible asset in progress amounting to RON 21,942,902 as at 31 December 2016 (2015: RON 21,524,137). During 2017, there will be an evaluation by an independent evaluator of the entire AMR system in order to be taken order by the distribution operators from the Electrica Group. It is estimated that, during 2017, the company will commission the assets in progress related to the implementation costs of the AMR system.

Related to the AMR system, the Company has concluded service agreements with the distribution subsidiaries. The main services provided relate to retrieve direct data from measurement group in real time with accuracy and increased frequency by the distribution subsidiaries, by using remote reading systems from electricity metering points from the measurement electricity points, property of the Company located at consumption points, respectively in the networks of the distribution operators from Electrica Group. 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 the specific assets, according to the contractual provisions.

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
Land	*Market approach* 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 the most recent transactions.	• Adjustments for liquidity, location, size	*The estimated fair value would increase (decrease) if:* • Adjustments for liquidity, location, size were lower (higher)
Buildings	*Market approach and discounted cash-flows (DCF) method* 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 rented building taking into account occupancy rate and costs to be paid by the tenants. The discount rate estimation considers, inter alia, the quality of a building and its location	• Occupancy rates (80-90%) • Discount rates (9.5% on average) • Costs to be paid by tenants (average 10%) • Annual rent per sqm • Rental growth • Adjustments for liquidity, location, size	The estimated fair value would increase (decrease) if: • Occupancy rates were higher (lower) • Discount rates were lower (higher) • Costs to be paid by tenants were lower (higher) • Annual rent per sqm was higher (lower) • Rental growth was higher (lower) • Adjustments for liquidity, location, size were lower (higher)

21 Intangible assets

Intangible assets include mainly licenses and costs of implementation of SAP ERP, as follows:

	Software and licenses	Intangible assets in progress	Total
Gross carrying amount			
Balance at 1 January 2015	**2,822,358**	**367,983**	**3,190,341**
Additions	112,004	922,476	1,034,480
Transfers from intangibles in progress	1,290,459	(1,290,459)	-
Balance at 31 December 2015	**4,224,821**	**-**	**4,224,821**
Additions	757,101	-	757,101
Balance at 31 December 2016	**4,981,922**	**-**	**4,981,922**
Accumulated depreciation and impairment losses			
Balance at 1 January 2015	**2,512,675**	**-**	**2,512,675**
Amortisation	213,483	-	213,483
Balance at 31 December 2015	**2,726,158**	**-**	**2,726,158**
Amortisation	419,054	-	419,054
Balance at 31 December 2016	**3,145,212**	**-**	**3,145,212**
Net carrying amounts			
At 1 January 2015	**309,683**	**367,983**	**677,666**
At 31 December 2015	**1,498,663**	**-**	**1,498,663**
At 31 December 2016	**1,836,710**	**-**	**1,836,710**

22 Investments in subsidiaries

The situation regarding the investments in subsidiaries is presented as follows:

	31 December 2016		31 December 2015	
	Gross value	Impairment	Gross value	Impairment
Societatea de Distributie a Energiei Electrice Muntenia Nord	322,729,680	-	322,729,680	-
Societatea de Distributie a Energiei Electrice Transilvania Nord	336,460,800	-	336,460,800	-
Societatea de Distributie a Energiei Electrice Transilvania Sud	383,398,860	-	383,398,860	-
Electrica Furnizare SA	57,695,820	-	57,695,820	-
Electrica Serv SA	445,743,000	(144,849,133)	445,743,000	(144,849,133)
Servicii Energetice Muntenia SA	29,640,430	-	29,640,430	-
Servicii Energetice Moldova SA	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)
Total	**1,763,864,302**	**(333,044,845)**	**1,763,864,302**	**(333,044,845)**

Electrica SA also holds shares in two companies that are in bankruptcy (Servicii Energetice Banat si Servicii Energetice Doborgea), the net value of these investments being zero. The Company has lost control over them in November 2014 and respectively in January 2015, when they have entered bankruptcy.

