ANNUAL REPORT 2017

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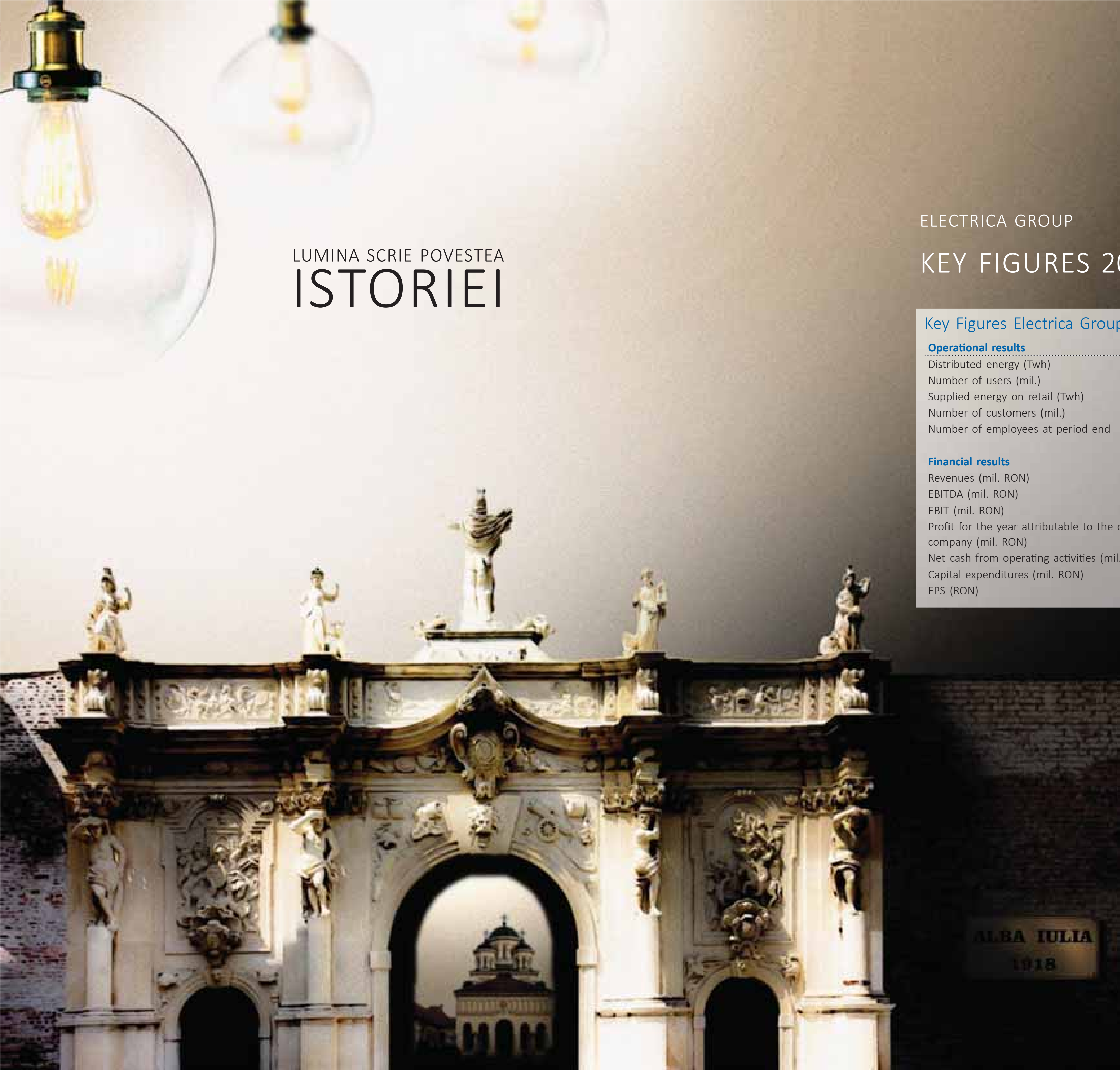
LUMINA SCRIE POVESTEA

ISTORIEI



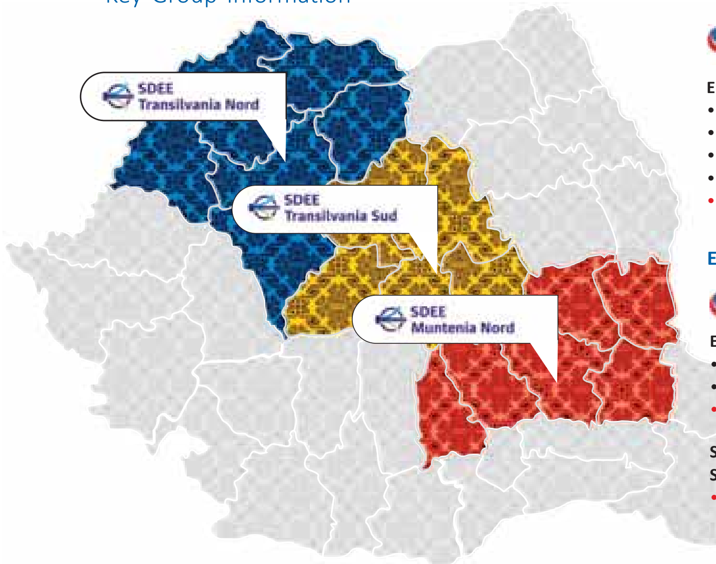
ELECTRICA GROUP

KEY FIGURES 2017

Key Figures Electrica Group

Operational results	**2015**	**2016**	**2017**
Distributed energy (Twh)	17.1	17.5	17.8
Number of users (mil.)	3.65	3.67	3.70
Supplied energy on retail (Twh)	10.1	10.6	9.2
Number of customers (mil.)	3.61	3.60	3.57
Number of employees at period end	10,539	9,685	8,792
Financial results			
Revenues (mil. RON)	5,503	5,518	5,603
EBITDA (mil. RON)	922	960	601
EBIT (mil. RON)	569	586	197
Profit for the year attributable to the owners of the company (mil. RON)	363	357	128
Net cash from operating activities (mil. RON)	743	718	204
Capital expenditures (mil. RON)	551	569	742
EPS (RON)	1.07	1.05	0.38

Electrica Signifiant Subsidiaries Key Group Information



SUPPLY BUSINESS:

Electrica Furnizare (EF)

- 3.58 mn consumers[1]
- Market share[4] 19.05%
- Revenues[3]: RON 4,225 mn
- EBITDA[3]: RON 10 mn
- 99,999% Electrica SA

EXTERNAL SERVICES:

Electrica Serv (ES)

- Revenues[3]: RON 359 mn
- EBITDA[3]: RON 25 mn
- 100% Electrica SA

Servicii Energetice Muntenia S.A.
Servicii Energetice Oltenia S.A.

- 100% Electrica SA

DISTRIBUTION BUSINESS (2017):

Societatea de Distributie a Energiei Electrice Transilvania Nord S.A

- 1.26 mn users[1]
- Market share[2] 11.86%
- Revenues[3]: RON 853 mn
- EBITDA[3]: RON 215 mn
- 99,999% Electrica SA

Societatea de Distributie a Energiei Electrice Transilvania Sud S.A

- 1.13 mn users[1]
- Market share[2] 13.44%
- Revenues[3]: RON 873 mn
- EBITDA[3]: RON 255 mn
- 99,999% Electrica SA

Societatea de Distributie a Energiei Electrice Muntenia Nord S.A

- 1.32 mn users[1]
- Market share[2] 15.19%
- Revenues[3]: RON 863 mn
- EBITDA[3]: RON 155 mn
- 99,999% Electrica SA

❖ 3.71 mn users ❖ /area of 97,196 km^2 covered ❖ distributed quantity 17.8 TWh
❖ RON 4.8 bn (€ 1 bn[3]) Regulated Asset Base (RAB) ❖ concession ending in 2054 (+24.5 years extension)

Additional shareholder in distribution and supply subsidiaries

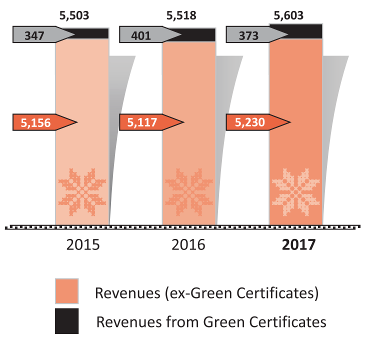
The existence of additional shareholder was imposed by the observance of the provisions of Art. 10, paragraph (3) of the Law no. 31/1990 regarding the companies. As a result:

- SDTS holds 10 shares in SDMN;
- SDMN holds 10 shares in SDTN;
- SDTN holds 10 shares in SDTS and
- Electrica Serv holds 10 shares in EF

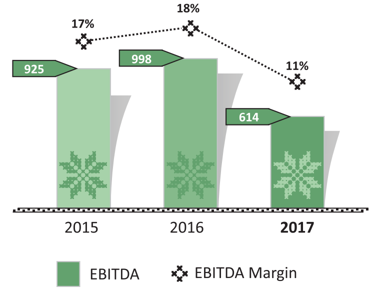
Source: Company data – segment reporting, ANRE.
1. As of 31 December 2017 Consumer = Any natural person or legal entity that enters a contract to purchase electricity. User = Any producer, transmission system operator, distribution system operator, supplier, eligible consumer or captive consumer connected to the network;
2. As of 31 December 2016 Market share is based on volumes;
3. As of 31 December 2017 as per the financial section converted from RON to € using 31 December 2017 exchange rate of 4.6597 for balance sheet data and average rate of 4.5681 for income statement data;
4. As of 30 October 2017 Market share is based on volumes

Summary Consolidated Financials

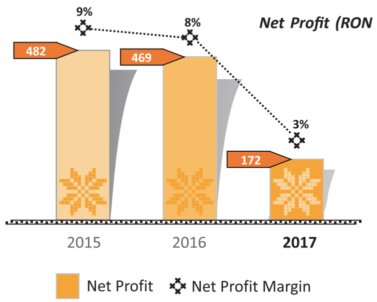
Revenues (RON mn)



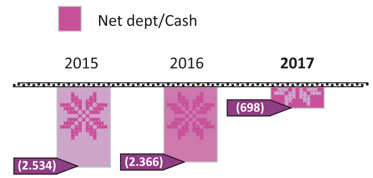
Adjusted EBITDA[1] Growth and Margin Performance EBITDA (RON mn) and EBITDA Margin (%)

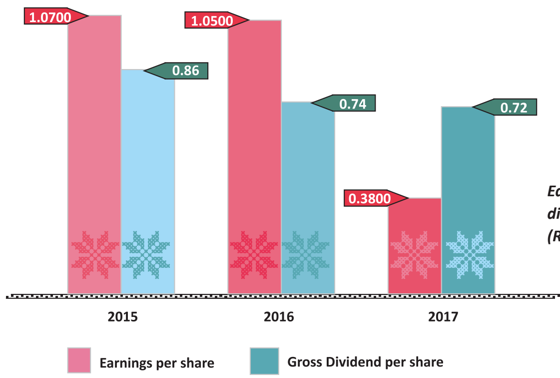


Net Profit (RON mn)



Capital Structure: Net Cash Position Net Debt[2] /(Cash) (RON mn)

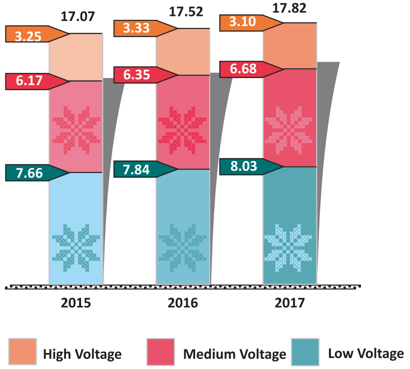




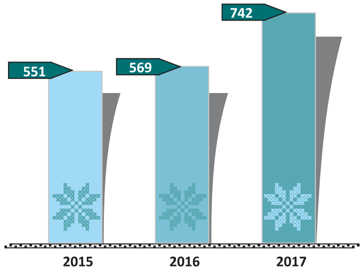
Earnings and gross dividends per share (RON)

Source: Company data.
1. 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.
2. Net debt is calculated as bank borrowings + bank overdrafts + financial leases + Financing of PP&E - Cash and cash equivalents - bank deposits - T-bills and government bonds

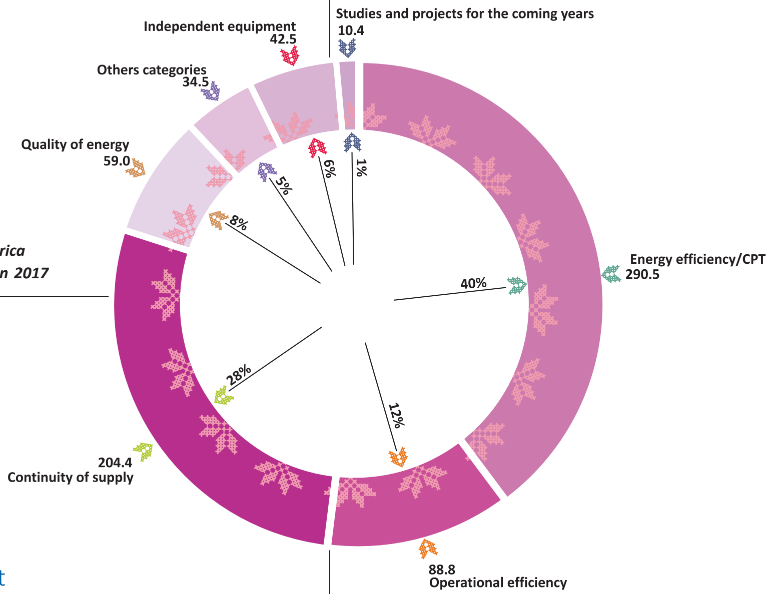
Distributed Volumes (TWh)



Capital expenditures 2015 – 2017 (RON mil)

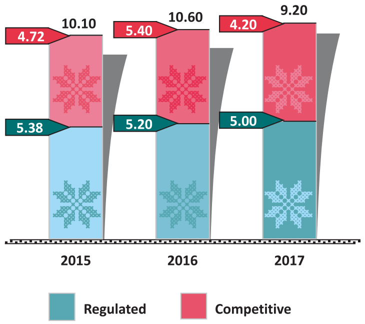


The structure of Electrica Group's investments in 2017

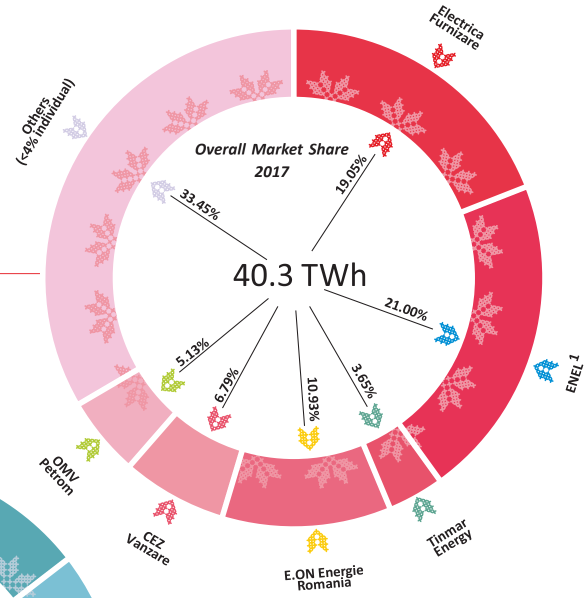


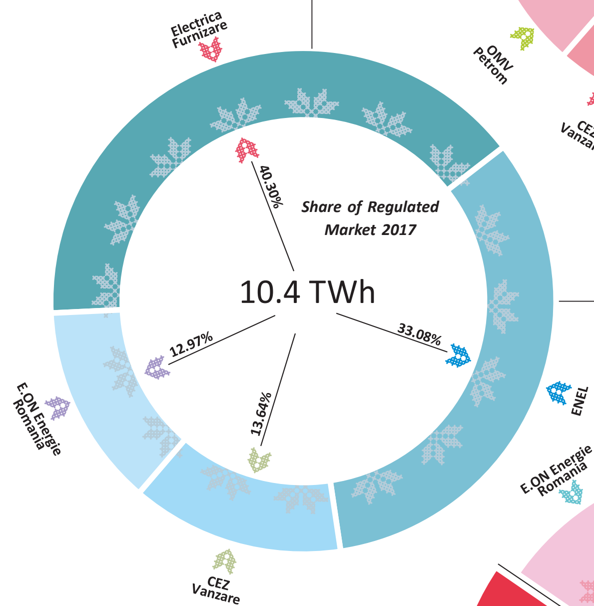
Supply market

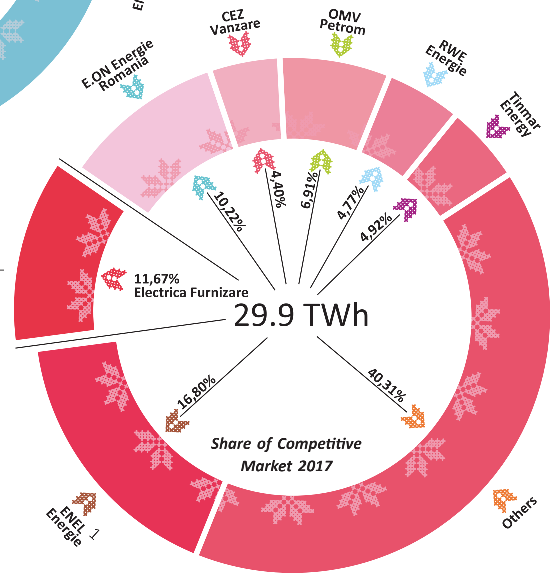
Volumes of electricity supplied on retail market (TWh)



Source: *Electrica*







Source: *ANRE Report October 2017*

1. ENEL refers to ENEL Energie Muntenia and ENEL Energie

Message from Chair of Electrica's Board of Directors

"In the Centennial year, being one of the most important Romanian companies, we can look back with pride at the achievements of over 120 years in which we have dedicated ourselves to the energy sector and we have assumed responsibility towards the communities in which we operate. Beyond the tradition that Electrica has on the Romanian energy market, since the historical initial public offering ("IPO") in 2014, the Company has constantly improved its operational performance, through record investments in infrastructure and by optimizing the processes at the Group level, successfully managing the impact that the 2017 energy market backdrop had on the market players. During the past years, Electrica has gone through a major reorganization process, which involved its transformation into a privately owned, transparent, modern and responsible company. As a result of the IPO , Electrica has begun to apply the highest corporate governance principles, which has brought many benefits to shareholders customers and employees. Corporate Governance is a key element of Electrica's strategy and it is essential to the company's sustainable development, being also an indispensable condition for creating added value.

The investment availability, gained by the IPO, has allowed us to allocate substantial financial resources in order to increase investment to a record level, for networks efficiency, and from the desire to increase our customers' satisfaction.

Also, due to the ability to invest, and in line with another commitment assumed in the prospectus published at Electrica's IPO, during 2017, we have completed the acquisition of the minority packages owned by Fondul Proprietatea in the Company's distribution and supply subsidiaries. The transaction with Fondul Proprietatea was realized at a total price of RON 752,031,841, indicating an estimated 15% ROI and contributing to the improvement of the future level of Electrica's dividend income and automatically to those distributed to the Company's shareholders. From a strategic point of view, the transaction involved simplifying and streamlining the corporate governance model and accelerating the implementation of the transformation programs whitin the group's companies. Thus, the premises of the implementation of sustainable transformation programs and, at the same time, unitary vision at the level of the Electrica group were consolidated.

In 2017, we continued to remodel the group by approving an ambitious reorganization plan. It aims to implement a new model of organizing the distribution segment, based on redesigned processes, focusing on efficiency and improving the quality of customer service. We also started the process of internalizing certain activities, having as main objective the realization of the very ambitious investment plan, and we adopted a new performance-based remuneration concept.

At the same time, in the context of liberalization of the power supply segment , we are considering the development of new business lines and technology investments that will allow us to offer integrated services and thus to be able to meet the consumers' needs, to continuously grow theirs satisfaction and to support the group's competitiveness on the energy market. In this respect, Electrica Furnizare has started to diversify its portfolio of products and services offered to consumers, inclusively by supplying natural gas.

2017 was a year in which both suppliers and distribution operators have been affected by adverse conditions manifested in the energy market, which resulted in record levels of energy prices, especially in the first quarter. Through organizational flexibility, Electrica has succeeded in adapting its strategy to limiting losses and dealing with this unfavourable context.

In order to generate value for our shareholders, we commit ourselves to continue to actively manage the company, our main objective being to increase the value on the medium and long term, by maintaining financial stability, improving operational efficiency, providing a dedicated and qualified workforce, as well as by adopting the highest standards of corporate governance. At the same time, we also aim at building a relationship with all our stakeholders based on transparency and trust, respecting the principles of ethics and responsibility."

Cristian Bușu
Chair of Electrica's
Board of Directors

Message from CEO Electrica S.A.

Focus on Strategic Priorities

The challenges of 2017 have showed us that only companies which have responsibility and stability will be able to cope with an increasingly competitive market, where the sold product cannot be differentiated, and competitive advantage may be obtained only by the services on offer. Together, we have managed to obtain a total operational income of 5,777 million lei and a net individual profit of 258 million lei – an important performance, considering that 2017 was a year marked by major imbalances for all the companies in this sector. Moreover, this profit provides for our shareholders a fixed dividend per share and an attractive dividend return of 6.3%, based on the price of March 5, 2018.

Last year we had yet another successful exploit – we optimized our portfolio of services on offer, taking the first steps to becoming a multi-utility company by entering the sector of natural gas supply. We are aiming to improve the Group's general financial performance and we are aware of the fact that this objective can be achieved especially by increasing the diversity and quality of the services we offer; turning into a multi-utility provider is part of our strategy of meeting the needs of our clients.

Electrica's strategy over the course of last year also targeted the review of risk procedures and redesigning the business model, quickly learning from the lessons taught by the limit situations encountered especially in the first quarter.

At the same time, in line with our responsibility to our shareholders, last year we made investments in the distribution infrastructure amounting to a total of 736 million lei. For this year, we are keeping our commitment to the community and our consumers by undertaking a record investment plan of approximately 900 million lei, investments that translate in a significant improvement in service quality at the level of the entire beneficiary community. For this purpose, one of our main objectives is reducing the average duration of interruptions (SAIDI indicator) so as to equal the levels of Central European countries.

In addition to this infrastructure development strategy, we have also initiated and implemented ambitious projects of business model transformations, by which we are aiming to increase our operational efficiency and the quality of the services we are offering, as well as our capacity to meet the market demand. At the same time, we are particularly more attentive to improving work safety. Following an assessment of Group-wide operations, a potential for improvement was outlined in process streamlining, functional alignment between the Group's various entities and in performance monitoring. As a result of this assessment, new functional models are currently being implemented, ensuring a high level of investment and the improvement of clients' experience and the diversification of the service offer.

At the same time, important investment is made at Group level in the perfection and modernization of the IT infrastructure and management systems, as well as investment in cybernetic security and the ensurance of business continuity, aiming to improve data protection and implicitly the quality of the services rendered.

It is important to initiate the development of the systems which would allow data collection in real time (Smart Grid systems) and which, combined with the existing historical data, would allow the optimization of the investment and maintenance decisions, i.e. Advanced Asset Management (AAM) systems.

Another important aspect is the coordination of operations. Electrica has 2,000 teams in the field, over 800 vehicles, and any efficient operation requires the need of knowing in real time what those teams are doing. The data received should be analysed and any decisions should be taken in real time. This type of work force management system (Work Force Management – WFM) is another priority in the near future.

As far as supply is concerned, we are considering an extensive business reorganization project, transitioning from the position of energy vendor to that of integrated services provider. The first steps in creating a multi-utility company were taken last year. It is an area we would like to develop in order to meet our clients' expectations. Here, we are taking into account the organic development, but we are also monitoring the potential for M&A.

The Electrica team remains a priority for us. With approximately 9,000 own employees and over 12,000 employees of our contractors, the Electrica Group is one of the most important employers in Romania, and our mission is to support their development.

Another significant element is continuing to implement corporate governance standards specific to a private company listed on the local and London stock exchange. Electrica's promise of value is offering a relationship based on transparency and trust, and our corporate governance strategy is prepared to ensure an ethical and responsible climate.

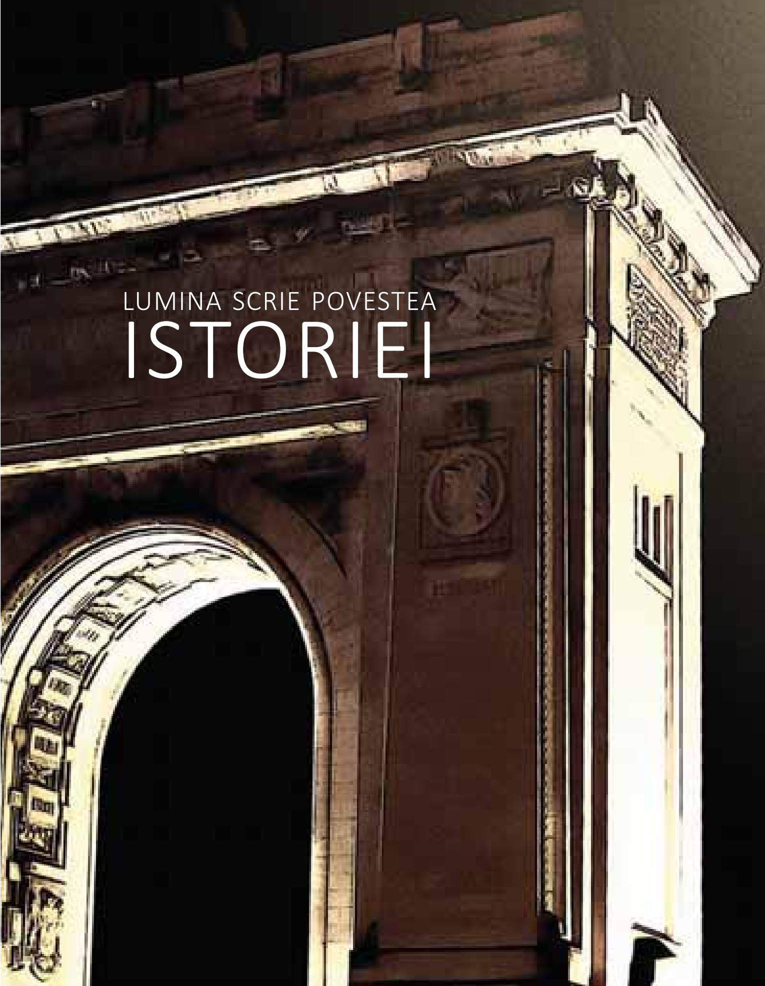
At the same time, Electrica assumes responsibility to the environment and the communities where it operates, therefore over the course of 2017 we continued our grant programme "Electrica pune România într-o altă lumină" (Electrica sheds new light on Romania), which helped finance a series of local social projects.

In 2018, we maintain our strategic objective, which is also the commitment we took to offer long-term value to both our clients and our shareholders, through high quality services, in a safe and sustainable manner and at fair prices.

Dan Cătălin Stancu
CEO Electrica S.A.

ELECTRICA GROUP

CONSOLIDATED DIRECTORS' REPORT FOR THE YEAR 2017



LUMINA SCRIE POVESTEA

ISTORIEI

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GLOSAR

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
DAM	Day ahead market
DSO	Distribution System Operator
DMS	Distribution Management System
ERP	Enterprise Resource Planning
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortization
EDN	Electricity Distribution Network
SDMN	Societatea de Distributie a Energiei Electrice Muntenia Nord
SDTN	Societatea de Distributie a Energiei Electrice Transilvania Nord
SDTS	Societatea de Distributie a Energiei Electrice Transilvania Sud
ELSA	Electrica S.A.
EGMS	Extraordinary General Meeting of Shareholders
EU	European Union
EUR	European monetary unit
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
LR	Last resort
LV	Low Voltage
MV	Medium Voltage
MWh	MegaWatt hour
MKP	Management Key Positions
NAFA	National Agency for Fiscal Administration
NCI	Non-controlling Interests
NES	National Electricity System
NGO	Non-Governmental Organization
OGMS	Ordinary General Meeting of Shareholders
OPCOM	Romanian Gas and Electricity market operator
OTC	Own Technological Consumption
PBS	Percentage basis points
PSI	Fire prevention and extinction
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
SAD	Distribution Automation System
SCADA	Supervisory Control And Data Acquisition
SDEE	Societatea de Distributie a Energiei Electrice
SDMN	Societatea de Distributie a Energiei Electrice Muntenia Nord
SDTN	Societatea de Distributie a Energiei Electrice Transilvania Nord
SDTS	Societatea de Distributie a Energiei Electrice Transilvania Sud
SLR	Supplier of last resort
SSC	Shared Service Center
TWh	TeraWatt hour
UM	Unit of Measurement
USD	United States Dollar
VAT	Value Added Tax

Identification details of the issuer

Report date: March 6th, 2018
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 31 December 2017 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 MAIN MARKET
Ticker	EL	ELSA

Source: Electrica

Free translation, the Romanian version of the document will prevail in the event of discrepancies with the English version.

1 RESULTS OF ELECTRICA GROUP IN 2017

1.1 Key financial data

In 2017, Electrica's consolidated net profit decreased by 63% as compared to the previous year, mainly driven by lower profitability of distribution segment and supply segment.
The Group's income in 2017 and 2016 amounted to RON 5,603 million and, respectively, RON 5,518 million.

RON million (mn)	2017	2016	2015
Income	5,603	5,518	5,503
Other operating income	173	243	211
Operational costs	(5,580)	(5,175)	(5,145)
Adjusted EBITDA[1]	614	998	925
EBIT	197	586	569
Profit before taxes	207	589	589
Net profit	**172**	**469**	**482**

Source: Electrica

As presented in the charts below, the adjusted EBITDA margin went down by 39 bps in 2017 compared to 2016, while the net profit margin decreased with 64%.

On 31 December 2017, the Company had a Net debt/(Cash) position[2] of minus RON 698 million, mainly influenced by the funds obtained from the Company's IPO on July 4th, 2014.

Figure 1: Consolidated income of Electrica Group (RON million)

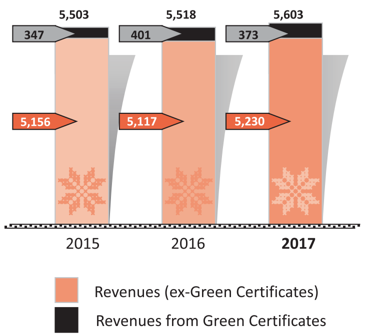


Figure 2: Adjusted EBITDA (RON million) and adjusted EBITDA margin (%)

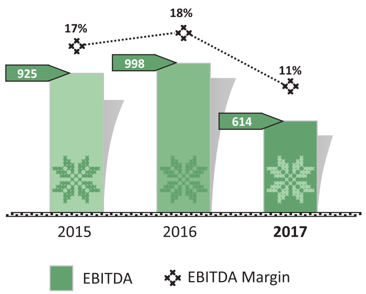


Figure 3: Net profit (RON million)

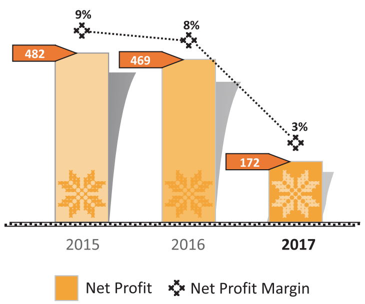
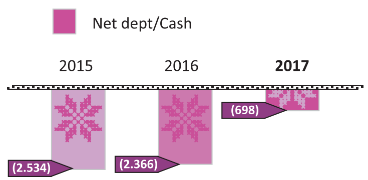


Figure 4: Net debt/ (Cash) (RON million)



Source: Electrica

[1] *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.*

[2] *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 investment 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 million)	31 December 2017	31 December 2016
Bank current accounts	331	148
Call deposits	232	740
Cash in hand	0,2	0,2
Treasury bills and government bonds with original maturity less than 3 months	-	-
Total cash and cash equivalents in the consolidated statement of financial position	562	889
Overdrafts used for cash management purposes	(248)	(143)
Total cash and cash equivalents in the consolidated statement of cash flows	**315**	**746**
Deposits, treasury bills and government bonds	**747**	**1,875**

Source: Electrica

Deposits, treasury bills and government bonds include treasury bills and government bonds amounting to RON 747 million denominated in mostly in RON, with original maturity of more than three months and average interest rate of 0.78% (2016: 0.63%), as well as deposits with a maturity of more than three months, amounting to RON 284 million within the following banks: Citibank Europe PLC Dublin, Garanti Bank, Eximbank, Marfin Bank.

The decrease in value of deposits, treasury certificates and government bonds by 60% compared to 2016 is mainly determined by setting a collateral deposit of RON 320 million to guarantee loans contracted by distribution subsidiaries as well as due to the acquisition of minority stakes held by Fondul Proprietatea SA into Group subsidiaries for a total price of RON 752 million.

- Deposits, treasury bills and government bonds are 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 2017

THE MAIN EVENTS IN 2017:

REGARDING CORPORATE GOVERNANCE:

- The most important decisions of the General Meeting of Electrica's Shareholders in 2017 (27 April 2017 and 26 October 2017) refer to:
  - Approval of the 2017 standalone and consolidated annual budgets of Electrica;
  - Approval of the 2016 standalone and consolidated audited financial statements of Electrica;
  - Approval of the 2016 profit distribution; gross dividend – RON 0.7415 per share; payment date – 22 June 2017;
  - Approval of the proposal for amendment of the Articles of Association of Societatea Energetica Electrica SA by eliminating two provisions so that the decisions for subsidiaries' mergers, spin offs and global strategy at subsidiary level, including but not limited to development and restructuring to be transferred to BoD;
  - Rejection of the empowerment of Electrica BoD to approve changes in the structure of the income and expenses budget of Electrica for financial year 2017, at standalone and consolidated levels up to a total variation of 10% in the line of total revenues and total expenses;
  - Election of the members of the Board of Directors of Electrica SA by applying the cumulative voting method: Arielle Malard De Rothschild, Cristian Busu, Doina Elena Dascalu, Gicu Iorga, Pedro Mielgo Alvarez, Willem Jan Antoon Henri Schoeber, Bogdan George Iliescu;
  - Establishing the duration of the mandates for the elected Directors for a period of four years;
  - Approval of the acquisition by the Group companies of the shares held by Fondul Proprietatea S.A. ("FP") in SDMN, SDTN, SDTS and EFSA.

REGARDING THE NON-EXECUTIVE MANAGEMENT:

- On 27 January 2017, the Board of Directors of Electrica SA decided to appoint Mr. Cristian Busu as Board of Directors chair for a mandate of one year, as well as the members of the BoD committees and elected their chairs for one year mandate;
- On 28 April 2017, The Chairman of the Board of Directors of Electrica SA acknowledged that Mrs. Corina Georgeta Popescu decided, with effect from 1 May 2017, to renounce her position as member of the Board of Directors of Electrica S.A. Following Mrs. Popescu's renunciation of her position as member of the Board of Directors of Electrica SA starting with 1 May 2017, the Board of Directors appointed Mr. Gicu Iorga as interim member of the Board of Directors, starting with 1 May 2017 until 30 April 2018, or until the next Ordinary General Meeting of Shareholders of the Company, whichever would have come first;
- After the election of the new Board of Directors members, on 13 November 2017, the Board of Directors decided to appoint Mr. Cristian Busu as Chairman of the Board of Directors for a mandate of one year. Also, the Board of Directors decided the composition of the committees and elected their chairs for a one year mandate.

REGARDING THE EXECUTIVE MANAGEMENT:

- On 27 January 2017, the Board of Directors of Electrica SA decided to revoke Mr. Ramiro Robert Eduard Angelescu from the position of Executive Manager of the Sales Coordination Division of ELSA, starting as of 27 January 2017 and to appoint Mrs. Livioara Sujdea as Executive Manager - Chief Distribution Officer, starting with 1 February 2017;
- During the meeting held on 6 March 2017, the Board of Directors decided to appoint Mr. Dan Crisfalusi, as Executive Manager -Chief IT & Telecom Officer, starting with 6 March 2017, for a four-year period;
- On 13 April 2017, the Board of Directors decided to appoint Mrs. Acristini-Georgescu Anamaria Dana, as Executive Manager – Chief Strategy Officer, starting with 1 May 2017, for a four-year period;
- On 10 August 2017, the Board of Directors decided to appoint Mrs. Dana Alexandra Dragan as Executive Manager of Human Resources Division, starting with 15 August 2017, for one-year period with the possibility of extending the contract up to four years;
- On 7 December 2017, the Board of Directors decided to appoint Mrs. Catalina Popa as Executive Sales Director, starting with 12 December 2017, for a period of four years;
- During the meeting held on 15 December 2017, the Board of Directors approved the revocation of Mrs. Iuliana Andronache from the position of Chief Financial Officer of Electrica SA starting with 15 December 2017. During the same meeting, the Board of Directors decided to appoint Mr. Mihai Darie as Chief Financial Officer, starting with 3 January 2018, for a period of four years.

OTHER RELEVANT EVENTS

A. Litigations:

- On 27 January 2017 the Board of Directors took note of the cases disputed by Electrica SA against ANRE and approved the following:
  - → Withdrawal of legal actions in cases regarding the suspension of applicability of ANRE orders by which the distribution tariffs were determined for 2015 and 2016;
  - → Formulating suspension motions of the judgment 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 regarding the annulment of ANRE Order no. 146/2014, by which the regulatory rate (RRR) was changed.
- On 8 June 2017, Electrica SA received a legal summoning formulated by SAPE against Electrica SA, former managers and directors, the Ministry of Economy and the Ministry of Energy;
- On 20 November 2017, Electrica S.A. received the notification issued by the Bucharest Court (Romanian: Tribunalul Bucuresti), referring to the File No. 42479/3/2017, by which Mr. Stanciu Razvan, as shareholder of the Company, filed a complaint to request the ascertainment of the "absolute nullity of the decision no. 2 of the Ordinary General Meeting of Shareholders ("OGMS") of Electrica S.A. regarding the election of the members of the board of directors by applying the cumulative vote (item 4 on the agenda) and the establishment of the mandate's duration for the elected directors for a period of 4 years (item 5 of the agenda), pursuant of art. 132 of Law 31/1990, having as a direct consequence the cancellation of all legal acts concluded by the new Board of Directors of Electrica S.A. ". The trial is ongoing.
- At the same time, on 21 November 2017, Electrica S.A. took note from the court's archive that Mr. Stanciu Razvan also filed an application for suspension of the effects of the OGMS decision dated 26 October through an emergency injunction (File No. 42484/3/2017) on items 4 and 5 on the agenda, until the above mentioned file will be settled, the term of the trial being set for 29 November 2017. This claim was rejected on December 12, 2017 as being unfounded..

B. Important steps in the acquisition of the shares of Fondul Proprietatea in Electrica's subsidiaries in 2017:

- → 14 July - Electrica signed a Memorandum of Understanding (MoU) with Fondul Proprietatea S.A. for an aggregated value of the transaction amounting to RON 752 million, plus the 2016 dividends to be paid to FP;
- → 26 October - the EGMS approved the acquisition by the Group companies of the shares held by FP in the distribution and supply subsidiaries of the Group;
- → 31 October - Electrica and FP extended the Long Stop Date of the MoU signed on 14 July 2017 from the initially agreed 31 October 2017 until 30 November 2017;
- → 1 November - Electrica and FP executed the Sale and Purchase Agreements for the acquisition of FP's holdings in Electrica subsidiaries.

Structure of the transaction - The Aggregated Purchase Price agreed in the MoU of the transaction was RON 752,031,841 as follows:

- → a total price of RON 209,744,928 for 21.9999979% of the share capital of SDMN;
- → a total price of RON 201,702,667 for 22.00001% of the share capital of SDTN;
- → a total price of RON 173,504,365 for 21.9999981% of the share capital of SDTS;
- → a total price of RON 167,079,881 for 22.000027% of the share capital EFSA.

In addition to the above price, FP was also entitled to receive dividends in total amount of RON 97,968,159 for the financial year 2016 distributed by the above mentioned subsidiaries, since the dividends were declared prior to the transaction date.

The existence of additional buyers (besides Electrica) was imposed through the provisions under Art. 10, paragraph (3) of the Company Law no. 31/1990.

As a result:

- → Electrica acquired all the shares owned by FP in those subsidiaries except 10 shares in each subsidiary;
- → Each distribution subsidiary acquired 10 shares in another distribution subsidiary (SDTS acquired 10 shares in SDMN; SDMN acquired 10 shares in SDTN; SDTN acquired 10 shares in SDTS);
- → Electrica Serv S.A. acquired 10 shares in EFSA.
.

C. Policies in place to comply with best practices of corporate governance:

- → Approval of the Remuneration policy of Electrica's directors and executive managers drafted based on OGMS resolutions no. 2/09.07.2015 and no. 1/31.03.2016;
- → Approval of the Dividend Policy, published on 4 May 2017;
- → Approval of the Policy of Transactions with Related Parties, applicable starting with 10 November 2017;

D. Intra-group loans and other intra-group facilities approved to be granted by Electrica SA:

- → Approval for granting a total of RON 540 million worth of intra-group loans to the distribution subsidiaries (for financing the 2017 CAPEX plan) and to Electrica Serv - 10 August;
- → Approval for issuance of a Corporate Guarantee in favor of Electrica Serv S.A. in total amount of RON 39 million for guaranteeing a working capital credit line contracted by Electrica Serv S.A. from ING Bank - 11 September;
- → Approval for granting a revolving intercompany overdraft of RON 100 million to Electrica Furnizare S.A. for financing fluctuations of working capital, at market conditions.

E. Certifications

- During September 2017 the following certifications were obtained: 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";
- The certifications were issued by DEKRA CERTIFICATION, top global provider for audit and certification services.

F. f)Transformation plan for the distribution activity (SDMN, SDTN, SDTS, Electrica Serv)

- On 10 August, the Board of Directors of Electrica SA approved the transformation plan for the distribution activity (SDMN, SDTN, SDTS, Electrica Serv) which aims at:
  - → Implementing a new target organizational model of the distribution segment, based on redesigned processes with focus on efficiency and quality of customer services;
  - → Internalization of certain activities of Electrica Serv, with the key objective to execute the ambitious investment plan for 2018, as well as the increase of the reaction capacity and the improvement of the performance in the operational activity;
  - → A new performance-based remuneration concept;
  - → A proper concept for a cost reduction and

cost controlling program.