	Investments in the subsidiaries, net value	
	31 December 2016	31 December 2015
Societatea de Distributie a Energiei Electrice Muntenia Nord	322,729,680	322,729,680
Societatea de Distributie a Energiei Electrice Transilvania Nord	336,460,800	336,460,800
Societatea de Distributie a Energiei Electrice Transilvania Sud	383,398,860	383,398,860
Electrica Furnizare SA	57,695,820	57,695,820
Electrica Serv SA	300,893,867	300,893,867
Servicii Energetice Muntenia SA	29,640,430	29,640,430
Total investments in subsidiaries	**1,430,819,457**	**1,430,819,457**

The Company fully accounted the impairment of investments in Servicii Energetice Oltenia SA, which is in reorganization process, because is deemed to be an unrecoverable investment. The Company did not adjusted the carrying amount of the investments in Servicii Energetice Muntenia as long as 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 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 2016 (345,939,929 ordinary shares at 31 December 2015) with a nominal value of RON 10 per share. All shares rank equally with regard to the Company's net assets. Ordinary shares grant the right to dividends and one vote per share in the shareholders' meetings of the Company, except for 6,890,593 shares repurchased by the Company in July 2014 in order to stabilize the price. All shares confer equal rights to the net assets of the Company, except for 6,890,593 shares repurchased by the Company in July 2014 in order to stabilize shares price.

The Company recognizes changes in share capital only after their approval in the General Shareholders Meeting and their registration by the Trade Register.

After IPO privatization, 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 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.

The General Meeting's of Shareholders decision no. 1/27.04.2015 approved the use of the amount known as "Inflation adjustment to share capital" to cover the accounting loss reported according to OMVFP 1286/2012.

(b) Treasury shares
In July 2014 the Company purchased 5,206,593 ordinary shares and 421,000 Global Depositary Receipts, equivalent to 1,684,000 shares. The total amount paid for acquiring the shares and Global Depositary Receipts was RON 75,372,435.

(c) Revaluation reserves
The reconciliation between opening and closing revaluation reserve is as follows:

	2016
Balance at 1 January	**769,261**
Release of revaluation reserve to retained earnings corresponding to depreciation and disposals of property, plant and equipment	(59,287)
Balance at 31 December	**709,974**

(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 legal provisions. These reserves are deductible for income tax purposes and are not distributable.

(e) Dividends
The dividends distributed by the Company in 2015 and 2014 (from the statutory profits of preceding years) were as follows:

	2016	2015
Distributed dividends	291,582,429	244,691,906

In 2016, the dividends per share paid to the shareholders of the Company were: RON 0,86 per share (2015: RON 0,7217 per share). When calculating the dividend per share, the Company's repurchased own shares (6,890,593 shares) were not treated as outstanding shares and are deducted from the total number of issued ordinary shares.

Out of the dividends declared by the Company of RON 291,582,429 the dividends paid were RON 291,198,118, the remaining difference represents dividends unclaimed by the shareholders from the Depositary.

24 Trade payables

	31 December 2016	31 December 2015
Electricity suppliers	62,675,233	35,737,272
Capital expenditure suppliers	1,629,999	18,995,707
Other suppliers	3,285,801	5,900,739
Total	**67,591,033**	**60,633,718**

Electricity suppliers are mainly related parties, as detailed in Note 28. Other suppliers include suppliers of services, materials, consumables, etc.

25 Other payables

	31 December 2016		31 December 2015	
	Current	Non-current	Current	Non-current
Payables to the State budget	9,677,979	-	5,840,517	-
Other payables	2,038,946	-	1,791,673	-
Total	**11,716,925**	**-**	**7,632,190**	**-**

Other liabilities include mainly guarantees and sundry creditors.

26 Provisions

	Litigations and other risks
Balance at 1 January 2016	**31,250,650**
Provisions made	23,648,000
Provisions used	(41,210,654)
Provisions reversed	(13,687,996)
Balance at 31 December 2016	**-**

During the year 2015, the Company has recognized a provision for the amount of 31,250,650 RON for disputes with National Agency for Fiscal Administration "NAFA" having as object the penalties for payment delay claimed by the NAFA due to unfavorable sentence no. 1029/17.04.2015. Also, during the year 2016 the Company has created additional provisions in the amount of 23,648,000 RON as a result of the court of first instance's decision of rejecting the appeal against enforcement. In December 2016, the Company made payments in the amount of 41,210,654 RON as a result of the forced execution procedure started due to these litigations and reversed the constituted provisions. See also Note 9 (c). As a result of this litigation, disputes, forced executions, the Company's fiscal file is still not definitively closed. Company's management estimates that there won't be significant additional amounts.

27 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.

		Carrying amount			
31 December2016	**Note**	**Loans and receivables**	**Held-to-maturity investments**	**Other financial liabilities**	**Total**
Financial assets not measured at fair value					
Trade receivables	16	64,074,773	-		64,074,773
Other receivables	18	11,480,832	-		11,480,832
Deposits, treasury bills and government bonds	17	-	1,867,115,360		1,867,115,360
Cash and cash equivalents	19	197,644,018	-		197,644,018
Restricted cash	19	134,491,752	-		134,491,752
Total		**407,691,375**	**1,867,115,360**		**2,140,314,983**
Financial liabilities not measured at fair value					
Trade payables	24			67,591,033	67,591,033
Total				**67,591,033**	**67,591,033**

31 December 2015	Note	Carrying amount Loans and receivables	Held-to-maturity investments	Other financial liabilities	Total
Financial assets not measured at fair value					
Trade receivables	16	77,531,461	-		77,531,461
Other receivables	18	12,821,074	-		12,821,074
Deposits, treasury bills and government bonds	17	-	1,900,395,387		1,900,395,387
Cash and cash equivalents	19	283,366,031	-		283,366,031
Total		**373,718,566**	**1,900,395,387**		**2,274,113,953**
Financial liabilities not measured at fair value					
Trade payables	25			60,633,718	60,633,718
Total				**60,633,718**	**60,633,718**

(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 mainly 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 is in process of implementing a procedure regarding trade receivables' insurance.

Cash, bank deposits, treasury bills and government bonds are placed in financial institutions, which are considered to have good creditworthiness. The carrying amount of financial assets represents the maximum credit exposure.

Trade receivables

The Company establishes an allowance for impairment that represents the best estimate of incurred losses in respect of trade receivables.

Impairment

The ageing of trade receivables is as follows:

	31 December 2016		31 December 2015	
	Gross value	**Bad debt allowance**	**Gross value**	**Bad debt allowance**
Neither past due nor impaired	50,863,472	-	41,487,637	-
Past due 1-90 days	42,817,162	(32,097,026)	27,556,241	-
Past due 90-180 days	1,940,414	(1,543,044)	8,088,743	-
Past due 180-360 days	507,346	(507,346)	399,034	(194)
Past due 1-2 years	7,623,813	(5,530,018)	474,206	(474,206)
Past due 2-3 years	299,311	(299,311)	104,441	(104,441)
Past due more than 3 years	670,503,816	(670,503,816)	667,158,074	(667,158,074)
Total	**774,555,334**	**(710,480,561)**	**745,268,376**	**(667,736,915)**

Allowances for impairment are referring mainly to Oltchim SA (RON 667,735,915) and to Transenergo Com S.A. (RON 31,561,656). Please see Note 16.

	Net trade receivables	
	31 December 2016	**31 December 2015**
Neither past due nor impaired	50,863,472	41,487,637
Past due 1-90 days	10,720,136	27,556,241
Past due 90-180 days	397,370	8,088,743
Past due 180-360 days	-	398,840
Past due 1 – 2 years	2,093,795	-
Total	**64,074,773**	**77,531,461**

(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 has significant cash and cash equivalents so that no liquidity risk is experienced.

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 table presents the 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
31 December 2016			
Trade payables	67,591,033	67,591,033	67,591,033
Total	**67,591,033**	**67,591,033**	**67,591,033**
31 December 2015			
Trade payables	60,633,718	60,633,718	60,633,718
Total	**60,633,718**	**60,633,718**	**60,633,718**

(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 optimizing 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 the Company is the Romanian Leu (RON).