- On 31 October, the business transfer agreements between Electrica Serv SA and each of the DSOs were executed. The activities transferred at the level of each distribution subsidiary are maintenance and investments, design, procurement and logistics.
- At Electrica Serv SA level, a program of collective layoffs was approved, in force until 31 December 2019, in order to streamline the company's activity by correlating the number of indirect productive employees with the direct productive ones. The number of employees to be laid off through the collective layoff program and the detailed implementation plan shall be established together with the social dialogue partner according to the legal provisions in force.

G. Exceptional events in the energy market:

- In the 1st Quarter of 2017, the energy crisis was characterized by an imbalance between the demand and supply of electricity, on forward markets as well as on day ahead market, inducing significant imbalances that were setteled on the balancing market.
- Thus, the electricity prices reached record levels which affected the whole market, generated chain reactions, including abnormal behaviour of some market players. On average, for the 2017 financial year, the average electricity purchase price on the DAM was 48% higher than in 2016.
- As a consequence of the energy crisis in the first two months and of the price increase trend on the OPCOM markets, ANRE suspended the auctions in PCSU (Central Market for Universal Service) for the third quarter of 2017, in the absence of the energy bids at the requested prices. ANRE motivated the decision by the lack of indicative bids, considered a major disruption of PCSU, which cannot be clarified in less than 45 days. This unprecedented event has prompted all the LRS (Last Resort Suppliers) to purchase from the market the entire energy requirement for the Universal Service (CMC – Competitive Market Component) customer category, shortly before deliveries and in the context of a lack of supply from producers.
- In response to market events, Electrica Furnizare has implemented a series of measures to recover the loss from the energy crisis through the renegotiation of contracts with secured and unsecured prices, resulting in a selling price increase and coverage of the energy purchase needs for the entire year.
- The difference between the recognized purchase price and the realized price generated a loss from the operating activity, that, according to the methodology, is to be recovered in the next regulatory year.

▶ REGARDING DISTRIBUTION SUBSIDIARIES (SDMN, SDTS, SDTN):

- Following the contestation of the shareholder Fondul Proprietatea SA of the 2016 AGEA Decisions amending the Articles of Association of the distribution subsidiaries, in April 2017 the subsidiaries have returned to the Articles of Associations, as it was effective before the December 2016 amendment.
- In November 2017, Electrica acquired the minority stakes in its subsidiaries from Fondul Proprietatea, except for a 10 shares package that was acquired for each distribution subsidiary by another distribution subsidiary within the group. The new shareholder structure of the distribution subsidiaries is as follows:
  - → Societatea de Distributie a Energiei Electrice Transilvania Nord SA – 2 shareholders – Societatea Energetica Electrica SA and Societatea de Distributie a Energiei Electrice Muntenia Nord SA
  - → Societatea de Distributie a Energiei Electrice Transilvania Sud SA – 2 shareholders – Societatea Energetica Electrica SA and Societatea de Distributie a Energiei Electrice Transilvania Nord SA
  - → Societatea de Distributie a Energiei Electrice Muntenia Nord SA – 2 shareholders – Societatea Energetica Electrica SA and Societatea de Distributie a Energiei Electrice Transilvania Sud SA

▶ REGARDING THE SUPPLY SUBSIDIARY (EFSA):

- Following the contestation of the shareholder Fondul Proprietatea SA of the 2016 AGEA Decisions amending the Articles of Association of the distribution subsidiaries, in April 2017 the subsidiaries have returned to the Articles of Associations, as it was effective before the December 2016 amendment.
- In November 2017, Electrica acquired from Fondul Proprietatea SA the participation held in the supply subsidiary, except for a 10 share package that was acquired by Electrica Serv SA and, as a result, it has become a shareholder of Electrica Furnizare SA along with Electrica SA.

▶ REGARDING SERVICES SUBSIDIARY

- In October 2017, the General Meeting of Shareholders of Electrica Serv SA took place, approving the transfer of the maintenance and investment activities, the designing activity and the acquisition and logistics activity, as well as the related assets, including employees and assets of Electrica Serv SA to SDEE Muntenia Nord SA, SDEE Transilvania Sud SA, SDEE Transilvania Nord SA, activities carried out at that time through the regional branches of Electrica Serv SA..

▶ REGARDING SUBSIDIARIES IN INSOLVENCY PROCEEDINGS:

- In October 2017, as a result of taking over the receivable of Electrica Serv SA from Servicii Energetice Muntenia SA, Electrica SA became a creditor of the company which has an insolvency with reorganization proceeding status.
- Debt Assignment: ELSA took over from FISE Electrica Serv S.A. the claim in amount of of 9,542,336.82 RON from Servicii Energetice Muntenia S.A. (SEM) with 9,195,000 RON. Following this takeover, ELSA became a creditor of SEM, which has set real estate guarantees with a value equivalent to the receivable.

▶ DISTRIBUTION ACTIVITY:

- The Group continued 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 current regulations (Law No. 123/2012, the ANRE's order No. 5/2015, Directive 2009/72/EC). In this context, new visual identity elements were adopted by the distribution companies within the Group as well as arrangements for their registration at OSIM.
- Specific tariffs for electricity distribution for the year 2018 were approved by ANRE through Orders No. 114, 115 and 116/12.12.2017, lower than those applicable for the year 2017. Thus, the average distribution tariffs in 2018, when compared with 2017, are lower by 2.55% at SDEE Transilvania Sud, by 1.95% at SDEE Transilvania Nord and by 0.33% at SDEE Muntenia Nord.
- The regulator issued orders requesting the distribution operators additional efforts to comply with the new requirements:
  - → Order 49/ 22.06.2017 regarding the modification of the Performance Standard for the electricity distribution service, which provides for the reduction of the interruptions due to special meteorological conditions (reconnection time in special rural and urban weather maximum 72 hours).
  - → Order 96/ 18.11.2017 for the approval of the Regulation for the organization of the maintenance activity, which provides for additional requirements regarding the reporting of the implementation of the annual maintenance program and the obligation to present a detailed analysis of the causes and effects of the complete non-implementation of the programs in the situation where the degree of accomplishment of the works of preventive maintenance is less than 90% of the planned value.
  - → In 2017, for the three distribution operators, investments amounting to RON 736 million were made and commissioned, being the highest post-IPO value and also by over 80% higher than the average recorded by the other distribution operators nationwide in 2016;
- In 2018, the distribution operators will continue to invest in the distribution infrastructure, the investment plans related to the year 2018 for the three distribution operators within the Group cumulating RON 900 million, representing at the same time the highest historical level of the investments at the Group level. The investment plans were drafted in accordance with the Offering Prospectus and with the requirements stipulated by the regulator in the ANRE Order no. 8/2016 "Procedure regarding the elaboration and approval of the investment programs of the economic operators of the electricity distribution service". Thus, the total value of the investment plans accepted by the National Regulatory Authority for Energy ("ANRE") for the current regulatory period (2014-2018) is RON 3.2 billion (in nominal terms, the amount being adjustable to inflation)

▶ CORPORATE IMAGE:

- Throughout 2017, the Communication, PR&CSR Department organized various events that covered a wide range of subjects and negotiated the implementation of numerous partnerships for relevant energy events with relevant business institutions: "Round Table - Efficiency Energy Efficiency in Electrical Grids", in partnership with IRE, CNR-CME event, Romanian Energy Day 6th edition: Regional cooperation, a key factor for the Energy Union: Mechanisms and initiatives for the energy industry and policy makers" in Brussels, etc.

▶ ETHICS AND COMPLIANCE:

- Developing, adopting and implementing at Electrica Group level the Policy regarding ethical career management (Ist Quarter 2017). The Policy aims to protect the Group companies against the risk that potential conflicts of interests are consumed, any reputational risks and any other breaches that could cause losses or could lead to legal sanctions, reducing the Organization's prestige and profitability.
- Updating the Policy regarding the Avoidance and Combating Conflicts of Interest in order to align its provisions to legislative changes, trends and best practices in compliance and business ethics, as well as to cover better particular aspects and specificities of Electrica Group companies (Ist Quarter 2017).

- Developing and adopting the Policy on Transactions with Related Parties (IVst Quarter 2017). The Policy scope is to identify, manage, monitor and report transactions with Related Parties (Affiliates) with respect to OECD guidelines, The Romanian Tax Code provisions and other legal requirements in force on transfer pricing; the Policy is also meant to protect the Organization against any issues of noncompliance that could impair Related Parties transactions and bring legal sanctions, financial or reputational loses.

SUPPLY ACTIVITY:

- Throughout 2017, Electrica Furnizare has implemented new projects to streamline internal systems and processes in order to achieve greater digitization and to respond more efficiently to customer requests:
  - → Implementation of MyElectrica software tool, which offers to the clients acces for self-reported consumption index transmission, view of current and past invoices as well as payment status, online invoice payment, view of past consumption profile, view of past payments and supplier contacting via direct messaging from the application;
  - → App launching for ioS and Android mobile devices for Electrica Furnizare S.A.'s clients;
  - → Purchase of an integrated Customer Relationship Management (CRM) software tool;
- In July 2017, Electrica Furnizare has obtained the gas supply licence, diversifying its product portfolio;
- A national all-media integrated promotion campaign has been deployed in 2017, with the purpose to promote products & services of Electrica Furnizare, correlated with the sponsorship of the George Enescu Music Festival;
- In 2017, according to the timetable for the elimination of regulated tariffs, the percentages of purchased electricity in the competitive market for non-eligible household customers were as follows: 80% as of January 1st, 2017 and 90% as of July 1st, 2017.
- Regulated electricity prices applied by SLR to household customers for the first semester of 2017 were approved by ANRE through ANRE Order no. 115/2016, by adjusting the tariffs at national level downards by 6.9% as compared to 2016 tariffs;
- The regulated electricity tarrifs applied by SLR to household consumers in the second semester of 2017 were approved by ANRE by Order no. 50/2017, by adjusting the tariffs at national level downards by 5.4% as compared to tarrifs applicable in te first semester of 2017.
- CPC prices were approved for the first semester of 2017 by ANRE Notice of Approval no. 46/2016, for the third quarter of 2017 by ANRE Notice of Approval no. 9/2017 and for the fourth quarter of 2017 by ANRE Notice of Approval no. 24/2017. The percentage increase/decrease of the approved tariffs compared to the tariffs approved for the previous deregulation periods was between -1.9% and +15.6% depending on the voltage level and the power supply zone.
- Tariffs for the transmission service (TL) and for the system service approved by ANRE Order no. 48/2017 decreased by an average of 11.5% and 18.5% respectively compared to the first semester of 2016. The tariff for transmission service (TG) increased by 23.5% compared to the first semester of 2016;
- The contribution for high efficiency cogeneration was reduced by 5.4% compared to the first semester of 2017, according to ANRE Order no. 51/2017.
- Electrica Furnizare's market share on wholesale market, for the period January – October 2017 was 19.05%, slightly lower than 22.53% as of 2016.
- ANRE Order no. 30 of 05.04.2017 established the SLR right to purchase electricity from all market platforms administered by OPCOM in case of suspension/termination of bilateral contracts concluded on the centralized market for universal service (CMUS, Romanian abbreviation PCSU).
- The organization of the centralized market for universal service (CMUS) aimed at implementing a transparent and competitive electricity purchasing mechanism by the suppliers of last resort, to cover the consumption of customers beneficiating of SU invoiced at CPC tariff. ANRE's decision to suspend the auction session on CMUS for the third quarter of 2017 confirmed the energy gap in the market and forced SLR to buy energy from the competitive market at much higher prices than in earlier periods.
- ANRE Order no. 75 of 09.08.2017 amended the terms of the SLR participation in the purchase of electricity on CMUS, the situations in which ANRE may revise in the sense of a decrease the SLR buying offers corresponding to each trading product and the situations in which an auction session may be cancelled on CMUS.
- As of the end of 2017, the number of clients of PRE Electrica has been reduced by 33.3% as compared with the same period of the prior year, as a result of the effects of electricity crisis from January 2017: many suppliers entering into insolvency/bankruptcy procedures as well as the requirement to improve the contracting terms and conditions in order to mitigate the credit risk.

1.3 Key data by business

DISTRIBUTION SEGMENT

Essential information:

- ▶ Electricity distribution in Romania is fulfilled 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 2017 was RON 4,782 million.
- ▶ 196,728 km of electric lines - 7,574 km for High Voltage ("HV"), 45,363 km for Medium Voltage ("MV") and 143,791 km for Low Voltage ("LV").
- ▶ Total area covered: 97,196 km2, 40.7% of Romania's territory.
- ▶ 3.7 million users in 2017 for the distribution activity.
- ▶ 17.8 TWh of electricity distributed in 2017, an increase of 1.7% as compared to 2016.
- ▶ 40% market share for the distribution of electricity to final users in 2017 (based on distributed quantities according to ANRE report for 10 months 2017)

Figure 5: Romanian electricity distribution map

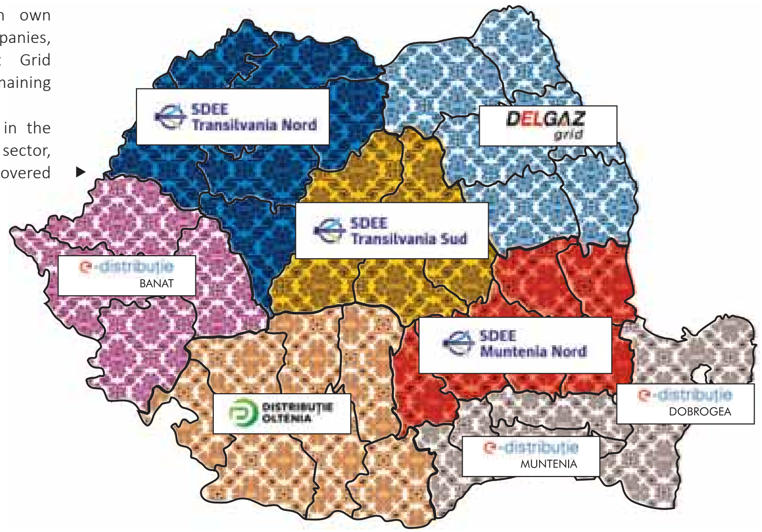


Figure 6: Evolution in number of customers (thousands)

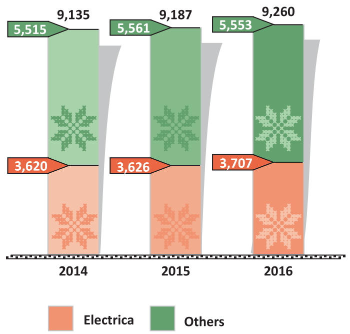
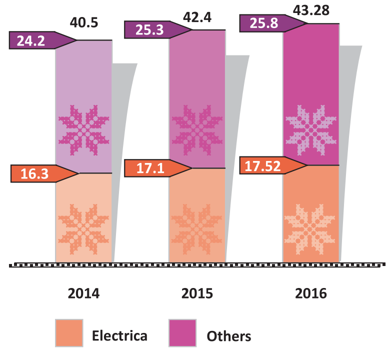


Figure 7: Quantity distributed (TWh)



Source: Electrica

Key financial indicators

Revenues from the distribution segment increased by RON 178 million, or 7.1%, to RON 2,676 million in 2017, as compared to RON 2,498 million in 2016, mainly driven by the increase in investments made in the network, registered according to IFRIC 12, while a marginal effect was generated by the in average increase of distributed quantities by 1.7% yoy, partially offset by the decrease in distribution tariffs.

The RON 110 million or 14% decrease in EBITDA for the distribution segment is mainly due to the increase of costs of energy acquired to cover network losses and the increase in costs with employee benefits, related to the voluntary leaves program.

The EBITDA margin decreased by 20% in 2017, from 30.43% in 2016 to 24.31% in 2017.

The net profit was additionally impacted by the increase in depreciation and amortization costs, which was driven by the investments made in the network.

Figure 8: Revenues from distribution (RON million)

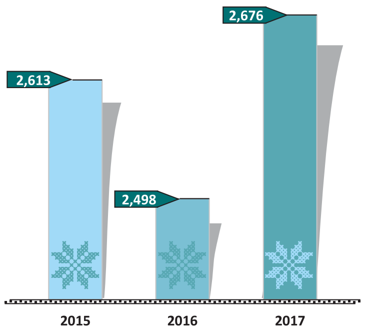
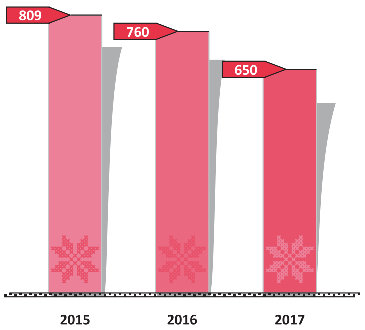


Figure 9: EBITDA – distribution segment (RON million)



Source: Electrica

Figure 10: Net Profit – distribution segment (RON million)

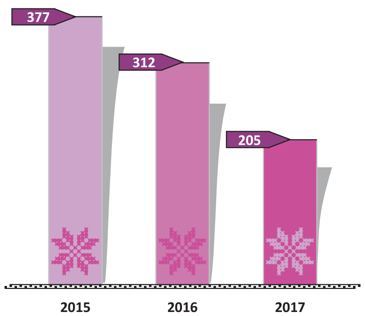
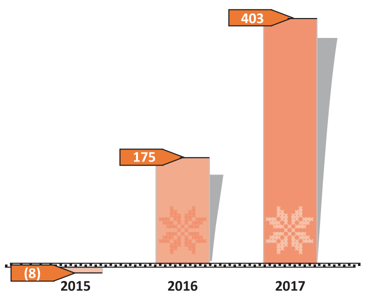


Figure 11: Net debt/(Cash) – distribution segment (RON million)



Source: Electrica

SUPPLY SEGMENT

Essential market data (according to ANRE Report for October 2017)

- The supply market comprises both the competitive segment and the regulated segment.
- The regulated segment is comprised of five suppliers of last resort.
- The competitive market segment comprises 105 suppliers (including those of last resort active in the PAM (retail market) competitive segment), of which 99 are relatively small (less than 4% market share).

Electrica Furnizare has a market share of 19.05%; is market leader on the regulated market, with a market share of 40.30%, for the competitive market having a market share of 11.67% (ANRE report for October 2017). By comparison, in 2016, Electrica Furnizare had a market share of 38.77% on regulalted market and a 15.98% market share on competitive market (ANRE report for December 2016).

In 2017, the electricity supplied by Electrica Furnizare on the retail market decreased by 12.9% compared to 2016. On the competitive market segment alone the decrease was of 22% between 2016 to 2017, mainly as a result of redefining policies and action strategies on competitive markets as well as risk procedures.
On the regulated market, the quantity sold in 2017 decreased by 3.6% compared to 2016, mainly due to the transition of customers in the competitive market.

Key financial indicators

Revenues from supply activity have decreased from RON 4.432 million in 2016, to RON 4.225 million in 2017, respectively by RON 207 million, which represents 4.7%. This decrease is explained by the 11.7% decrease of quantity supplied, with a negative impact of RON 518 milion and the increase by 7% of the electricity supply price for 2017 with a positive impact of RON 311 milion.

From a financial standpoint, Electrica Furnizare posted in 2017 a decrease of 94.6% as compared with 2016 at EBITDA level, mainly due to the increase of cost of electricity purchased and the decrease of quantity of electricity supplied.
The financial position of the supply segment is stable, but has decreased compared to 2016. The net cash position reached RON 219 million, position which was influenced predominantly by the 2017 financial results.

Figure 12: Revenues for the supply segment (RON million)

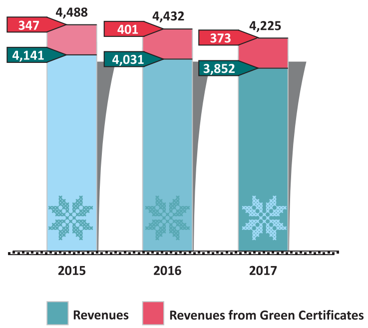
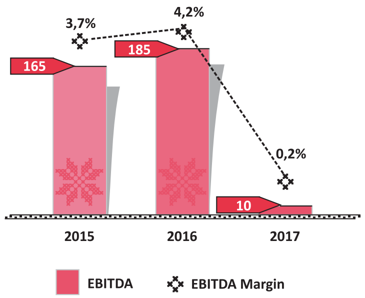


Figure 13: EBITDA for the supply segment (RON million)



Source: Electrica

Figure 14: Net profit of the supply segment (RON million)

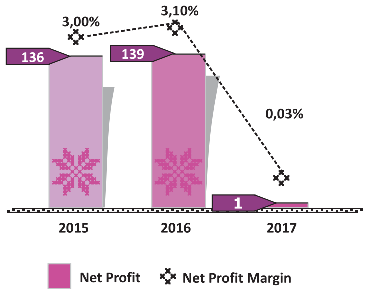
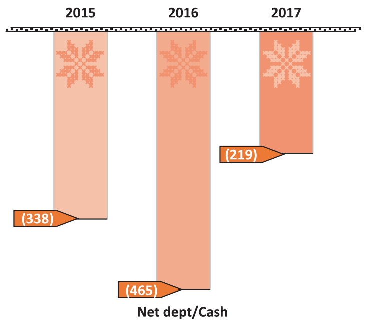


Figure 15: Net debt/ (Cash) for the supply segment (RON million)



Source: Electrica

Source: Electrica

2 ELECTRICA GROUP OVERVIEW

2.1 General overview

Electrica S.A. ("The Company") is the majority shareholder of 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"), FISE Electrica Serv S.A. ("Electrica Serv"), Servicii Energetice Oltenia S.A. ("SE Oltenia"), Servicii Energetice Muntenia S.A. ("SE Muntenia"), together "the Group" or "Electrica Group".