The currencies in which these transactions are primarily denominated are RON, EUR and USD. The Company also has deposits and bank accounts denominated in foreign currency (EUR and USD). 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 of the quantitative data about the Company's exposure to currency risk is as follows:

	31 December 2016	31 December 2016	31 December 2015
In RON	**USD**	**EUR**	**EUR**
Cash and cash equivalents	4,669,081	2,533,008	10,241,023
Deposits (deposits, treasury bills and government bonds)	-	-	139,580,825
Net statement of financial position exposure	**4,669,081**	**2,533,008**	**149,821,848**

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

	Average rate		Year-end spot rate	
RON	2016	2015	2016	2015
EUR 1	4.4908	4.4450	4.5411	4.5245
USD 1	4.0592	4.0057	4.3033	4.1477

Sensitivity analysis

A reasonable possible appreciation (depreciation) of the EUR against RON at 31 December would have affected the measurement of financial instruments denominated in a foreign currency, the profit before tax and the equity, respectively, by the amounts shown below. The analysis assumes that all other variables, in especially the interest rates, remain constant and ignores the impact of forecasted sales and purchases.

	Profit before tax	
Effect	**Appreciation**	**Depreciation**
31 December 2016		
EUR (5% movement)	126,650	(126,650)
31 December 2015		
EUR (5% movement)	7,491,092	(7,491,092)

A reasonable possible appreciation (depreciation) of the USD against RON at 31 December would have affected the measurement of financial instruments denominated in foreign currency and profit before tax, the equity, respectively, by the amounts shown below. The analysis assumes that all other variables, especially the interest rates, remain constant and ignores the impact of forecasted sales and purchases.

	Profit before tax	
Effect	**Strengthening**	**Weakening**
31 December 2016		
USD (5% movement)	233.454	(233.454)
31 December 2015		
USD (5% movement)	-	-

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:

Fixed-rate instruments	31 December 2016	31 December 2015
Financial assets		
Bank accounts (cash and cash equivalent)	193,787,807	181,248,010
Deposits, treasury bills and government bonds	1,867,115,360	1,900,395,387
Restricted cash	134,491,752	-
	2,195,394,919	**2,081,643,397**

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.

28 Related parties

(a) Main shareholders

At 31 December 2016, the 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

	2016	2015
Management compensation	**1,039,030**	**1,483,880**

At the beginning of 2016, Electrica SA's management included five managers remunerated based on mandate contract. Two managers resigned in March 2016 and October 2016, respectively, while in October 2016 a new manager concluded the same agreement type. As at 31 December 2016, the Company had four managers with mandate contracts.

Compensations granted to the members of the Board of Directors were as follows:

	2016	2015
Members of Board of Directors	**2,136,888**	**863,361**

Electrica SA's Board of Directors comprised 5 members until 14 December 2015 and 7 members afterwards. Also, the amount of fixed monthly remuneration was increased and remuneration for participation in meetings of the Board of Directors and of its Committees was established. According to the remuneration policy approved by the General Meeting of Shareholders that took place on 31 March 2016, the annual number of paid sessions is limited to twelve for Board of Directors meetings and to six for each of the committees.

No loans were granted to managers and administrators in 2016 and 2015.

(c) Transactions with the subsidiaries

(i) Balance of receivables and payables from / to subsidiaries:

	Receivables balance from		Payables balance to:	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Electrica Furnizare	6,435,530	5,321,472	2,428,881	830,343
Societatea de Distributie a Energiei Electrice Muntenia Nord SA	8,067,916	4,392,453	439,209	1,522,087
Societatea de Distributie a Energiei Electrice Transilvania Nord SA	5,932,916	3,696,938	246,823	638,824
Societatea de Distributie a Energiei Electrice Transilvania Sud SA	5,864,832	2,244,875	20,677	390,440
Electrica Serv	10,602,735	10,429,579	261,773	370,089
Servicii Energetice Moldova	-	147,305	-	-
Servicii Energetice Muntenia	-	2,952	-	-
Servicii Energetice Oltenia	-	320,025	-	-
Total	**36,903,929**	**26,513,720**	**3,397,363**	**3,751,784**

Receivables and payables from/to electricity distribution and supply subsidiaries mainly include, receivables/payables from/to electricity supply, mainly from settlements on the balancing market.

The receivables from Electrica Serv are mainly represented by loans granted by the company to Electrica Serv that reached maturity but are undrawn. The Company estimates that these amounts will be cashed in the next period.

(ii) Transactions with subsidiaries:

	Sales in 2016	Sales in 2015	Purchases in 2016	Purchases in 2015
Electrica Furnizare	43,903,009	59,726,555	22,793,574	13,513,298
Societatea de Distributie a Energiei Electrice Muntenia Nord SA	37,824,810	42,850,446	4,997,798	16,176,868
Societatea de Distributie a Energiei Electrice Transilvania Nord SA	16,124,831	25,151,596	2,713,149	10,415,814
Societatea de Distributie a Energiei Electrice Transilvania Sud SA	16,380,289	16,497,151	3,116,268	9,379,110
Electrica Serv	-	807,297	1,337,065	1,796,940
Total	**114,232,939**	**145,033,045**	**34,957,854**	**51,282,030**

(d) Transactions with companies in which the state has control or significant influence

In 2016 the Company had sold and purchased transactions mainly with the following companies:

	Net Receivables balance at 31 December 2016	Payables balance at 31 December 2016	Sales 2016	Purchases 2016
Transelectrica	1,335,460	47,481,338	14,445,437	228,274,428
OPCOM	259	-	888,780	-
ANRE	-	1,683	-	305,539
ANCOM	-	126,647	-	499,443
ICPE	19,386	-	242,166	-
Others	544	423,175	1,399,383	2,670,409
TOTAL	**1,355,649**	**48,032,843**	**16,975,766**	**231,749,819**

The transactions with Transelectrica represent electricity imbalances from the balancing market.

In 2015 the Company had sold and purchased transactions mainly with the following companies:

	Net Receivables balance at 31 December 2015	Payables balance at 31 December 2015	Sales 2015	Purchases 2015
Transelectrica	1,376,440	23,719,925	6,075,370	317,210,185
CET Braila	3,656,056	-	-	-
Complexul Energetic Oltenia	-	-	-	197,326
OPCOM	-	31,496	-	56,692
CET Grivita	2,161	22,176	79,641	194,727
ANRE	-	-	-	188,235
ANCOM	-	-	-	131,402
ICPE	396,998	4,748	386,225	79,648
Altii	28,346	20,444	217,622	223,042
TOTAL	**5,460,001**	**23,798,789**	**6,758,858**	**318,281,257**

The transactions refer mainly to purchase and sale on the balancing market.

29 Contingencies

(a) Litigation and claims

The Company is involved in various litigations (i.e Fondul Proprietatea – major stakeholder in the subsidiaries, ANRE, NAFA, Court of Accounts, damage compensation requests, labour litigations etc.).

As summarized in Note 26, the Company set up provisions for litigation and disputes over which management has assessed that is likely to be necessary an outflow of resources embodying economic benefits due to low chances of solving them favorably. The Company does not present information in the financial statements and had not set up provisions for litigation and disputes over which the management has assessed that the possibility of an outflow of resources is reduced.

- The Company presents below information on the most significant amounts disputed in litigation and for which the Company had not set up provisions because they relate to potential liabilities arising as a result of past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events, which are not fully controlled by the Company (i.e. disputes where different contradictory sentences were pronounced or litigations which are in early stages and no preliminary ruling had been issued): In 2010, the Company was sued by Termoelectrica S.A., claiming the payment of RON 25,047,353 representing penalties related to certain invoices, for the period 1 April 2007 – 31 March 2008. The first ruling in this case was favorable to Electrica SA. In November 2016, the Court of Appeal admitted the appeal of Termoelectrica S.A., cancelled the decision of the first instance court and admitted Termoelectrica S.A.'s request for penalties to be paid by the Company. In 2017, Electrica SA filed an appeal against the request of enforcement.
- The Company was sued by Hidroelectrica S.A., which required the payment of RON 5,444,761 and other damages, representing the damages claimed for the sale of electricity at a price estimated by the defendant as being unjust. Up to the date of the financial statements, no ruling in this dispute was issued.

(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 sometimes demonstrate inconsistency in interpretation of the law. Income tax statements may be subject to revision and corrections made by tax authorities, generally for a five-year period after they are filled in. The company was the subject of fiscal inspections until 31 March 2013.