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

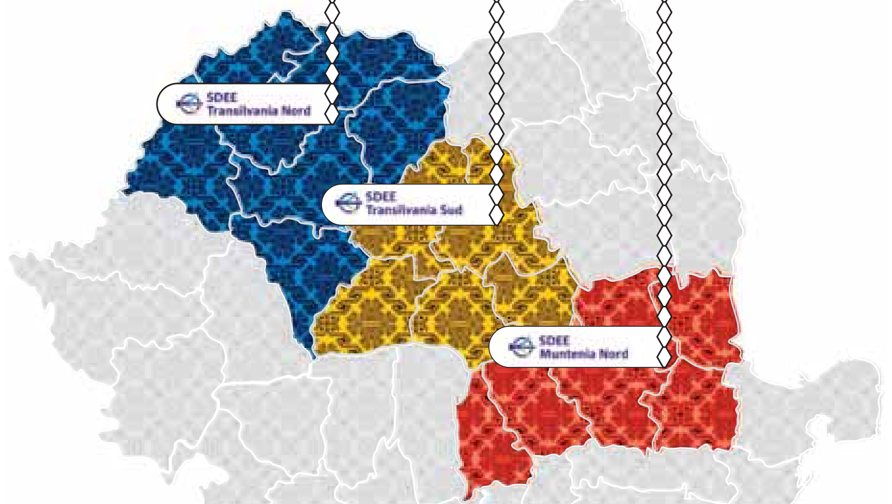
In accordance with the Order no. 627/2000, the Romanian Government approved the establishment of Societatea Energetica Electrica S.A.

As at 31 December 2017 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 largest shareholder based on the share of ownership is EBRD with 6.92% and the third largest shareholder based on the share ownership is Dedeman SRL with 5.76%.

Figure 16: The Group's subsidiaries at 31st December 2017

Electrica SA

99,99%	99,99%	99,99%	99,99%	100%	100%
Electrica Furnizare (EF)	**Societatea de Distributie a Energiei Electrice Transilvania Nord S.A**	**Societatea de Distributie a Energiei Electrice Transilvania Sud S.A**	**Societatea de Distributie a Energiei Electrice Muntenia Nord S.A**	**Electrica Serv (ES)**	**Servicii Energetice Muntenia S.A.** **Servicii Energetice Oltenia S.A.**



Source: *Electrica*

Additional shareholder in distribution and supply subsidiaries

The existence of additional shareholder was imposed by the observance of the provisions of Art. 10, paragraph (3) of the Law no. 31/1990 regarding the companies. As a result:

- SDTS holds 10 shares in SDMN;
- SDMN holds 10 shares in SDTN;
- SDTN holds 10 shares in SDTS and
- Electrica Serv holds 10 shares in EF

The Group's subsidiaries are presented below:

Subsidiary	Activity	Registration code	Headquarters	% stake as of 31 December 2017
Societatea de Distributie a Energiei Electrice Muntenia Nord S.A.	Electricity distribution in North Muntenia geographical area	14506181	Ploiesti	99.9999696922382%
Societatea de Distributie a Energiei Electrice Transilvania Nord S.A.	Electricity distribution in Northern Transylvania geographical area	14476722	Cluj-Napoca	99.9999829770757%
Societatea de Distributie a Energiei Electrice Transilvania Sud S.A.	Electricity distribution in Southern Transylvania geographical area	14493260	Brasov	99.999976413243%
Electrica Furnizare S.A.	Trading of electrical energy	28909028	Bucharest	99.9998390431663%
Electrica Serv S.A.	Services in the energy sector (maintenance, repair, construction)	17329505	Bucharest	100%
Servicii Energetice Muntenia S.A. (in reorganization procedure)	Services in the energy sector (maintenance, repair, construction)	29384120	Bucharest	100%
Servicii Energetice Oltenia S.A. (in reorganization procedure)	Services in the energy sector (maintenance, repair, construction)	29389861	Craiova	100%
Servicii Energetice Moldova S.A.*	Services in the energy sector (maintenance, repairs, construction)	29386768	Bacau	n/a

Source: Electrica
**Societatea Energetica Electrica SA lost the control of Servicii Energetice Moldova starting January 2016 when the bankruptcy proceedings of the subsidiary began*

The main activities of the Group are the regulated distribution of electricity (through operation and development of electricity distribution networks) and the electricity supply to end 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), ensuring the service of the network users by operating installations that function at voltages ranging from 0,4 kV to 110 kV (power lines, substations and transformation stations).

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 end consumers.

The electricity end consumers have concluded supply contracts with energy suppliers, based on which is periodically billed their electricity consumption.

Electrica Furnizare is an electricity supplier in the competitive market and of last resort ("SLR") defined as supplier designated by the regulatory authority to deliver the universal service of electricity supply under regulated specific terms and conditions in the following regions: North Muntenia, North Transylvania and South Transylvania.
According to the regulations issued by ANRE, suppliers of last resort have the obligation to ensure the electricity supply to the end consumers, 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, at ANRE regulated prices (until 31 December 2017) and at "component of the competitive market" (CMC) and last resort tariffs endorsed by ANRE.

2.2 Mission, vision, values

To further ensure a high level of performance, the Electrica Group has set out in a corporate approach and in a pragmatic manner, its Vision, Mission and Set of Values, which represent the foundation for formulating and implementing its strategic goals, objectives and the Group's 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.

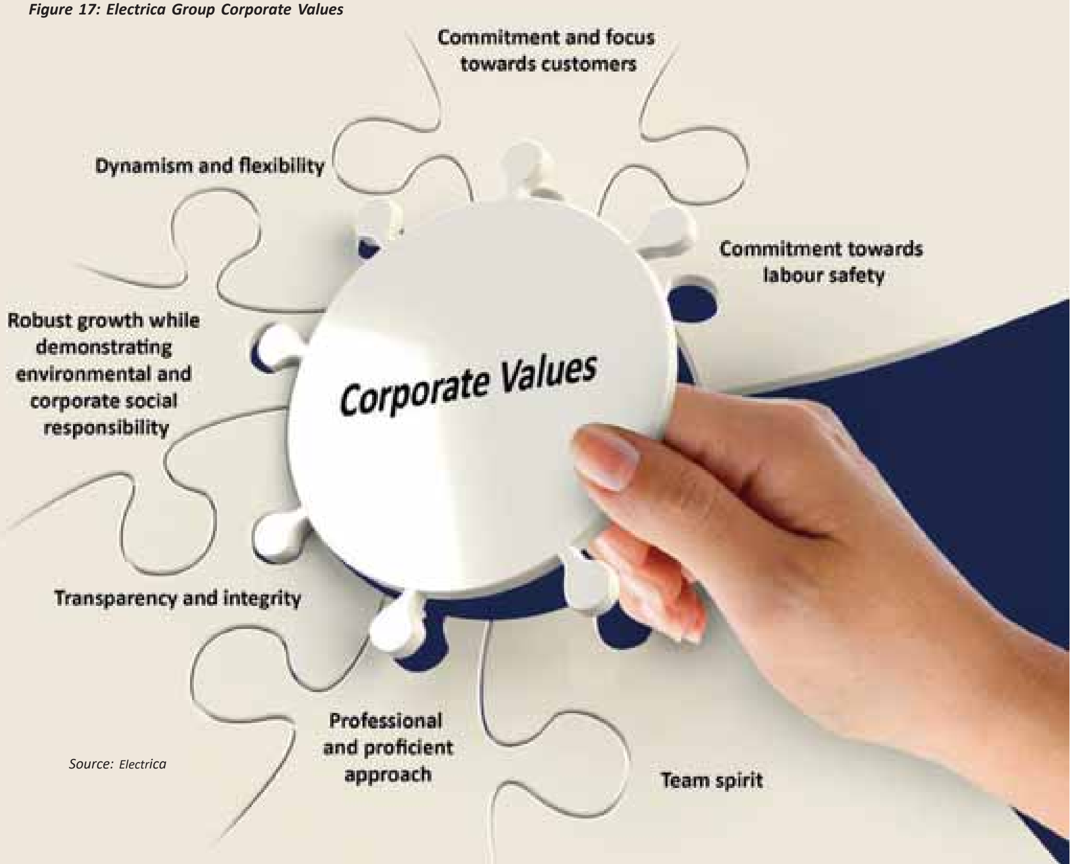
MISSION

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 cultivated across all structures of the Group are especially those related to professionalism and responsibility for a real orientation towards customers, in an increasingly competitive market context and an increasingly restrictive regulatory framework. They represent the foundation for a viable and sustainable performance, to match strategic objectives with legal requirements, industry trends, and market context.It also reflects 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:

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

In 2017, Electrica Group has made efforts to improve performance, aiming at developing its services, expanding the activities and business portfolio. Currently, a strategy review exercise was initiated, considering the external environment changes, as well as internal developments across different areas.

For the distribution and services areas of the group, an ample transformation and optimization process has begun, and measures with impact on the main activities were identified. Thus, the following activities of Electrica Serv S.A.: network maintenance, investments' execution, design, procurement and logistics were internalized and a new organizational model was established for five key areas of the distribution segment: Asset Management, Network Development, Technical Services, Energy Management and Common Services.

Also, in order to identify and stimulate performance, a new remuneration concept is being implemented, which considers the potential, expertise and involvement of our employees.

Despite a difficult year for the electricity supply segment, amid unpredictable market developments, our ambition is to demonstrate ability to adapt and continue to be a performing company.

The year 2017 was dedicated to the internal and external analysis and assessments, setting the basis of future restructuring activities of this business segment. The aim of these efforts was to improve operational performance, customer experience and expand our activities into new business sectors.

The support areas such as human resources, IT and finance, which have a significant role in supporting the operations and the development of the business, were also analysed in order to achieve the strategic objectives.

For the next period, according to the Strategic action plan, Electrica strives to:

- Restructure its activities in all Group companies with a view to address all seven strategic objectives;
  In 2018, the optimization activities of the distribution companies will continue, and in terms of the supply segment, we will pursue the expansion of the business portfolio and the improvement of the company's competitiveness.

- Support and ensure implementation by the subsidiaries of the distribution segment investment plan;
  For 2018, the distribution companies announced the most ambitious investment plan, having a cummulated value of RON 900 million, focused on financing the network rehabilitation and modernization

works in order to improve the service quality, energy efficiency and reduce losses.

- Increase transparency and enhance communication with all stakeholders;
  In 2018, Electrica will continue to actively engage stakeholders and to report on sustainable development, environment and social responsibility subjects, in line with the Group's goals to integrate sustainability in all its activities.

- Train the personnel and capitalise on their potential, expertise and capabilities to increase labour productivity and individual performances;
  In the transformation processes, an increased attention is being paid to the human resources involved in processes and activities, so we will continue to identify and implement best practices in the field, both to support the professional development of the employees, as well as to form efficient teams and a motivating working environment which will contribute to the achievement of the proposed performances.

- Reinforce the Group's management capabilities by training, coaching and selective recruitment of new managers, also from outside the Group;
  In order to meet the performance indicators, we will continue to support the continuous development of the management, ensuring a leadership and knowledge transfer climate, with a positive impact on the organizational culture transformation, also.

- Continue the implementation of the Corporate Governance Action Plan agreed on 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 diminished, keeping however the limits concerning the maximum percentage increase of these tariffs.

ANRE's changes of the distribution tariff setting methodology, including the change in remuneration (i.e., the RRR) during the regulatory period, induce a lack of predictability and stability of regulatory environment and a negative impact on the Groups' distribution operators' operational and financial performance.

Other significant changes to the Romanian legislation relating to the supply segment:

- 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 coming years in all EU countries in order to progress towards completing the Internal Energy Market. Amongst these changes, we 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, the following trends are expected to characterize the Romanian electricity market:

- Through the completion of the liberalisation calendar, the competition on the supply market segment shall increase.
- The last resort suppliers that will supply electricity to those end consumers that no longer have a supplier shall be selected based on a competitive process;
- The beneficiaries of the universal service in accordance with the legal provisions, shall be supplied with electricity based on regulated conditions;
- A trend in electricity distribution area is the principle of remuneration of the distribution operator which also takes into consideration the quality of service, together with the operational costs and efficiencies.

- To promote the green energy production and the objectives due to be met after 2020, further investments for improving the state of the energy infrastructure are necessary (transmission and distribution networks) to allow integration of 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 transportation 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 determine the distribution operators to adapt their processes and strategies for the upgrade and develop of the network and offer solutions to independent producers, considering the new prosumers, which are active participants in the energy market.
- The implementation of smart metering shall offer to the consumers complex tarrifs options, detailed information about the consumption profile, which might lead to increased flexibility and peak demand reduction. Thus, the consumers shall be better informed and involved in decision making process, as active particiants. The pace of implementation of smart metering depends on the implementation timetable to be adopted at national level.
- The pace of implementation of smart metering depends on the implementation timetable to be adopted at national level.

The following table presents key drivers of anticipated 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 to 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. From 2019, the 4th Regulatory Period will start, and it is estimated that the methodology for setting tariffs for electricity distribution will be significantly modified.	Electricity prices
Technological development	Smart grids and smart meters will create benefits for end consumers, distributors and suppliers in terms of energy efficiency, resource optimization and network operation, implementation of demand response etc.	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.

An ANRE project is under discussion in which the selling price of electricity produced and delivered in the electricity networks by individuals owning power plants producing electricity from renewable energy sources with installed capacity below 100 kW to concessionary distribution operators is the estimated average price of active energy to cover the technological own consumption in the electricity networks to which the respective power plants are connected, set by ANRE by an order for the approval of the tariffs for the electricity distribution service, for each concessionary operator.

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 (already implemented).
- 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 in the year 2018. However,the remuneration mechanism, the tariff type and regulated rate of return could be subject to changes beginning with the next regulatory period.
- There will be no major geopolitical turbulences, which might 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. As already stated, Electrica is currently undergoing a strategy review exercise, in order to assess the impact of changes in external environment on the current strategy, while also considering the internal, organizational changes occurred.

3 OPERATING ACTIVITY

3.1 Operating segments

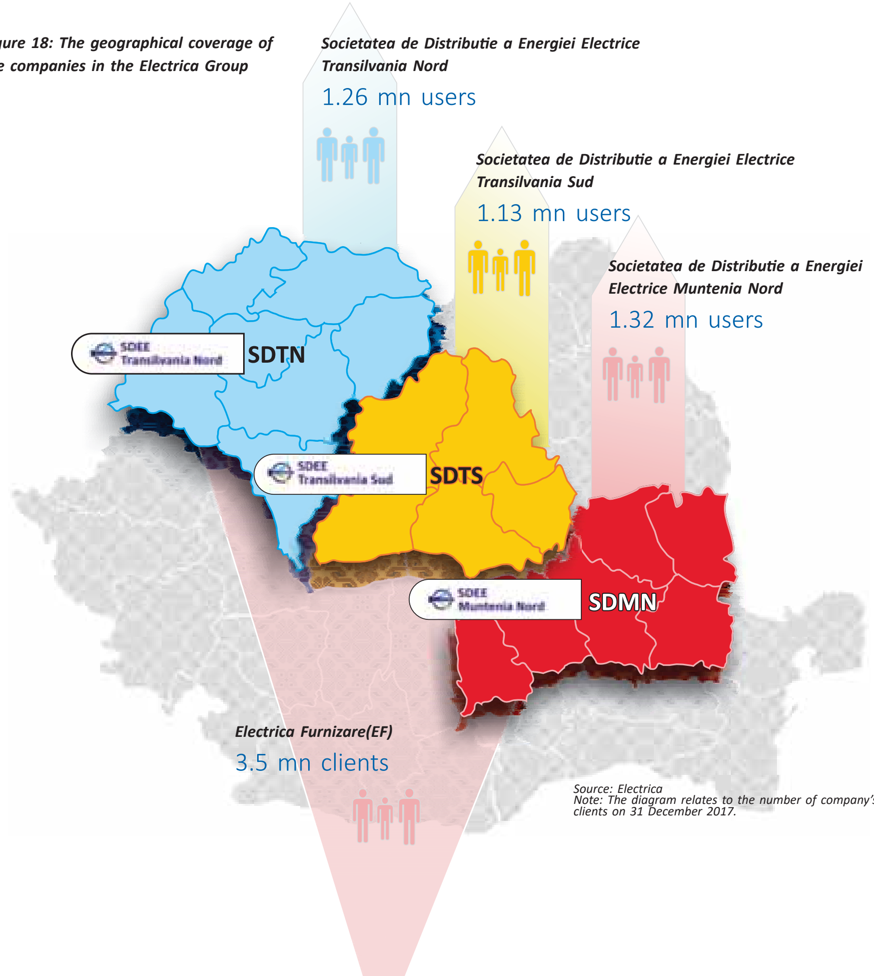
The operations of each reportable segment are summarized below.

Segments	Operations
Electricity supply	Purchasing electricity and supplying electricity to end consumers (includes Electrica Furnizare S.A. and the trading and representation activity on the Balancing Market as Balance Responsible Party – BRP Electrica, performed by Electrica S.A.)
Electricity distribution	Electricity distribution service (includes SDTN, SDTS, SDMN, Electrica Serv)
External electricity network services	Repairs, maintenance and other services for electricity networks owned by other distributors (include 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



Source: Electrica
Note: The diagram relates to the number of company's clients on 31 December 2017.

DISTRIBUTION SEGMENT

Electrica's distribution segment refers to its subsidiaries SDMN, SDTN, SDTS and Electrica Serv, the latter aimed to perform the maintenance and repair activity for the distribution networks.

As of November 1, 2017, three business transfer agreements were signed between each of the electricity distribution subsidiaries within the Electrica Group (Societatea de Distributie a Energiei Electrice Muntenia Nord SA, Societatea de Distributie a Energiei Electrice Transilvania Nord SA, Societatea de Distributie a Energiei Electrice Transilvania Sud SA) and Societatea Filiala de Intretinere si Servicii Energetice Electrica Serv SA. Businesses transferred at the level of each distribution branch include maintenance and investment, design, network design, procurement and logistics. This transfer is part of the transformation program for the distribution activity area, which aims to implement a new segment of the organization model based on redesigned processes (including internalized activities), with an emphasis on the efficiency and quality of the services offered to the clients, the realization of the investment plan, cost reduction and control.

The electricity distribution segment, is a regulated business area in which operations are conducted in a geographically limited area in accordance with the concession contract and the nature of the services provided and the speculative obligations are stipulated in the license conditions of the concessionary operators. Thus, Electrica, through its subsidiaries, is the electricity distribution operator 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 between 0.4 kV and 110 kV.

The Group has exclusive electricity distribution licenses for these regions valid for a 10 years period with extension clause. Within its service for distribution activity,

Electrica provides equipment maintenance services, repair and other services for its network and to a smaller extent to third parties. The distribution segment represents the highest share to Electrica's operating profit.

Electricity distribution is a regulated activity in Romania and the 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 for 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 adjusted on an annual basis considering the operating performance achieved, including the volumes of distributed electricity, quantities and the acquisition price of electricity to cover the network losses, 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 decrease from 8.52% to 7.7%, with effect since January 1st, 2015. The current regulatory period ("the third regulatory period") within which the Group is operating has started on January 1st, 2014 and will end on 31 December 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 includes also 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.

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Starting January 1st, 2018, electricity distribution tariffs approved by ANRE are as follows (RON/MWh):

Tariff (RON/MWh)	ANRE Order no.	High voltage	Medium voltage	Low voltage
SDTN	115/12 December, 2017	18.73	41.38	97.24
SDTS	114/12 December, 2017	20.29	40.09	100.42
SDMN	116/12 December, 2017	14.79	31.54	109.38

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 continued throughout 2017 in accordance with the approved liberalization calendar. The competition between traditional suppliers and other new entrants to the energy market increased in the sense of massive quotations being sent to the household customers segment on the regulated market, customers onto who there were applied regulated tariffs for 20% of the price of electricity consumption at the beginning of the year in the first semester and respectively 10% in the second semester. Taking into account the relatively reduced economic benefits that could be obtained by household customers by switching the electricity supplier, the effect of market liberalization on the household customers segment is minor. Instead, the growing trend in the number of products offered by suppliers is generalizing and customers are particularly attracted to offers that combine electricity, gas and/or telecom services and sometimes the price of electricity of those offers appears to be cross-subsidizied or covered by margins on the gas and/or telecom segment

The withdrawal of the supply license/ termination of network contracts/ non-fulfillment of financial obligations on the market of imbalances/ expiry of contracts for the supply of electricity for a number of 10 suppliers on the competitive market, led to Electrica Furnizare S.A. being designated as SLR for these suppliers' customers, and the purchase of electricity for this category of clients from the CM (competitive market). For this category of customers there is no predictability that lead to the purchase of energy based on contracts.

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 31 December 2017 when the market was fully liberalized, the electricity prices for household consumers had two components: regulated prices approve by ANRE and CPC components endorsed by ANRE based on the justified purchase cost of electricity and supply costs as well as based on the regulated profit ratio. The prices contains also the regulated transport, system services and distribution tariffs. Electrica Furnizare incurs supply costs that include mostly costs related to conclusion of contracts, invoicing and collection, costs related to database management, infrastructure, IT &C.
ANRE methodology (ANRE Order no. 92/2015) provides a profit margin for the supply activity of 1.5% of the total cost of the electricity supply activity (including acquisition, transmission, distribution, system services, market operation, supply) and an operating supply cost of RON 4.7/customer/ month in 2017. ANRE can supplement the cost of the supply activity with the share of the occasional costs incurred by Electrica Furnizare as a result of special situations (for example: renegotiation of contracts on the basis of ANRE Order No. 88/2015, change of computer systems to comply with new regulations, loss from receivables, etc.).