As shown in Note 9 (c) and 26, the Company has incurred significant expenses related to tax adjustments related to previous years as a result of tax authorities inspections and disputes.

The Company's management considers that adequate reserves were established in the individual financial statements for all the significant fiscal obligations, however a risk that the tax authorities could take different positions still persists.

(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 that would have been established between the entities having no affiliation relation and are acting 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.

30 Commitments

Guarantees and pledges

At 31 December 2016, the Company has outstanding bank letters of guarantee as follows:

Bank	Beneficiary	Value	Currency	Issue Date	Expiry Date
Unicredit	Transelectrica	25,000,000	RON	05.09.2016	20.08.2018
Unicredit	Enel Distributie Muntenia SA	1,397,967	RON	20.12.2016	12.02.2017 – 12.05.2018
BCR	OPCOM	600,000	RON	01.04.2016	31.03.2017

The company has a facility for bank letter of guarantee issuance in the amount of RON 60 million contracted from UniCredit, out of which the used amount is RON 26,397,967. The facility will become due on 22 August 2017.

Contractual commitments

The Company has the following contractual commitments as at 31 December 2016:

	Amount
Purchase of property, plant and equipment and intangible assets	**5,000,000**

SOCIETATEA ENERGETICA ELECTRICA S.A.

INDEPENDENT AUDITORS' REPORT

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Independent Auditors' Report

(free translation[1])

TO THE SHAREHOLDERS OF
SOCIETATEA ENERGETICA ELECTRICA S.A.

Opinion

We have audited the separate financial statements of Societatea Energetica Electrica S.A. ("the Company"), which comprise the separate statement of financial position as at 31 December 2016, the separate statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give a true and fair view of the separate financial position of the Company as at 31 December 2016, and of its separate financial performance and its separate cash flows for the year then ended in accordance with Order of Minister of Public Finance no. 2844/2016 for approval of accounting regulations in accordance with International Financial Reporting Standards ("OMPF no. 2844/2016").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the separate financial statements in Romania, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[1] *TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian, which is the official and binding version.*

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Taxation	
Penalties to the State and other payments to the State budget (RON 62,417,320 – Note 9(c)) *Change in provisions for tax risks during the year, net (RON 31,250,650 – Note 26)*	
Refer to Notes 6(f), 6(p), 6(q) (accounting policy), 9(c) and 26 (financial disclosures) to the separate financial statements.	
Key audit matter	**How the matter was addressed in our audit**
The Company has been subject to various adjustments related to corporate income tax and value added tax imposed by tax authorities as a result of their tax audits from prior periods. The Company is involved in litigation or disputes with tax authorities regarding findings of tax audits from prior years. Key judgments are made by management in estimating tax exposures and quantifying related liabilities, provisions and/or contingent liabilities.	Our audit procedures included, among others: • using our own tax specialists, assessing the Company's interpretation and application of relevant tax law, and evaluating the appropriateness of key assumptions used and the reasonableness of estimates in relation to uncertain tax positions and the level of related liabilities or provisions; • obtaining and evaluating responses to our audit inquiry letters from the Company's in-house and external lawyers in relation to existing or potential tax proceedings and assessing the Company's position in relation to specific matters disputed; • inspecting the Company's correspondence with tax authorities during the reporting period and subsequently, until the date of our report; • assessing the adequacy of disclosures related to taxation in the separate financial statements, with particular focus on uncertain tax positions and tax-related contingencies.