The non-household consumers beneficiaries of the universal service were invoiced at CPC prices and the non-household consumers who were not beneficiaries of the universal service were invoiced at last resort supplier prices („LR") for their entire consumption.

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

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, if it's justified.

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 end consumers who have not used their eligibility right.
- Occasional costs incurred by force majeure (if applicable)
- Costs generated by force majeure (if applicable).

Competitive market

Trading on the wholesale competitive electricity market is carried out in a transparent, public, centralized and non-discriminatory manner on market platforms managed by OPCOM. The wholesale market participants can trade electricity on the basis of bilateral contracts concluded on OPCOM markets. Starting July 19th, 2012, the Energy Law does not allow the conclusion of sale and purchase contracts on the wholesale electricity market outside of centralized markets. Retail prices may be freely negotiated by the parties on the retail competitive market.

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 as a Balance Responsible Party, and in terms of size, it provides balancing services for over 24% 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 Balancing Responsible Party there is an advantage for the aggregation of the imbalances, in order to reduce costs on the Balancing Market compared to when the producer/ supplier/distributor would act on its behalf as a Balance Responsible Party.

The distribution companies and Electrica Furnizare have delegated their responsibilities to BRP Electrica.

By establishing relationships with over 100 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.

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ENERGY SERVICES SEGMENT

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

In 2017, the energy services segment consists of SE Oltenia and SE Muntenia.

3.2 Procurement

Electrica S.A. shall continue its process of centralizing procurement within the Group, based on centralized delegation responsibilities to Electrica S.A., at least for strategic procurement. The objective is to optimize costs, procurement flows and ensure a uniform policy implementation within the Group. This process of centralizing procurement would enable standardization of procurement processes and contribute towards increased integrity and control.

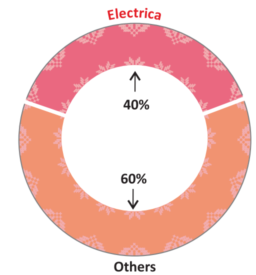
3.3 Sales activity

The main factors influencing Electrica's revenues are represented by the distribution and supply segments. The contribution of distribution segment to total revenues was 40% in 2017 (2016: 38%); the contribution of supply segment to total revenues was 53% in 2017 (2016: 56%).

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 quantities 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 2017



Source: ANRE

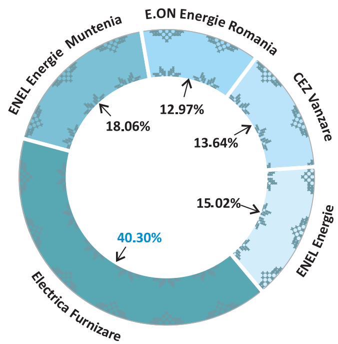
Although it holds a strong position on the electricity supply market, Electrica Furnizare is facing growing competition on its market.

The supply market is composed of the regulated and the competitive marke:

- The regulated market comprises five supply companies;
- The competitive market comprises 104 suppliers (including the last resort suppliers with activity on the wholesale market competitive segment), of which 98 are relatively small (<4% market share)..

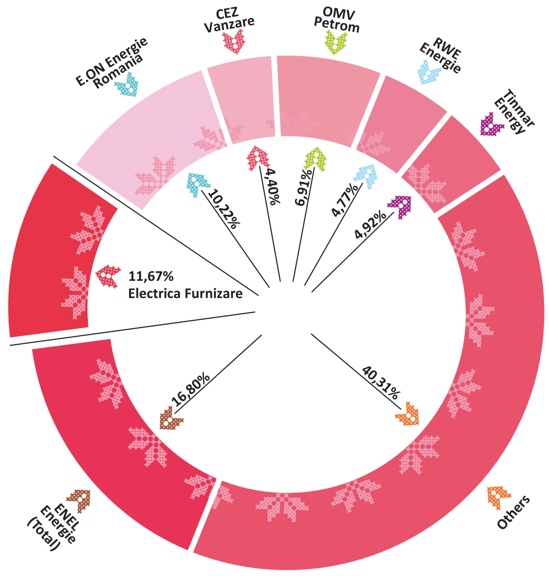
The figure below shows Electrica market shares for the supply activity as at October 31st, 2017 (based on the quantities supplied):

Figure 20: Regulated Market, 2017



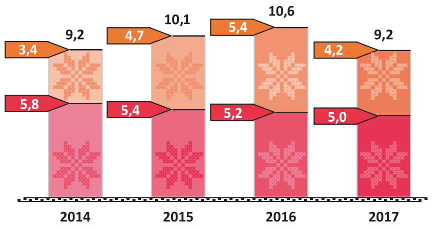
Source: ANRE report, October 2017

Figure 21: Competitive Market, 2017



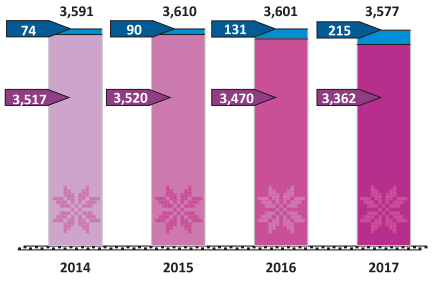
Source: ANRE report, October 2017
Note: "Others" category includes suppliers whose individual market shares are below 4%

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



Source: Electrica

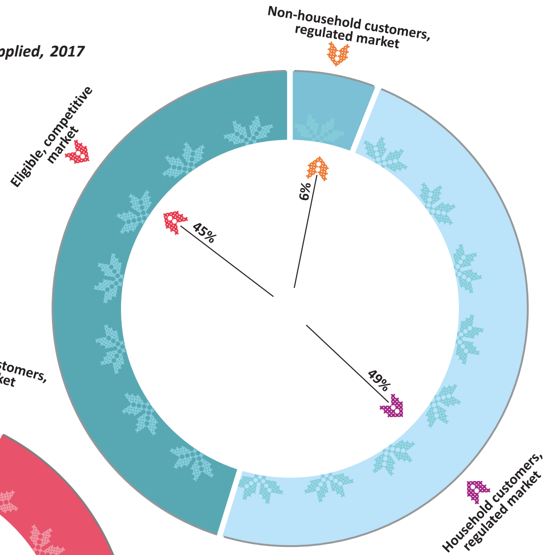
Figure 23: Evolution in number of consumers (thousand)



Source: Electrica

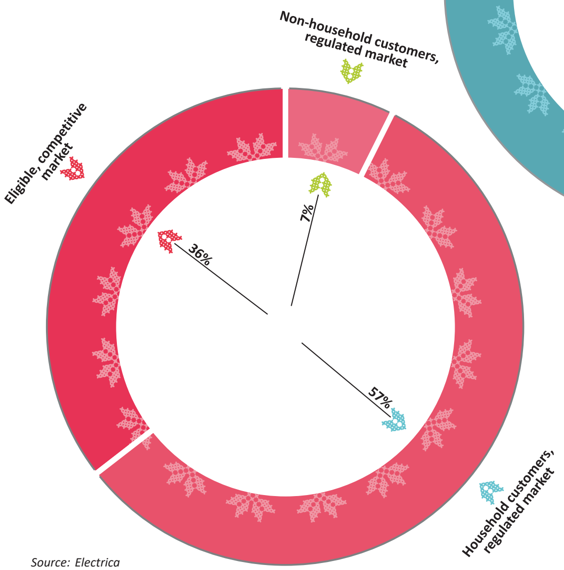
The number of consumption locations was 3.6 million as at 31.12.2017, served through a number of 151 points of sale and customer relationship offices.

Figure 24: Consumers by volume of electricity supplied, 2017



Source: Electrica

Figure 25: Consumers by revenues, 2017



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.

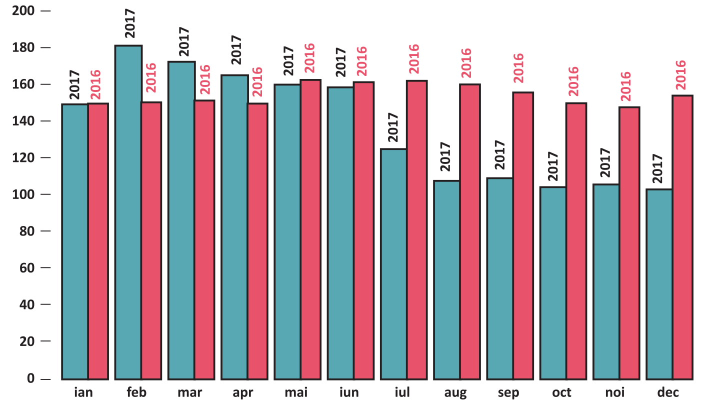
However, under Romanian legislation, certain electricity consumers, such as hospitals, ambulance stations, schools, nursing homes, air or naval traffic services are deemed of special importance, and cannot be disconnected by the electricity supplier. Moreover, the clients subject to the insolvency law, 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 2017, 120 Balancing Responsible Parties were registered with Transelectrica S.A., having a total of 1,030 licensed participants.

At the end of 2017, 100 licensed participants (10 suppliers, 84 producers and 6 distributors) delegated their responsibility to BRP Electrica, as compared to 2016, when 150 licensed participants were registered with BRP Electrica.

Figure 26: Number of BRP Electrica members



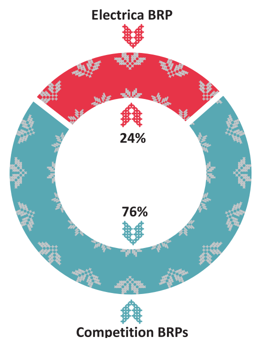
Source: BRP Electrica

The portfolio has been restructured starting with February 2017 following the implementation of the credit risk policy developed as a result of unfavourable market events starting with January 2017. Thus, contracts were terminated with BRP members (5 contracts with suppliers and 9 contracts with producers) that generated significant negative imbalances and refused to provide guarantees, the portfolio being completed with the producers to improve the compensation level (41 contracts with producers).

The portfolio optimization has led to:

- profit increase in 2017 from this activity (+7.9% yoy)
- constant improvement of the compensation level, while the risks were mitigated and reduced, including via letter of bank guarantees depending on the creditworthiness and risk exposure. In terms of volume, Electrica's BRP has a 24% market share in 2017.

Figure 27: BRP Electrica share with regards to electricity consumption in 2017



Source: BRP Electrica

3.4 Reorganization and disposal of assets

Regarding financially distressed subsidiaries, the process of reducing their activity was continued in 2017.

- In 2013, the Company approved the insolvency procedure starting for three subsidiaries: SE Banat, SE Dobrogea and SE Moldova;
- SE Moldova, SE Dobrogea and SE Banat entered bankruptcy procedures in January 2016, January 2015 and August 2014 respectively;
- During 2017, the liquidator of each company has organized several tenders with the scope to sell the company's assets under the bankruptcy procedure;
- SE Oltenia – under insolvency procedure since May 2014 with a reorganization plan approved by the Creditors' Assembly in May 2015 and confirmed by the Court in June 2015. The extension of the company's reorganization period by one year was approved in December 2016 by the Creditors' Assembly, but the Court rejected its confirmation in June 2017. SE Oltenia had 217 employees at the end of 2017. The deadline for the implementation of the reorganization plan is June 2018
- SE Muntenia – under insolvency procedure since November 2014 with a reorganization plan approved by the Creditors' Assembly in November 2015 and confirmed by the Court in November 2015. SE Muntenia had 331 employees at the end of 2017. The deadline for the implementation of the reorganization plan is November 2018.

Until December 31, 2017 the following values were recorded from the sell of assets: SE Moldova – RON 28,536 thousands, SE Oltenia – RON 8,084 thousands, SE Dobrogea – RON 5,681 thousands, SE Banat – RON 7,950 thousands.

Also the value of the receivables recovered is: SE Moldova – RON 12,552 thousands, SE Oltenia – RON 65 thousands, SE Dobrogea – RON 1,694 thousands, SE Banat – RON 159 thousands

3.5 Personnel

On 31 December 2017, the Group counted 8,792 employees. The table below provides an overview of employment in the Group, by business segments, on the specified dates.

	2017	2016	2015
Electricity distribution	6,632	7,978	8,767
SDMN	2,263	1,872	1,949
SDTN	2,241	1,817	1,880
SDTS	2,122	1,720	1,795
Electrica Serv	518	2,569	3,143
Supply segment	945	1,041	1,110
Electrica Furnizare	945	1,041	1,110
Services related to other DSOs	548	524	526
SE	548	524	526
Headquarter	155	142	136
Electrica	155	142	136
Total	**8,792**	**9,685**	**10,539**

Source: Electrica

The reduction in the number of Group employees during 2017 was mainly due to the voluntary leave program, plus retirements at the 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 under bankruptcy procedures.

On 31 December 2017, about 57% of the Group's employees represented directly productive personnel and 43% represented indirectly productive personnel, including technical, economic, social and administrative personnel.

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

	31 December 2016	31 December 2017
18-30	5.96%	5.51%
31-40	19.34%	19.49%
41-50	42.90%	44.66%
51-60	29.26%	28.81%
over 60 years old	2.54%	1.53%
Total	100%	100%

Source: Electrica

On 31 December 2017, about 98% of the Group's employees were members of trade unions and their employment conditions were governed by the Collective Labor Contract, which expired at the end of year. Starting with 01 January 2018 a new Collective Labor Contract was negotiated for a 12 months period and submitted to the Territorial Labor Inspectorate for registration. The Electrica Group did not face strikes or other forms of labor conflicts that might have interfered with the Group's business.

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

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 procedure, sanctions and disciplinary infringements, the criteria and procedure for employees professional evaluation and termination of employment procedure.

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

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

HEALTH AND SAFETY AT WORK

The companies in the Electrica Group use in their daily activity a unitary system of internal norms and regulations elaborated in accordance with the legal requirements and the OHSAS 18001/2009 standards within the integrated management system of quality, environment, occupational health and safety. This integrated management system, certified and externally audited in 2017, ensures the provision of safe, environmentally friendly services.

Situations of work accidents across Electrica Group

During the year 2017 there were 16 work accidents that caused injuries to the employees, and regretfully, in four cases, fatalities. Electric hazard had consequences in six of the registered accidents, of which, a collective accident was mainly due to technological risks unrelated to the works performed.

Labor accidents are based on a complexity of complementary causes and factors that have been the subject of an analysis of some legally constituted committees, and the research files have been approved from Territorial Labor Inspectorates, including the measures to prevent similar situations.

The analysis of accidents registered in the first half of 2017 indicate that the human factor contributed to a great extent in meeting the favorable conditions for the producing of these accidents. To prevent the occurrence of similar casese, Electrica's management has established the development of a zero-accident-oriented organizational culture, and an awareness program was developed with the purpose for deployment throughout the Group. This way of working overlaps with a wide organizational change at the level of each company, with a focus on performance and service quality.

It should be noted that regarding the external contractors two events were recorded, despite the preventive measures taken that included training before work with regard to the identified potential risks. In accordance with the safety at work policy applied at Group level, additional measures are needed to prevent injury to contractors employees.

As in the previous year, several incidents of unauthorized intrusion occurred in the power-operated installations of the Group. People have exposed themselves to and ignored the electrical hazards signaled by warning and banning signs, resulting in injury and in some cases fatalities.

Preventive actions in the field of safety and health at work

In order to reduce the risk of injury or occupational hazards, as identified as a result of a risk assessment at all workplaces and also through the analysis of accidents, it was emphasized the need to improve the training of staff both in terms of occupational safety and health at work and in terms of awareness to the hazards. A total of over 400,000 hours were allocated in 2017 to train employees in occupational safety, health and fire protection including further trainings and development programs.

Throughout the year, certified specialists have conducted internal inspections and audits of compliance with legal requirements and internal health and safety regulations, as well as fire protection. These have resulted in actions to identify deficiencies that required the implementation of immediate measures, as well as preventive / corrective measures with medium-term action.

A number of over 3,100 health and safety workplace controls have been conducted to monitor and correct actions deemed inconsistent. Our executives have effectively participated in workplace health and safety checks, engaging in the formation of an appropriate organizational culture. On this occasion, the executive management explained to the workers at the work places the importance of changing the perception about the safety and health in work in the daily activity, as the entire activity of Electrica Group is directed towards maximum performance in terms of safety and health at work.

In order to integrate the security and health actions into the work in the integrated management concept, a number of 83 internal audits were carried out. These audits have focused on developing guidelines and procedures to enhance the culture of occupational safety and health.

Other training activities included additional information and materials for employees.

In addition, taking into account the management of emergency situations and fire protection, preventive measures have been implemented which included: control of compliance with specific norms by authorized personnel; regular training for all categories of staff, according to the approved annual programs and themes of training; performing intervention and evacuation exercises in emergency situations; verification and maintenance of fire protection installations and means and fire extinguishing devices at the level of each location, with authorized companies; free access to the access and evacuation ways; measures specific to the hot and cold season for fire prevention.

Health aspects of employees in 2017

There were no occupational illnesses within the Electrica Group. The prevention of hazards and esurance of proper health at work was done by doctors specialized in workplace medicine through service contracts that included: medical consultations; psychological examinations; conducting laboratory medical analyzes; influenza vaccination; training workers on occupational health and first aid issues; checking and maintaining hygienic and sanitary conditions.

3.6 Environmental considerations

The Group promotes environmentally friendly policies part of its activity and implementation of business strategy.

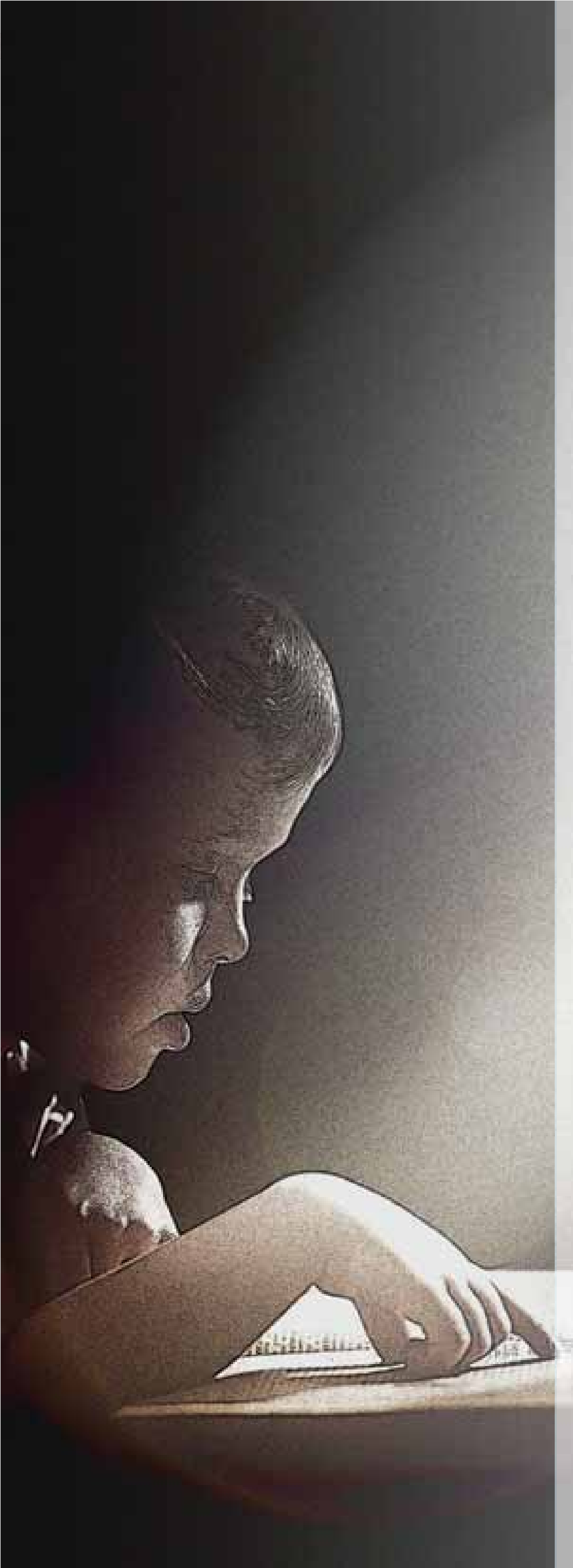
Electrica SA and its subsidiaries have implemented an Integrated Quality, Environmental, Occupational Health&Safety Management System, which effectively manages environmental aspects associated with its processes, to prevent pollution and increase environmental performance.

Annual capex budgets of the Group's subsidiaries include environmental expenditure, where the case. In 2017 the environmental expenditure at Group level amounted to RON 5,370 thousand, 3,4% up from 2016.

In 2017 main environmental concerns were:

- Minimization of environmental impact though the 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 192 pieces of equipment were withdrawn from service;
- Improvement of waste management by responsible and safe disposal of generated waste including hazardous ones.
- Conservation of biodiversity and resources.
- Determination of the electromagnetic field level in multiple transformating station and overhead power lines in SDEE Transilvania Sud.

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 complaints regarding pollution incidents exceeding the legally allowed specific limits were reported in 2017. No environmental grievances were reported.