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Litigations and claims	
Refer to Notes 6(p), 6(q) (accounting policy) and 29 (disclosures) to the separate financial statements.	
Key audit matter	**How the matter was addressed in our audit**
In the normal course of the Company's business, potential exposures arise from administrative or court proceedings. As disclosed in Note 29 to the separate financial statements, the Company is involved in litigations with different authorities, business partners or other parties. Whether a liability is recognized or disclosed as a contingent liability in the financial statements is inherently judgmental and dependent on a number of significant assumptions and assessments. The amounts involved are potentially significant and determining the amount, if any, to be recognised or disclosed in the financial statements, is inherently subjective.	Our audit procedures included, among others: • inspecting minutes of the shareholders' and Board of Directors' meetings; • obtaining and evaluating lawyers' responses to our audit inquiry letters and discussing the nature and status of the litigations and potential legal exposures with the Company's management and in-house legal counsel, with particular focus on the open litigations with Termoelectrica S.A. (RON 25,047,353) and Hidroelectrica S.A. (RON 5,444,761); • critically assessing the Company's assumptions and estimates in respect of litigations and claims, including the liabilities or provisions recognized or contingent liabilities disclosed in the separate financial statements. This involved assessing the probability of an unfavourable outcome of a given proceeding and the reliability of estimates of related amount; • assessing whether the disclosures detailing significant legal proceedings adequately disclose the Company's potential liabilities.

Other information - Separate Administrators' Report

The other information comprises the separate Administrators' Report. The Administrators are responsible for the preparation and presentation of the separate Administrators' Report in accordance with OMPF no. 2844/2016, articles 15–19 of the accounting regulations in accordance with International Financial Reporting Standards, and for such internal control as Administrators determine is necessary to enable the preparation and presentation of separate Administrators' Report that is free from material misstatement, whether due to fraud or error.

The separate Administrators' Report presented from page 1 to 63 is not part of the separate financial statements.

Our opinion on the separate financial statements does not cover the separate Administrators' Report.

In connection with our audit of the separate financial statements as at and for the year ended 31 December 2016, our responsibility is to read the separate Administrators' Report and, in doing so, consider whether there is a material inconsistency between the Administrators' Report and the financial statements, whether the Administrators' Report includes, in all material respects, the information required by OMPF no. 2844/2016, articles 15–19 of the accounting regulations in accordance with International Financial Reporting Standards, and whether, based on our knowledge and understanding of the entity and its environment obtained during our audit of the separate financial statements, the information included in the separate Administrators' Report is materially misstated. We are required to report in respect of these matters. Based on the work performed we report that:

a) in the separate Administrators' Report we have not identified information which is not in accordance, in all material respects, with the information presented in the accompanying separate financial statements;
b) the separate Administrators' Report identified above includes, in all material respects, the information required by OMPF no. 2844/2016, articles 15–19 of the accounting regulations in accordance with International Financial Reporting Standards.

In addition, based on our knowledge and understanding of the entity and its environment acquired during our audit of the separate financial statements as at and for the year ended 31 December 2016, we have not identified information included in the separate Administrators' Report that is materially misstated.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

The management is responsible for the preparation of the separate financial statements that give a true and fair view, in accordance with OMPF no. 2844/2016, and for the internal control that the management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, the management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other matter

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 this report, or for the opinion we have formed.

The engagement partner on the audit resulting in this independent auditors' report is Razvan Mihai.

Refer to the original signed Romanian version

For and on behalf of KPMG Audit S.R.L.:

Razvan Mihai	**KPMG AUDIT S.R.L.**
registered with the Chamber of Financial Auditors of Romania under no. 2561/2008	registered with the Chamber of Financial Auditors of Romania under no. 9/2001