3.7 Research and development activities

In accordance with the "Elements of Electrica's Board Strategic Plan for the period 2015-2018", Electrica, in partnership with OMV-Petrom implemented E-mobility pilot project, "Green Highway" installing the first fast charging station with a capacity of 50 kW, which is in commercial operation starting with January 2017.

Following the evaluation of pilot project results and market evolution, it is foreseen further implementation of new E-mobility projects, together with strategic business partners and public local authorities.

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 integrating a high level of distributed generation sources.

By participating in these research, development and innovation projects with financing/ co-financing 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 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 enhancing Company's image;
- creating new opportunities for future financing of Electrica's projects through EU funds.

Another important endeavour of Electrica in promoting technological innovation is to disseminate the solutions for updating its electric grid using a smart grid concept in the international conferences/symposia Electrica is organizing every year in November and which propose as an alternative topic the smart grids and smart metering solutions.

We emphasize our participation in the WEC conferences with presentations concerning technological innovation and promotion of new technologies that improve operational efficiency.

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:

- 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.

In 2017, the Board of Directors of Electrica S.A. has approved Risk Assessment Criteria, Risks Management Policy and Principles of Credit Risk Policy for the PRE (Balancing Responsible Party) activity. Thus, the Risks Management Policy was adopted by the companies within the Electrica Group.

In the 4th quarter of 2017, Electrica S.A. started an extensive process of improvement and development of the risk management system in accordance with the provisions of the international standard SR ISO 31000:2010 "Risk Management - Principles and Guidelines", having as a main objective the redesign of the risk management system, its adaptation to new market conditions and also its integration across the Group.

For 2018, Electrica S.A. intends to continue and complete the process of redesigning the risk management system.
In 2017, the Group carried out the process of reassessing the main risks and proposed appropriate control measures with the aim of avoiding or diminishing the identified risks in the future.

Some of the identified risks for Electrica Group's activity and sector are listed below:

- 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.
- 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 maintain active the regulatory licences, being exposed to significant liabilities in case of non-compliance;
- 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 (deprived clients), 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 IPO, 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;
- Regulatory 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 BRP activity.

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

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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

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.

Cash, bank deposits, treasury bills and government bonds are placed in financial institutions, which are considered to have low risk of default. The carrying amount of financial assets represents the maximum credit exposure.

Trade receivables

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

The ageing statement of trade receivables was as follows:

	31 December 2017		31 December 2016	
(RON thousands)	**Gross value**	**Bad debt allowance**	**Gross value**	**Bad debt allowance**
Not past due	530,412	(7,541)	603,467	-
Past due 1-90 days	274,512	(5,881)	209,205	(46,494)
Past due 90-180 days	25,297	(22,344)	16,616	(11,673)
Past due 180-360 days	60,469	(56,416)	14,087	(11,514)
Past due 1-2 years	34,794	(28,941)	30,872	(26,577)
Past due 2-3 years	92,634	(92,634)	21,618	(21,618)
Past due more than 3 years	845,750	(845,750)	1,010,228	(1,010,228)
Total	**1,863,868**	**(1,059,507)**	**1,906,093**	**(1,128,104)**

Source: Electrica

	Net trade receivables	
(RON thousands)	**31 December2017**	**31 December2016**
Not past due	522,871	603,467
Past due 1-90 days	268,631	162,711
Past due 90-180 days	2,953	4,943
Past due 180-360 days	4,053	2,573
Past due 1-2 years	5,853	4,295
Total	**804,361**	**777,989**

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 overdraft facilities. Also, starting with 2016, some subsidiaries have signed long-term loan agreements to improve their financial position.

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are presented in RON thousands, gross and undiscounted, and include estimated interest accrued.

		Contractual cash flows				
Financial liabilities	**Carrying amount**	**Total**	**less than 1 year**	**1-2 years**	**2-5 years**	**more than 5 years**
31 December 2017						
Bank overdrafts	247,904	247,904	247,904	-	-	-
Financing for network construction related to concession agreements	43,831	50,579	33,906	15,265	1,408	-
Long term bank borrowings	320,000	332,775	2,555	2,555	327,665	-
Trade payables	689,405	689,405	689,405	-	-	-
Total	**1,301,140**	**1,320,663**	**973,770**	**17,820**	**329,073**	**-**
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**	**-**

Source: Electrica

▶ 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 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 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 Group'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 Group's exposure to currency risk is as follows:

(RON thousands)	31 December 2017 EUR	31 December 2017 USD	31 December 2016 EUR	31 December 2016 USD
Cash and cash equivalents	95	-	2,533	4,669
Deposits (deposits, treasury bills and government bonds)	1,236	56	-	-
Financing for network construction related to concession agreements	(43,766)	-	(127,130)	-
Net exposure of financial position statement	**(42,635)**	**56**	**(124,597)**	**4,669**

Source: Electrica

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

	Average rate		Year-end spot rate	
	2017	**2016**	**2017**	**2016**
EUR/ RON	4.5681	4.4900	4.6597	4.5411
USD/ RON	4.0525	4.0569	3.8915	4.3033

Source: Electrica

Sensitivity analysis

A reasonably possible aprreciation (depreciation) 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. Amounts in thousands RON.

A reasonably possible appreciation/depreciation 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.

(RON thousands)	Profit before tax	
	Appreciation	**Depreciation**
31 December 2017		
EUR (change by 5%)	(2,122)	2,122
USD (change by 5%)	3	(3)
31 December 2016		
EUR (change by 5%)	(6,230)	6,230
USD (change by 5%)	233	(233)

Source: Electrica

Interest rate risk

The Group does not have significant long-term bank loans. The loans contracted in 2017 by the DSOs were fully secured with cash collateral by the Electrica S.A.. Interest rate risk on the newly contracted loans is minimal as the interest rate 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:

(RON thousands)	31 December 2017	31 December 2016
Fixed-rate instruments		
Financial assets		
Bank accounts (cash and cash equivalent)	231,769	740,487
Deposits, treasury bills and government bonds	746,981	1,875,054
Financial liabilities		
Financing for network construction related to concession agreements	(43,831)	(127,130)
Finance lease	(320,000)	(127,733)
Total	**614,919**	**2,360,678**
Variable-rate instruments		
Financial liabilities		
Overdrafts	(247,904)	(142,626)
Total	**(247,904)**	**(142,626)**

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	
(RON thousands)	**50 bps increase**	**50 bps decrease**
31 December 2017		
Variable-rate instruments	(1,240)	1,240
31 December 2016		
Variable-rate instruments	(713)	713

Source: Electrica

4 FIXED ASSETS

The number of users and volume of installations at 31 December 2017 at the level of the three distribution subsidiaries (SDTN, SDTS and SDMN) and at Electrica's overall level are quantified as follows:

	UM	SDTN	SDMN	SDTS	Total
Geographical coverage	**km²**	**34,162**	**28,962**	**34,072**	**97,196**
Number of users, of which:	**-**	**1,258,526**	**1,315,724**	**1,133,107**	**3,707,357**
110 kV	-	33	39	42	114
medium voltage (MV)	-	4,043	3,708	2,935	10,666
low voltage (LV)	-	1,254,470	1,311,977	1,130,130	3,696,577
Overhead power lines length, of which:	**km**	**52,604**	**58,871**	**45,577**	**157,052**
110 kV	km	2,179	2,146	3,166	7,491
medium voltage (MV)	km	11,759	12,546	10,451	34,791
low voltage (LV)	km	38,632	44,178	31,960	114,770
Of which connections	km	18,090	23,964	17,224	59,279
Underground power lines length, of which:	**km**	**16,115**	**11,837**	**11,724**	**39,676**
110 kV	km	27	15	41	83
medium voltage (MV)	km	3,778	3,370	3,424	10,572
low voltage (LV)	km	12,310	8,453	8,259	29,021
Of which connections	km	7,126	2,152	2,584	11,862
Cumulative power of transformers/ power AT	**MVA**	**6,043**	**8,660**	**6,746**	**21,448**
in power stations (110 kV/MT + MT/MT)	MVA	3,648	5,637	4,142	13,427
in power stations 110 kV/MT	MVA	3,605	5,285	4,132	13,022
in power stations MT/MT	MVA	43	352	10	405
Switching stations/Transformer stations	pcs	2,395	3,023	2,603	8,021
No. of substations, of which:	**pcs**	**121**	**212**	**105**	**438**
power stations 110 kV/MT	-	92	124	101	317
power stations MT/MT	-	29	88	4	121
Number of switching stations and transformer stations	**pcs**	**8,880**	**10,268**	**9,039**	**28,187**

Source: Electrica

The vast majority of the distribution equipment currently in the assets 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 the total equipment is represented by new installations, put into force after 1990, meeting current requirements.

Depending on voltage level, categories of installations, year of commissioning and specific operating conditions and 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

Group investments aimed especially the distribution segment, considering the wear of assets of distribution companies, in order to increase efficiency, distribution service quality and 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, improve energetic efficiency and reduce network losses, improvement of network flexibility, distribution service quality, stability and reliability of the network.

The implementation of the investment program is compliant with the Group's Strategy considering the following criteria:

- Inclusion in the RAB of regulated investments;
- Non-regulated investments of the Group should provide an IRR higher than weighted average cost of capital.
- The proposed 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 detailed in the Prospectus, the IPO proceeds shall be directed primarily into investments to improve the existing grid infrastructure, to develop the network for connecting new users and for investments in smart grid technologies.

Thus, will be promoted those categories of capital expenditure contributing to the development of a profitable and sustainable distribution activity and to the creation of access conditions to the electricity distribution network for energy consumers and producers, in line with market requirements, especially based on:

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

At the same time, the Group is considering investments in the upgrade of IT infrastructure and information technology systems, taking into account both the legal requirements regarding data protection and the positive effect on the quality of the services provided.

The following table presents the investment program approved by ANRE for the Distribution Subsidiaries within Electrica Group (in real terms 2013):

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

	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 in 2017 was RON 904.012 RON mil, out of which RON 874 million represent the investments planned by the distribution operators.

The comparison between planned (based on the approval of the General Meeting of Shareholders in March 2017) and achieved level of investments (CAPEX) in 2017 is presented below:

Subsidiary Electrica Group (RON million)	Planned 2017	Achieved
SDTN	299	249
SDTS	285	235
SDMN	290	246
Electrica Furnizare	13	11
Electrica Serv	12	0.361
Electrica S.A.	5	1
Total	**904**	**742**

Source: Electrica

At Group level, the CAPEX plan was achieved at a rate of 82.09%; the achievement rate of investment for the distribution subsidiaries alone was 83.52% compared to the total plan approved by Electrica SA Board of Directors.

The structure of investments realized (CAPEX) by the distribution subsidiaries in 2017 is presented in the table below (for details of the most important investments see Appendix 2).

Category of works (RON million)	Total
Efficiency out of which:	**379.3**
Energy efficiency/network losses	290.5
Operational efficiency	88.8
Quality of service out of which:	**263.4**
Continuity of supply/service	204.4
Quality of energy	59
Other categories	**34.4**
Independent equipment	**42.5**
Studies and projects for the coming years	**10.4**
Total	**730**

Source: Electrica

The main investments of Electrica Group were focused in 2017 on increasing the energy efficiency and operational efficiency, as well as on improving the quality of the distribution service.

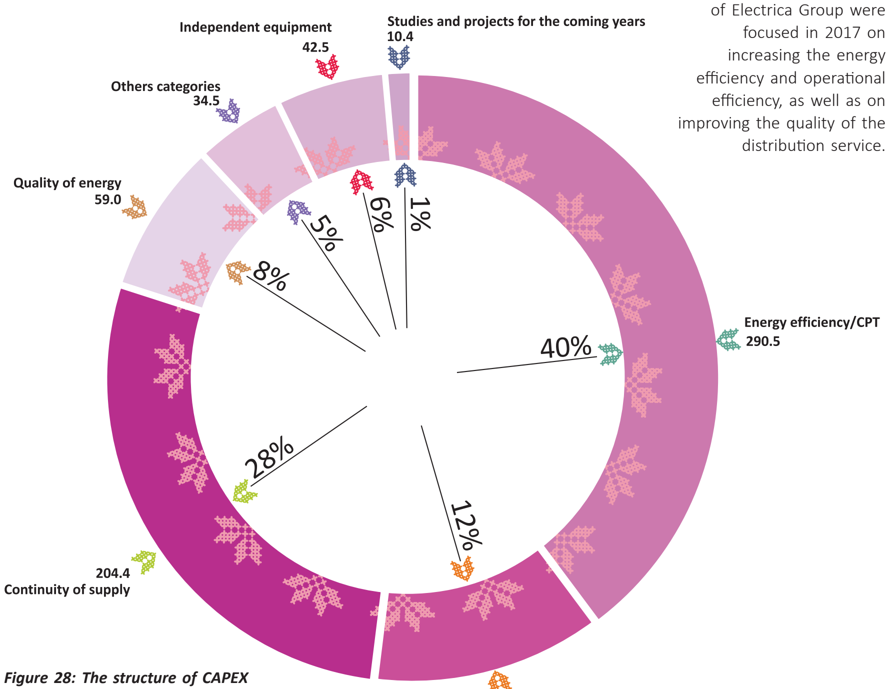


Figure 28: The structure of CAPEX achievements for distribution operators within the group, in 2017 (million RON)

Source: Electrica

Of the total investment planned to be commissioned in 2017 value of RON 792 million (nominal terms 2017) by the distribution operators, the investments made and put into operation accumulate RON 736 million. Thus, the executed and commissioned investment programs approved by ANRE ex-ante for the distribution operators, were achieved in an average percentage of 93%.

Electrica Group (RON million in nominal terms)	Planned	Achieved	%
SDTN	269.6	254	94.21
SDTS	260	241	92.83
SDMN	262,5	240	91.50
Total	**792.1**	**735.5**	**92.86**

Source: Electrica

As a result of investments made during 2013-2017, the value of the Regulatory Assets Base of the Group's distribution operators was progressively changed and is as follows:

RAB (RON million)	2013	2014	2015	2016	2017*
SDTN	1,292	1,335	1,424	1,522	1,629
SDTS	1,332	1,341	1,384	1,393	1,478
SDMN	1,434	1,487	1,543	1,581	1,675
Total	**4,058**	**4,163**	**4,351**	**4,496**	**4,782**

Source: Electrica

**The values in 2017 may suffer corrections following ANRE's analysis process.*

During 2013 – 2017, RAB has been increasing for all the three distribution companies in the Group's portfolio, which had a direct influence on Group's profitability.

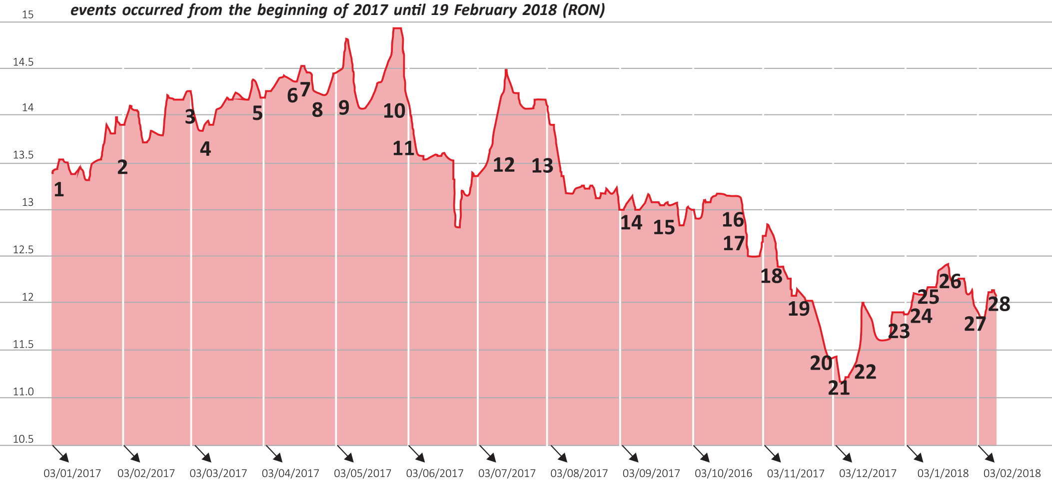
5 CAPITAL MARKET

Starting with 4 July 2014 the Group'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-Jan-17	Appointment of the Grindeanu Cabinet
2.	31-Jan-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 – Livioara Sujdea
3.	6-Mar-17	Appointment of the Chief IT Officer - Dan Crisfalusi
4.	10-Mar-17	2016 Dividend proposal and convening of the Annual GMS
5.	3-Apr-17	Rennouncement to the position as member of BoD - Corina Popescu
6.	18-Apr-17	Appointment of the Chief Strategy Officer - Anamaria Dana Acristini-Georgescu
7.	27-Apr-17	GMS approved 2016 dividend, 2016 annual financial statements, 2016 BOD's Annual Report, 2017 Budget and two amendments of the Article of Association
8.	28-Apr-17	Appointment of the interim BoD member - Gicu Iorga
9.	12-May-17	Highest closing price on BSE since IPO - RON 14.96 before Q1 2017 Financial Statements publication
10.	7-Jun-17	Ex-date for 2016 dividend
11.	9-Jun-17	Announcement regarding the request for summons formulated by SAPE
12.	14-Jul-17	Memorandum of Understanding with Fondul Proprietatea for the acquisition of the FP's holdings in Electrica subsidiaries
13.	11-Aug-17	H1 2017 Financial Statements publication, HR Manager appointment, Announcement of the Reorganization plan at the level of distribution activity
14.	14-Sep-17	Electrica published the Convening of the OGMS and the EGMS on 26 October 2017 regarding the election of a member of the BoD and the acquisition of the minority stake held by FP in Electrica's subsidiaries
15.	26-Sep-17	Electrica published the Supplement to the Convening notice of the OGMS regarding the election of the entire BoD composition through cumulative voting method
16.	26-Oct-17	GMS decided the election of a new 7 members of the BoD and approved the transaction with FP
17.	1-Nov-17	Electrica signed the sale and purchase agreements with FP
18.	15-Nov-17	Electrica published the Q3 2017 results
19.	22-Nov-17	Q3 2017 Analysts and investors presentation
20.	8-Dec-17	Appointment of the Chief Market Officer
21.	15-Dec-17	Change in Executive Management – CFO
22.	19-Dec-17	Convening of the OGMS on 9 Feb 2018
23.	5-Jan-18	Competition Council's Ruling - Fine amounting to RON 10.8 mln
24.	16-Jan-18	Rejection suspension OGMS 26Oct2017 resolution
25.	18-Jan-18	Action in annulment OGMS 26Oct2017 resolution
26.	29-Jan-18	Electrica announced the achieved value of the investments in distribution infrastructure of RON 727 mln in 2017 and assumed an investment plan of RON 900 mln for 2018
27.	9-Feb-18	OGMS approved a new Mandate Agreement and a new Remuneration policy for the members of the Electrica's BoD as well as new remuneration limits for executive managers of Electrica SA
28.	15-Feb-18	Electrica published the preliminary separate financial statements for 2017 (unaudited)

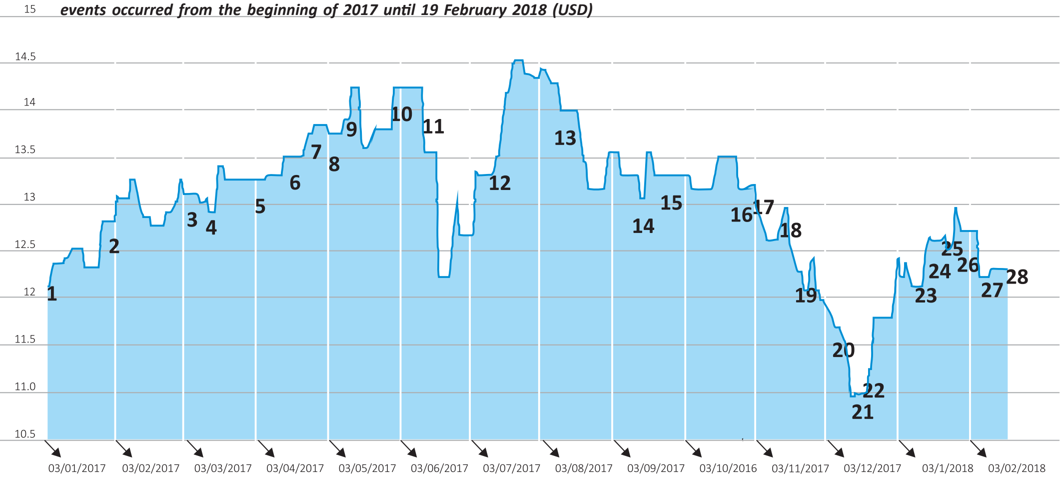
Source: LSE, Electrica

Figure 29: Share price history on BSE, together with the most important events occurred from the beginning of 2017 until 19 February 2018 (RON)



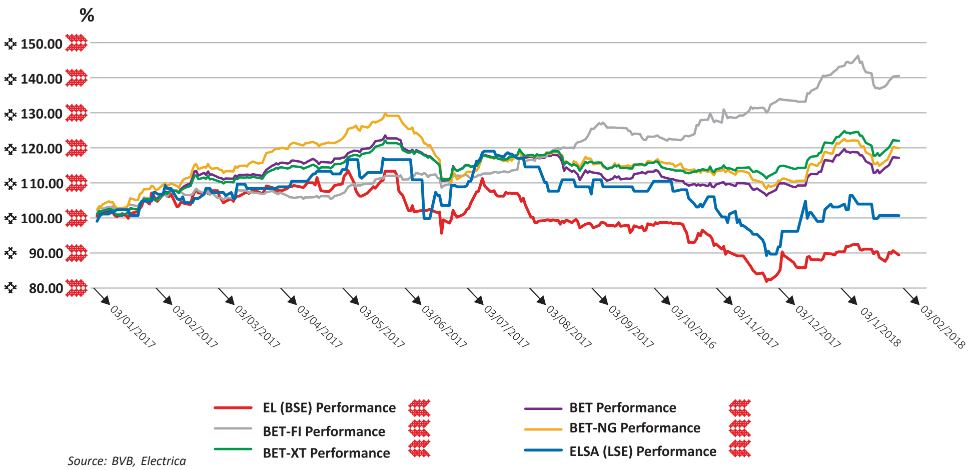
Source: BVB, Electrica

Figure 30: Global depositary receipts' price history on LSE, together with the most important events occurred from the beginning of 2017 until 19 February 2018 (USD)



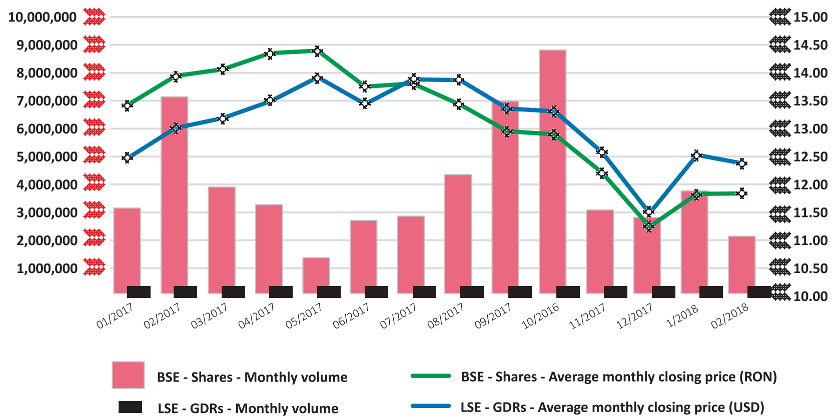
Source: LSE, Electrica

Figure 31: Comparative performance of Electrica's shares and GDRs price and BSE indices: BET, BETNG, BETXT and BETFI (%, as compared with the last day of trading in 2016)



Source: BVB, Electrica

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



Source: BVB, LSE, Electrica

Dividend distribution

Romanian companies may distribute dividends only from net distributable profit, as per the separate financial statements prepared in accordance with the applicable statutory accounting policies. The dividends distributed by the Electrica S.A. in the period 2013-2017, related to the statutory results registered for the years 2012–2016 were as follows:
:

(RON millions)	2012	2013	2014	2015	2016
Dividends distributed (gross)	13.2	22.5	245	291.6	251.4
Dividends/share (RON) (gross)	0.064	0.108	0.7217	0.8600	0.7415

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 Group. All shares confer equal rights on the net assets of the Company. Ordinary shares (345,939,929 shares in total, out of which 339,049,336 shares with voting rights) confer the right to dividends and the right to one vote per share in the general meetings of shareholders of the Company, except for 6,890,593 shares redeemed by the Company in July 2014 for price stabilization. The Company will pay any dividends in RON.
The Group distributes dividends on the basis its standalone annual financial statements, which starting with 2014 are prepared in accordance with IFRS-EU. In May 2017, the dividend policy was published, the document may be found on the Group's website, under Investors section.

Own Shares

In July 2014 the Group 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, 2016 and 2017.

6 MANAGEMENT OF THE GROUP

6.1 The Board of Directors of Electrica S.A.

Electrica adopted a one-tier (unitary) corporate governance system, consistent with the principles of good corporate governance, transparency and accountability towards its shareholders and other categories of stakeholders, aiming to support and drive the business development and efficient exchange of relevant corporate information.

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

According to the provisions of the Electrica's Articles of Association, starting with December 14th 2015, the Board of Directors is composed of 7 non-executive directors, elected by the Ordinary General Meeting of Shareholders for a 4-years mandate, four of whom must meet the criteria of independence provided by the Articles of Association.

During 2017, the composition of the Board of Directors has undergone some changes, as follows:

- At the beginning of the year, the Board of Directors consisted of seven non-executive members, as follows: Mr. Cristian Busu, Mrs. Arielle Malard de Rothschild, Mrs. Ioana Dragan, Mrs. Corina Popescu, Mr. Bogdan Iliescu, Mr. Pedro Mielgo Alvarez and Mr. Willem Schoeber.
- On March 31st, 2017, Mrs. Corina Popescu renounced her position as a member of the Board of Directors. In this context, the Board of Directors decided to appoint Mr. Gicu Iorga as interim member of the Board of Directors, starting with May 1st, 2017;
- On October 26th, 2017, according to shareholder's request, a new Board of Directors was elected by the General Meeting of Shareholders through the cumulative vote method, as it follows: Mrs. Arielle Malard de Rothschild, Mr. Cristian Busu, Mrs. Doina Dascalu, Mr. Gicu Iorga, Mr. Pedro Mielgo Alvarez, Mr. Willem Schoeber and Mr. Bogdan Iliescu. Their term of office is four years.

During the entire year of 2017, four of the seven directors fulfilled the independence criteria provided by the Articles of Association, according to statements presented in the context of the General Meeting of Shareholders of October 26th, 2017, respectively: Mrs. Arielle Malard de Rothschild, Mr. Pedro Mielgo Alvarez, Mr. Bogdan Iliescu and Mr. Willem Schoeber.

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

Bogdan George Iliescu
Term of office
4 years
starting with October 26th, 2017

non-executive, independent director
Date of first election:
14.12.2015

Pedro Mielgo Alvarez
Term of office
4 years
starting with October 26th, 2017

non-executive, independent director
Date of first election:
14.12.2015

Cristian Busu
Term of office
4 years
starting with October 26th, 2017

non-executive, director
Date of first election:
22.09.2014

Arielle Malard de Rothschild
Term of office
4 years
starting with October 26th, 2017

non-executive, independent director
Date of first election:
22.09.2014

Gicu Iorga
Term of office
4 years
starting with October 26th, 2017

non-executive, director
Date of first election:
1.05.2017

Doina Dascalu
Term of office
4 years
starting with October 26th, 2017

non-executive, director
Date of first election:
26.10.2017

Willem Schoeber
Term of office
4 years
starting with October 26th, 2017

non-executive, independent director
Date of first election:
1.05.2016

More details on the Board members' biographies can be found on the Group's website at: https://www.electrica.ro/en/the-group/about/board-of-directors/.

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	• Currently Vice-President of SIF Oltenia and member of the Board of Directors and of the Audit Committee at SIF OLTENIA. • From November 2015 until January 2017 - State Secretary in the Ministry of Energy Manager at the Central branch of Marfin Bank in Bucharest. • Between 2009 and 2013 - served as Financial Manager of Fondul Proprietatea and was a member of the Representatives Committee. • Economic Adviser for the Economic Department of the Romanian Government. • Associate professor at the Bucharest Academy of Economic Studies, where, in his capacity conducted various teaching and research activities. • Between 2000 and 2005 - worked for Prudential Financial in New York as financial planner/broker.
Doina Dascalu 	4 years	• Currently - State Counsellor - Prime Minister's office. • Between 2008 - 2017 - Counsellor of Accounts, for a nine-year term of office at the Parliament of Romania and vice-president of the Romanian Court of Accounts. • From 2005 until 2008 - Secretary of State with the Ministry of Public Finances – the Budget Department. • Between 2001 - 2005 - Expert within the Romanian Parliament and respectively advisor within the Chamber of Deputies – the Commission for Economic Policy, Reform and Privatization. • Between 1997 - 2001 - Head of the General Direction for Indirect Taxation Legislation and Deputy Secretary General of the Department for Tax Policy and Revenue Management, within the Ministry of Finance. • Between 1980 - 1997 - different positions within the Ministry of Public Finance and Romanian Court of Accounts.
Bogdan George Iliescu 	4 years	• Currently - Board member, Nomination and Remuneration Committee member, Rating and Audit Committee member, Strategy committee member, SNTGN Transgaz SA, Medias. • Between 2014 - 2016 - Executive Director, Corporate Finance Department, BRD – Group Societe Generale. • Between 2007 - 2014 - Managing Director, BRD Corporate Finance. • From 2005 until 2009 – Board member, SAI INVESTICA ASSET MANAGEMENT SA, Bucharest. • Between 2001 - 2007 - Project Manager, BRD/SG Corporate Finance. • Between 1997 - 2001 - Analyst, BRD – Group Societe Generale.
Gicu Iorga 	4 years	• Currently - Secretary General in the Ministry of Energy. • Between 2014 - 2017 - Senior Advisor A.N.A.F. - D.G.V. (General customs direction) Bucharest • Between 2012 - 2014 - Head of customs office - D.G.V. (General customs direction) Bucharest/Ploiesti. • Between 2011 - 2012 - Head of municipal tax information office/ Deputy executive manager – economic - D.G.F.P.M. Bucharest (General Direction of Public Finance of Bucharest Municipality). • Between 2010 - 2011 - Chief of administration - Administration of the consolidated state budget D.G.F.P.M. Bucharest, A.F.P – district 5. • 30 years' experience in economics, finance-fiscal and public administration..
Arielle Malard de Rothschild 	4 years	• Currently - Managing Director of Rothschild & Co (since 2006). • Director, Rothschild and Cie (1999 - 2006). • From Analyst to Deputy Director at Lazard Frères & Cie as part of the Sovereign Advisory team (1989 - 1998). • 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 Supervisory Board and member of the Risk Committee of Rothschild & Co; member of the Board of Directors of Groupe Lucien Barrière; member of the Board of Directors and member of the Nomination & Remuneration Committee of Imerys (2011 - 2017).
Pedro Mielgo Alvarez 	4 years	• Non-executive Chairman, Madrilena Red de Gas, Madrid Spain. • Chairman and Managing Partner of the Fund GP, Nereo Green Capital, 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. • Member of the Steering Committee of EURELECTRIC (1999 – 2004). • Chairman of the Networks Committee of EURELECTRIC (2002 - 2004). • Member of the Directing Committee at ENSO (Predecessor of ENTSO-E), 1999 - 2004. • His experience includes a number of international M&A transactions and international investments.
Willem Jan Antoon Henri Schoeber 	4 years	• Independent business consultant (since 2013). • Member of the board of directors of Neste Oyj (Helsinki, Finland) and of the supervisory board of Gasunie NV (Groningen, the Netherlands) since 2013 and member of the audit committees of these boards. • Chair of the Board of Directors of EWE Turkey Holding AS (Istanbul, Turkey), Bursagaz (Bursa, Turkey), Kayserigaz (Kayseri, Turkey) (2010 - 2015). • Member of the executive board of EWE AG (Oldenburg, Germany), responsible for power generation and the utility businesses in Turkey and Poland (2010 - 2013). • Chairman of the executive board of swb AG (formerly "Stadtwerke Bremen AG", the integrated utility company of the city of Bremen, Germany) (2007 - 2011) • 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) (1977 - 2007)

During the entire year 2017, Mr. Cristian Busu performed the duties of chairman of the Board of Directors, according to the decisions made by the Board in its meetings on January 13th and November 13th, 2017.

The activity of the Board of Directors is supported by three committees established since 2014, respectively the Nomination and Remuneration Committee, the Audit and Risk Committee and the Strategy and Corporate Governance Committee, each of them composed of three Directors and chaired by an independent Director. The majority members of the Nomination and Remuneration Committee and of the Audit and Risk Committee are independent Directors.
The 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 integrant part of the Corporate Governance Code of the Company.

According to the changes registered in the Board of Directors composition, the composition of the committees slightly changed during the year, as it follows:

- January 13th - October 26th, 2017
  - The Nomination and Remuneration Committee
    - → Mr. Bogdan Iliescu - Chair of the committee
    - → Mrs. Arielle Malard de Rothschild
    - → Mrs. Corina Popescu – replaced in May by Mr. Gicu Iorga
  - The Audit and Risk Committee
    - → Mr. Pedro Mielgo Alvarez- Chair of the committee
    - → Mrs. Arielle Malard de Rothschild
    - → Mr. Bogdan Iliescu
  - The Strategy and Corporate Governance Committee
    - → Mr. Willem Schoeber - Chair of the committee
    - → Mrs. Ioana Dragan
    - → Mr. Cristian Busu
- November 13th – 31 December 2017
  - The Nomination and Remuneration Committee
    - → Mr. Pedro Mielgo Alvarez - Chair of the committee
    - → Mr. Bogdan Iliescu
    - → Mr. Gicu Iorga
  - The Audit and Risk Committee
    - → Mr. Bogdan Iliescu - Chair of the committee
    - → Mrs. Arielle Malard de Rothschild
    - → Mrs. Doina Dascalu
  - The Strategy and Corporate Governance Committee
    - → Mr. Willem Schoeber - Chair of the committee
    - → Mrs. Arielle Malard de Rothschild
    - → Mr. Cristian Busu

According to the available information, 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.
The following table presents the number of Electrica S.A. shares held by all members of the Board of Directors at 1st March 2018:

Name	Number of shares	Stake held (% of the share capital)
Mr. Cristian Busu	-	-
Mrs. Doina Dascalu	-	-
Mr. Bogdan Iliescu	-	-
Mr. Gicu Iorga	-	-
Mrs. Arielle Malard de Rothschild	-	-
Mr. Pedro Mielgo Alvarez	-	-
Mr. Willem Schoeber	-	-

Source: Electrica

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

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

In 2017, the Board of Directors met 28 times. Out of the 28 meetings that took place in 2017, 13 meetings were organized with physical presence of the members, 12 were held by conference call, in accordance with Art. 18 Parag. 20 of the Company's Articles of Association and 3 were held electronically, in accordance with the provisions of art. Art. 18 Parag. 23 of the Articles of Association of the Company.
We present below the situation of Board members' attendance (in person, by conference call or by email) in the meetings of the Board of Directors and its committees in 2017:

Name	The Board of Directors (no. of meetings-28)	The Audit and Risk Committee (no. of meetings -13)	The Nomination and Remuneration Committee (no. of meetings-17)	The Strategy and Corporate Governance Committee (no. of meetings -13)
Mr. Cristian Busu	28	-	-	13
Mrs. Doina Dascalu	6	2	-	-
Mr. Bogdan Iliescu	28	13	17	-
Mr. Gicu Iorga*	16	-	8	-
Mrs. Arielle Malard de Rothschild**	24	11	13	2
Mr. Pedro Mielgo alvarez**	27	11	2	-
Mr. Willem Schoeber**	26	-	-	13

Source: Electrica
**Note: Mr. Iorga became an interim Board member starting with 1 May 2017.*
***Note: When the Board members were unable to attend the meetings organized by the three methods specified by the Company's Articles of Association (physical presence, by telephone conference call and electronic), they were represented based on the mandates given to another Board member.*

In accordance with the provisions of the Collective Labour Agreement, when appropriate, invitations to attend the Board of Directors meetings were also addressed to Trade Union representatives.

The key decisions taken by the Board of Directors during 2017 refer to:

- Election of the Chairman of the Board of Directors and establishing the composition of the consultative committees and election of their chairpersons.
- Revision and endorsement of Electrica income and expenses budgets at standalone and consolidated levels, as well as of the income and expenses budgets of company's subsidiaries for the financial year of 2017.
- Analysis and endorsement of Electrica financial statements at individual and consolidated levels, as well as of the financial statements of the Company's subsidiaries for the financial year of 2016.
- Revision and endorsement of Electrica and of the consolidated investment plan for the financial year of 2017, as well as monthly analysis of its achievement.
- Analysis, coordination and approval of several 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 the affiliate companies in the areas of distribution and supply, supporting and finally endorsing the proposal submitted for the GMS approval in October 2017; discussing and analysing other opportunities in the region, identified and presented by the executive management).
- Continuing the controlled delegation of competences in order to implement a new, more efficient corporate governance at Group's level, the Board of Directors submitted for the General Meeting of Shareholder's approval several new proposals to amend the Company's Articles of Association, respectively reviewing the decisional level regarding the Company's subsidiaries that would allow streamlining processes and faster changes of organizational and business structures.
- Approval of the Reorganization program at Electrica Group level, based on two main pillars:
  - Distribution Area Transformation, aiming to:
    - → implement a new target operating model for the distribution segment, based on redesigned processes (including internalized activities), focusing on the efficiency and quality of customers services, on the achievement of the investments plan and on cost reduction and cost control,
    - → realize the business transfer of some activities performed by Electrica Serv subsidiary: maintenance and investments, design, procurement and logistics,
  - Streamlining Electrica Serv activity, by adapting the number of indirect productive employees with the number of direct productive ones and by developing new business lines and products.
- Analysing different kind of reports presented by the executive management regarding the operational activity, achievement of the budgetary targets for the entire year 2017 and for +each quarter/semester, achievement of the KPIs set for 2016 and establishing KPIs for 2017.
- Revision of the Electrica's organization chart and structures and the implementation in stages of the new concept, including the establishment of a KPIs system at Group level.
- Approval of the Policy of Transactions with Related Parties.
- Restructuring the BoD composition in subsidiaries, to assure a consistent approach and support for the subsidiaries development and market positioning, as well as to strengthen governance across the group.
- Reviewing the Delegation of Authority of the Company.
- Observing the implementation of the audit plan for 2017 and approving the audit plan for 2018.
- Follow up of the Risk Management at the Group level, based on the reports submitted by the Management, and of the status of implementation of the corrective measures pertaining to non-compliances of higher risk identified and on the recommendations of the Audit & Risk Committee.
- Decisions on nominations of Executives, based on the recommendations of the Nomination and Remuneration Committee.
- Enhancing the application of variable pay in the Electrica group by approving new remuneration concepts.

Board of Directors evaluation

The Board of Directors has decided, in line with good corporate governance practice, to carry out an annual evaluation of its functioning. In December 2016, a self-evaluation was carried out, based on a questionnaire defined and thoroughly discussed by the Board members. The results of this analysis have been reported in the annual report for 2016.

At the end of 2017, the functioning of the Board has been evaluated with the support of an external consultant, specialized in assessing management teams and boards of directors. In addition, the Board has evaluated its achievements regarding 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. It also included an evaluation of the Chair.

The evaluation of the consultant suggested the following aspects of the functioning of the Board as being positive:

- Alignment within the Board with the corporate culture, the mission and vision that Electrica should have.
- Identification of the industry developments and their impact on Electrica.
- Establishment of a new executive management team, which had been declared a priority for 2017.
- Effective and efficient cooperation and interaction with the CEO and the new executive Management.
- Definition of adequate policies and procedures within Electrica.
- Living and monitoring of a "good corporate governance" as recommended by the London and Bucharest Stock Exchanges.
- Engagement with the significant shareholders.
- The Board's team spirit and its challenging attitude.

Areas of improvement have been suggested as follows:

- Establishing/updating and communicating of an explicit corporate culture, the mission and the vision of Electrica within the company.
- Updating of the corporate governance model in order to stress the paradigm: „one group/one team".

- Enhancing the team spirit of the newly formed management team.
- Monitoring and management of risk.
- Improving the quality and accuracy of the Board documents and their timely submission
- Communication to stakeholders and the public.

Regarding the main objectives defined by the General Meeting of Shareholders for the Board, major steps have been made in 2017. A highlight was the transaction with Fondul Proprietatea (FP) on November the 1st, of 2017, where Electrica SA purchased FP's share of 22% in the three distribution subsidiaries and in the supply subsidiary of Electrica. By this action, Electrica has (directly or indirectly) become the 100% shareholder of all of its subsidiaries. This is and will allow an improvement in corporate governance, alignment and streamlining between the various subsidiaries and represents an attractive investment for the main part of the funds that have become available from the privatization process. The remainder of these funds will now be available to finance mainly further investments in distribution, but also to take advantage of new opportunities on the market.

The investments achieved by the distribution subsidiaries reached a level of 93% of the budget approved by the regulator for 2017 (ANRE). Although this is still somewhat below target, the actual increase of the investments from 2016 to 2017 by an average of 32% can be considered as a real achievement. The target for 2018 is proposed at another 33% above the actuals of 2017. These developments are supported by business process redesign in the distribution companies and insourcing of activities from Electrica Serv.

In the area of risk management, further work is still ongoing with specialized consultants to bring the company to an international standard in this area.
The Board continues to have serious concerns about the safety performance of the company and is not satisfied with the current situation. In 2017, four casualties were registered among Group's employees. The Board will spend more time and effort in 2018 to support management in improving the safety culture of the company and serious measures have been already taken.

The Nomination and Remuneration Committee
The Nomination and Remuneration Committee consists of three non-executive Board of Directors members, two 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 regarding 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, 2017 – March 1st, 2018 (out of which 17 meetings in 2017). During these meetings, the following topics were discussed and referred to the Board of Directors for approval/endorsement the following key topics:
- recommendation regarding the appointment of a new/interim BoD member for the vacant position.
- appointing executive directors - CDO, CSO, Chief IT&T Officer, CHRO, CMO, CFO of Electrica SA and their performance criteria.
- revising the executive management KPIs achievement for 2016 and setting the ones for 2017 – at Electrica and Group level.
- Management Key Position (MKP) concept. Enhancing the application of variable pay in the Electrica group by approving new remuneration concepts.
- reviewing the BoD composition in subsidiaries for strengthening the governance across the group. Implementing new mandate contracts for the executive management positions in Electrica and subsidiaries.
- revising the structure and the remuneration of the subsidiaries Board members.
- revising the Remuneration Policy of the Board members and of their mandate contracts, as well as the general limits of remuneration of the executive managers, according to the changes of the tax regulation.
- recommendation regarding the alignment of the mandate contracts for all the executive managers.