Bucharest
9 March 2017

DECLARATIA CONDUCERII

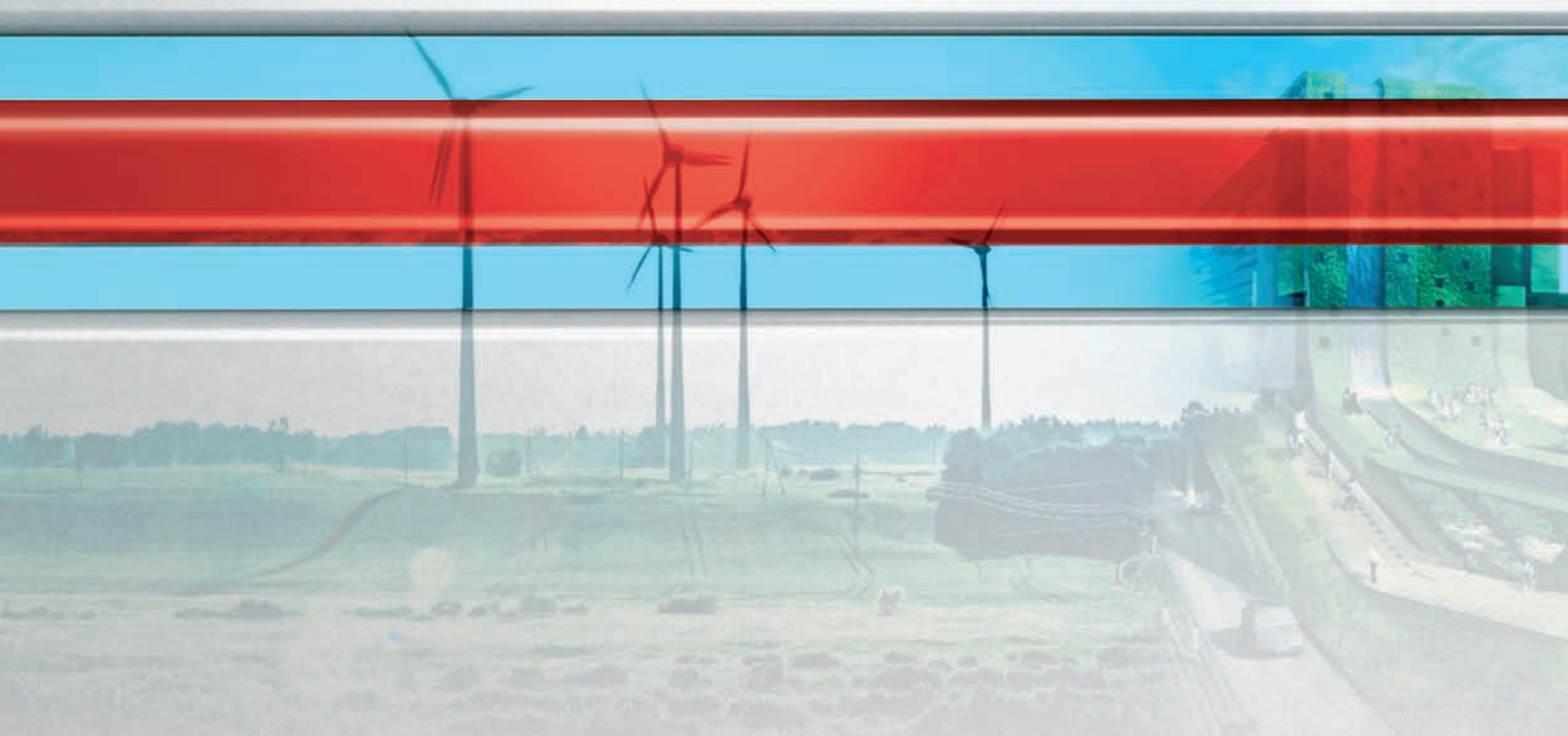
Confirmam, bazandu-ne pe datele pe care le detinem, ca situatiile financiare consolidate, intocmite in conformitate cu standardele de contabilitate aplicabile, ofera o imagine corecta si conforma cu realitatea privind pozitia financiara a Grupului, performanta financiara si fluxurile de numerar pentru anul incheiat la 31 decembrie 2016 si ca raportul administratorilor ofera o imagine corecta si conforma cu realitatea privind dezvoltarea si performanta activitatii Grupului, precum si o descriere a principalelor riscuri si incertitudini aferente dezvoltarii asteptate a Grupului.

Cristian Busu
administrator neexecutiv, presedinte al Consiliului de Administratie
Willem Schoeber
administrator neexecutiv
Arielle Malard de Rothschild
administrator neexecutiv
Pedro Mielgo Alvarez
administrator neexecutiv
Corina Popescu
administrator neexecutiv
Bogdan Iliescu
administrator neexecutiv
Ioana Dragan
administrator neexecutiv
Catalin Stancu
Director General

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, 2016, 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.

Cristian Busu
non-executive director, Chairman of the Board of Directors
Willem Schoeber
non-executive director
Arielle Malard de Rothschild
non-executive director
Pedro Mielgo Alvarez
non-executive director
Corina Popescu
non-executive director
Bogdan Iliescu
non-executive director
Ioana Dragan
non-executive director
Catalin Stancu
General Manager



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