The Audit and Risk Committee
The Committee is made up of three non-executive Board of Directors members, two of them being independent members, while the chairman of the committee is an independent director. The Committee's composition 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 16 times during January 1st, 2017 - March 1st, 2018 (out of which 13 meetings in 2017). During these meetings, the following topics were addressed and referred to the Board of Directors for approval/endorsement the following key topics:

- The financial statements of Electrica at standalone and consolidated levels for the financial year of 2016, as well as financial statements of Company's subsidiaries for the financial year of 2016;
- The financial auditor report and recommendations, issued during the auditing process;
- Electrica's budget execution, the consolidated budget execution and the financial results registered quarterly;
- The financial analysis regarding the evaluation of the acquisition of the minority stakes within distribution and supply operators;
- The audit plan for 2018 and the revision of the 2017 plan and achievements;
- The action plan for the internal control system evaluation;
- Electrica BRP Credit Risk Policy;
- Risk Management Policy;
- Policy of Transactions with Related Parties;
- Credit Cards Policy.
- Various reports submitted by the internal auditor on missions carried out within Electrica SA and its subsidiaries and as whistle blower reports.
- Report on the assessment of conflicts of interest in connection with transactions of the company and its subsidiaries with related parties (affiliates) during 2016.
- Report on internal control system.
- Analysing the Risk Management findings at the Group level, based on the reports submitted by the Management, and of the status of implementation of the corrective measures pertaining to non-compliances of higher risk identified and on the recommendations of the Audit & Risk Committee.

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, 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 assuming responsibilities on strategy matters which may be delegated from time to time to the Committee 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.

During January 1st, 2017 - March 1st, 2018, the Committee met 15 times (out of which 13 meetings in 2017) and discussed and referred to the Board of Directors for approval/endorsement the following key topics:

- The 2017 and 2018 budgets (Electrica, subsidiaries, consolidated).
- Investment Plan for 2017 and 2018. CAPEX and Commissioning Plan achievement, monthly reviews.
- Development and preparation of decisions regarding to the overall Electrica strategy and strategies in various areas of activity. Annual review in a "strategy day".
- Changes in ELSA's organizational chart.
- Changes in ELSA's policies.
- ELSA Group Dividends Policy.
- Review of Electrica's Comply or Explain Statement and review of Directors' Report structure for 2016.
- Amendments in Electrica's and subsidiaries Articles of Association.
- Initiative of ELSA Headquarters Relocation.
- The analysis of the Balance Responsible Party activity.
- Electrica's Forecast Policy.
- Analysis of M&A projects and investment opportunities.
- DSO's transformation project, analysed in several meetings.
- Delegation of Authority (DoA) Revision in stages.

6.3 Boards of Directors of Electrica subsidiaries

During 2017 the Board of Directors of Electrica' subsidiaries were composed of non-executive directors.
At the end of 2016, Fondul Proprietatea decided to challenge the decisions of the General Meeting of Shareholders by which the Articles of Association were amended in order to reduce the number of members of the subsidiaries' Board of Directors from 5 to 3 and the ones by which the three members of the Board of Directors were appointed. These Decisions were suspended and as a consequence, according to the provisions of the old Articles of Association referring on the number of 5 directors, either the composition was changed as it was prior to the ammendments done in 2016, December, or 5 new members were appointed, given that the mandate of the previous directors expired. Subsequently, in February and April, all distribution and supply subsidiaries returned to the structure of 5 members of Board of directors.

During the year, the composition of the Boards of Directors of subsidiaries was as follows:

Structure of the Board of Directors of SDTN between January 1st and 31 December 2017

January 1st – January 23rd 2017	January 23rd – February 17th 2017	February 17th – April 26th 2017	April 26th - August 8th 2017	August August 8th – November 2nd 2017	November 2nd - December 28th 2017	December 28th - 31 December 2017
Dan Catalin Stancu – presedinte	Ciprian Diaconu	Dan Catalin Stancu – presedinte	Dan Catalin Stancu – presedinte	Dan Catalin Stancu – presedinte	Dan Catalin Stancu – presedinte	Dan Catalin Stancu – presedinte
Alexandra Borislavschi	Oana Truta	Livioara Sujdea	Livioara Sujdea	Livioara Sujdea	Livioara Sujdea	Livioara Sujdea
Oana Truta		Oana Truta	Oana Truta	Oana Truta*	Anamaria Acristini	Anamaria Acristini
		Ligia Costin	Madalina Rusu	Anamaria Acristini	Ana Maria Nistor	Ana Maria Nistor
		Madalina Rusu	Ana Maria Nistor	Ana Maria Nistor		Madalina Rusu

** Electrica SA and Fondul Proprietatea SA signed on 01.11.2017 the Sale-Purchase Agreement regarding the acquisition of the shares held by Fondul Proprietatea SA in Societatea de Distributie a Energiei Electrice Transilvania Nord, which is why the representative of Fondul Proprietatea, Mrs. Oana Truta resigned, starting with this date, from the position of director of SDTN.*

Structure of the Board of Directors of SDTS between January 1st and 31 December 2017

January 1st – April 26th 2017	April 26th – August 8th 2017	August 8th – November 2nd 2017	November 2nd - December 28th 2017	December 28th – 31 December 2017
Dan Catalin Stancu – chairman	Dan Catalin Stancu – chairman	Dan Catalin Stancu – chairman	Dan Catalin Stancu – chairman	Dan Catalin Stancu – chairman
Alexandra Borislavschi	Livioara Sujdea	Livioara Sujdea	Livioara Sujdea	Livioara Sujdea
Simona Fatu	Madalina Rusu	Anamaria Acristini	Anamaria Acristini	Anamaria Acristini
	Ana Maria Nistor	Ana Maria Nistor	Ana Maria Nistor	Ana Maria Nistor
	Simona Fatu	Simona Fatu*		Madalina Rusu

** Electrica SA and Fondul Proprietatea SA signed on 01.11.2017 the Sale-Purchase Agreement regarding the acquisition of the shares held by Fondul Proprietatea SA in Societatea de Distributie a Energiei Electrice Transilvania Sud, which is why the representative of Fondul Proprietatea, Mrs. Simona Fatu resigned, starting with 02.11.2017, from the position of director of SDTS.*

Structure of the Board of Directors of SDMN between January 1st and 31 December 2017

January 1st – March 30th 2017	April 14th – August 8th 2017	August 8th – November 2nd 2017	November 2nd – December 28th 2017	December 28th – 31 December 2017
Dan Catalin Stancu – chairman	Dan Catalin Stancu – chairman	Dan Catalin Stancu – chairman	Dan Catalin Stancu – chairman	Dan Catalin Stancu – chairman
Alexandra Borislavschi	Livioara Sujdea	Livioara Sujdea	Livioara Sujdea	Livioara Sujdea
Oana Truta	Oana Truta	Oana Truta*	Anamaria Acristini	Anamaria Acristini
	Madalina Rusu	Anamaria Acristini	Ana Maria Nistor	Ana Maria Nistor
	Ana Maria Nistor	Ana Maria Nistor		Madalina Rusu

** Electrica SA and Fondul Proprietatea SA signed on 01.11.2017 the Sale-Purchase Agreement regarding the acquisition of the shares held by Fondul Proprietatea SA in Societatea de Distributie a Energiei Electrice Muntenia Nord, which is why the representative of Fondul Proprietatea, Mrs. Oana Truta resigned, starting with this date, from the position of director of SDMN*

Structure of the Board of Directors of Electrica Furnizare SA between January 1st and 31 December 2017

January 1st – January 11th 2017	January 12th – April 26th 2017	April 26th – November 1st 2017	November 1st – December 21st 2017	December 21st – 31 December 2017
Dragos Horatiu Magui – chairman	Dragos Horatiu Magui – chairman	Alexandra Borislavschi – chairman*	Alexandra Borislavschi - chairman	Catalina Popa - chairman
Marcel Ionescu	Iuliana Andronache	Dragos Horatiu Magui	Dragos Horatiu Magui	Dan Crisfalusi
Vlad Gheorghe	Dan Valentin Gheorghe	Dan Crisfalusi	Dan Crisfalusi	Mihai Ioanitescu
Dan Valentin Gheorghe		Stefania Andruhovici	Stefania Andruhovici	Diana Moldovan
Mirela Dimbean Creta		Dan Valentin Gheorghe		Alexandra Borislavschi

** Electrica SA and Fondul Proprietatea SA signed on 01.11.2017 the Sale-Purchase Agreement regarding the acquisition of the shares held by Fondul Proprietatea SA in Societatea Electrica Furnizare SA, which is why the representative of Fondul Proprietatea, Mr. Dan Valentin Gheorghe resigned, starting with this date, from the position of director of Electrica Furnizare.*

In the case of Electrica Serv, given that Electrica is the sole shareholder and the GMS decisions of December 2016 were not challenged, during 2017 it maintained the structure of 3 members in the Board of Directors, as follows:

Structure of the Board of Directors of Electrica Serv SA between January 1st and 31 December 2017

January 1st – April 24th 2017	April 24th - July 1st 2017	1st July – December 28th 2017	December 28th – 31 December 2017
Iuliana Andronache- chairman	Iuliana Andronache - chairman	Iuliana Andronache - chairman	Dragos – George Serban
Vlad Gheorghe	Vlad Gheorghe	Dragos – George Serban	Mirela Dimbean Creta
Bogdan Popa	Dragos-George Serban	Mirela Dimbean Creta	

6.4 Executive management of Electrica S.A.

In accordance with art. 19 letter A, item 1, paragraphs (f) and (k) of the Articles of Association of the Company (approved by the GMS on 27 April 2017), 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.

Mr. Dan Catalin Stancu is the CEO of Electrica SA with a mandate of four years starting with 24 October 2016.
Following the appointments during 2017 by the Board of Directors of the CFO, Chief Distribution Officer, Chief IT & Telecom Officer, Chief Strategy Officer, Chief Market Officer and Executive Manager of Human Resources Division, at the end of 2017 the executive managers are:

- Mr. Dan Catalin Stancu – CEO with a mandate of four years starting with 24 October 2016;
- Mr. Mihai Darie – CFO, appointed on 15 December 2017, with a mandate of four years starting with 3 January 2018;
- Mrs. Alexandra Romana Augusta Popescu Borislavschi – Executive Manager of Corporate Governance and M&A Division, with a mandate of four years starting with 4 August 2015;
- Mrs. Livioara Sujdea - Chief Distribution Officer, with a mandate of four years starting with 1 February 2017;
- Mr. Dan Crisfalusi - IT & Telecom Officer, with a mandate of four years starting with 6 March 2017;
- Mrs. Anamaria Dana Acristini-Georgescu – Chief Strategy Officer, with a mandate of four years starting with 1 May 2017;
- Mrs. Dana Alexandra Dragan - Executive Manager of Human Resources Division, with a mandate of one year starting with 15 August 2017, with the possibility of extending the contract up to four years;
- Mrs. Catalina Popa - Chief Market Officer, with a mandate of four years starting with 12 December 2017.

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

According to available information the persons mentioned in sections 6.3, 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.

Livioara Sujdea | Dan Crisfalusi | Catalina Popa | Alexandra Borislavschi | Dan Catalin Stancu | Mihai Darie | Anamaria Dana Acristini-Georgescu | Dana Alexandra Dragan

6.5 Executive management of Electrica S.A. subsidiaries

The table below shows the company's managers with delegated powers from the Board of Directors in 2017:

Name	Position	Subsidiary
Darius Dumitru MESCA 01.01.2017 – 02.03.2017	General Manager	SDMN
Valentin BRANESCU 03.03.2017 – 31.12.2017	General Manager	SDMN
Constantin COMAN 01.10.2017 – 31.12.2017	Energy Management Division Manager	SDMN
Gabriel GHEORGHE 01.10.2017 – 31.12.2017	Network Development Division Manager	SDMN
Marius RADUTA PETRESCU 01.10.2017 – 31.12.2017	Network Operations Division Manager	SDMN
Emil MERDAN 01.01.2017 – 31.12.2017	General Manager	SDTN
Dora FATACEANU 01.10.2017 – 31.12.2017	Common Services Division Manager	SDTN
Constatin BUDA 01.10.2017 – 31.12.2017	Asset Management Division Manager	SDTN
Sorin Viorel MURESAN 01.10.2017 – 31.12.2017	Energy Management Division Manager	SDTN
Vasile FARCAS 01.10.2017 – 31.12.2017	Network Operations Division Manager	SDTN
Gabriel – Adrian MARGIN 01.11.2017 – 31.12.2017	Network Development Division Manager	SDTN
Nicu CONSTANDACHE 01.10.2017 – 31.12.2017	General Manager	SDTS
Ion DOBRE 01.01.2017 – 06.02.2017	General Manger	SDTS
Monica RADULESCU 01.10.2017 – 31.12.2017	Common Services Division Manager	SDTS
Radu HOLOM 01.10.2017 – 19.12.2017	Energy Management Division Manager	SDTS
Catalin GRAMA 01.10.2017 – 31.12.2017	Asset Management Division Manager	SDTS
Ion DOBRE 01.10.2017 – 13.12.2017	Network Operations Division Manager	SDTS
Florinel BOBOC 01.10.2017 – 31.12.2017	Network Development Division Manager	SDTS
Mircea PATRASCOIU 01.01.2017 – 31.12.2017	General Manager	Electrica Furnizare
Vasile Ionel Bujorel OPREAN 01.01.2017 – 30.11.2017	General Manager	Electrica Serv
Sinan MUSTAFA 01.12.2017 – 31.12.2017	General Manager	Electrica Serv
Sinan MUSTAFA 15.11.2017 – 30.11.2017	Property Management and Product Development Manager	Electrica Serv
Vasile Ionel Bujorel OPREAN 01.12.2017 – 31.12.2017	Property Management and Product Development Manager	Electrica Serv
Marius Viorel STANCIU 15.11.2017 – 31.12.2017	Deputy General Manager	Electrica Serv
Daniel MARIN 30.09.2017 – 31.12.2017	Financial Manager	Electrica Serv

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

Name	Position	Division
SDMN		
Valentin BRANESCU 01.01.2017 – 02.03.2017	Manager	Tehnical 110 Kv
Constantin COMAN 01.01.2017 – 30.09.2017	Manager	Distribution
Gabriela BLAGOI 01.01.2017 – 30.09.2017	Manager	Finance
Gabriel GHEORGHE 01.01.2017 – 30.09.2017	Manager	Development
Ion PREDA 01.01.2017 – 16.03.2017	Manager	Control, Regulation and Communication
Dorina ILIESCU 01.10.2017 – 08.11.2017	Manager	Common Services
Marian STEGARITA 09.11.2017 – 31.12.2017	Manager	Common Services
Gabriel PETRE 01.11.2017 – 31.12.2017	Manager	Energy Services
SDTS		
Nicu CONSTANDACHE 06.02.2017 – 30.09.2017	General Manager	
Radu HOLOM 01.01.2017 – 30.09.2017	Manager	Distribution
Attila SIMON 20.12.2017 – 31.12.2017	Manager	Energy Management
Ion DOBRE 06.02.2017 – 30.09.2017	Manager	110 kV
Alexandru GYORGY 20.12.2017 – 31.12.2017	Manager	Network Operations
Catalin GRAMA 01.01.2017 – 30.09.2017	Manager	Development
Monica RADULESCU 01.01.2017 – 30.09.2017	Manager	Finance
Florin BUTUZA 02.11.2017 – 31.12.2017	Manager	Energy Services
SDTN		
Dora FATACEANU 01.01.2017 – 30.09.2017	Manager	Finance
Constantin BUDA 01.01.2017 – 30.09.2017	Manager	Tehnical 110 Kv
Vasile FILIP 01.01.2017 – 04.09.2017	Manager	Distribution
Ladislau Zoltan REIDER 01.01.2017 – 30.09.2017	Manager	Development
Radu Salustiu TOMA 01.11.2017 – 31.12.2017	Manager	Energy Services
Electrica Furnizare		
Mihai BEU 01.01.2017 – 31.12.2017	Manager	Commercial
Cristina PANA 01.01.2017 – 31.12.2017	Manager	Finance
Oana PIRVULETE 01.01.2017 – 31.12.2017	Manager	Legal
Petre MARIN 01.01.2017 – 31.12.2017	Manager	Development
Electrica Serv		
Cristian Dumitru ANDRUHOVICI 01.01.2017 - 31.12.2017	Manager	Human Resources and Administration
Monica Felicia DUMITRASCU 01.01.2017 – 31.12.2017	Deputy Manager	Human Resources and Administration
George Alexandru IVAN 01.01.2017 – 11.04.2017	Manager	Comercial
Viorel VASIU 01.01.2017 – 30.08.2017	Manager	Production
Gheorghe BATIR 01.01.2017 – 31.12.2017	Deputy Manager	Production
Ana Iuliana DINU 01.01.2017 – 29.09.2017	Manager	Finance
Viorel BELEUZU 01.01.2017 – 18.04.2017	Manager	Legal and Assets

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

The table below shows the number of Electrica SA (EL) shares held by the executive managers of Electrica SA and by the executive and non-executive managers in the Electrica subsidiaries, as of 15 February 2018:

Item no.	Name	Number of shares	Share in the share capital (%)
1.	Dan Catalin Stancu	-	-
2.	Iuliana Andronache[1]	-	-
3.	Livioara Sujdea[2]	-	-
4.	Alexandra Borislavschi	-	-
5.	Mihai Darie[3]	-	-
6.	Dan Crisfalusi[4]	460	0.0001%
7.	Ramiro Robert Eduard Angelescu[5]	-	-
8.	Catalina Popa[6]	-	-
9	Anamaria Acristini-Georgescu[7]	-	-
10.	Dana Dragan[8]	-	-
11.	Oana Pirvulete	1,208	0.0003%
12.	Ion Dobre	1,660	0.0005%
13.	Emil Merdan	7,277	0.0021%
14.	Dorina Iliescu[9]	1,809	0.0005%
15.	Radu Holom	1,000	0.0003%
16.	Dora Fataceanu	1,000	0.0003%

Source: Central Depository, Electrica

Notes:
1. Chief Financial Officer Electrica SA until 15 December 2017
2. Chief Distribution Officer Electrica SA from 1 February 2017
3. Chief Financial Officer Electrica SA from 3 January 2018
4. IT & Telecom Officer Electrica SA from 6 March 2017
5. Executive Sales Manager Electrica SA until 27 January 2017
6. Chief Market Officer Electrica SA from 12 December 2017
7. Chief Strategy Officer Electrica SA from 1 May 2017
8. HR Manager Electrica SA from 15 August 2017
9. Head of Common Services Division until 8 November 2017

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 in Electrica S.S.. Starting with 4 July 2014 the Company's shares are listed on Bucharest Stock Exchange, and the GDRs are listed on London Stock Exchange. The latest available information regarding the shareholder structure has been provided by Central Depository on 15 February 2018 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	23,955,272	6.9247%
Dedeman SRL	20,044,550	5.7942%
BNY MELLON DRS, New York, USA	12,720,340	3.6770%
Other legal persons	105,247,642	30.4237%
Individual persons	15,220,940	4.3999%
TOTAL	**345,939,929**	**100%**

Source: Central Depository, Electrica

Figure 33: Shareholders' structure at February 15th, 2018

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 adhered to and has been wilfully applying the provisions of the Corporate Governance Code issued by the Bucharest Stock Exchange since 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.

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 April 2017 the company's Articles of Association was updated, following the approval of the General Meeting of Shareholders held on 27 April 2017. 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 4 January 2016. The provisions of this Code are being carefully examined and Company's compliance therewith is being thoroughly assessed and periodically reported to the market as new developments are observed.

The "Comply or Explain" Statement presents the compliance level of the Company with the provisions of BSE's CGC code. Electrica S.A. has been and continues to be in compliance with most of these requirements. Regarding the aspects in which the company is not in full compliance, we mention that concrete actions shall be taken in order to improve the degree of compliance in the shortest time (more details can be found in Appendix 1). Further consideration shall 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 whistle-blower policy. The main purpose of the whistle-blower policy is to protect the Company from ethical deviations, frauds and any other aspects of non-compliance that 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 through Global Depository Receipts on the market managed by the London Stock Exchange (LSE), Electrica SA is subject to the 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.

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

The company's Initial Public Offer and dual listing preparation process involved the signing of a Framework Agreement with the European Bank for Reconstruction and Development which includes extensive action plans with implications for developing a culture of integrity at Electrica Group level, for adopting best practices with regard to corporate governance and incorporating the sustainability principles into the Group's development strategy.

As for the development of a culture of integrity at Electrica Group level in line with the standards of the Bank, 2017 consisted in implementing The Code of Ethics and Professional Conduct based on a compliance program with three main priorities:

- Updating and developing the compliance framework
- Developing functional dedicated organizational structures
- Implementing ethics and compliance standards and monitoring compliance.

With mainly a preventive role with respect to the risks the organization is facing, compliance adds value to each business, but in order to be efficient, the compliance framework has to adapt to the realities of the organization and to align permanently with legislative changes, external environment trends and business ethics best practice. Knowing these aspects, Electrica embraced a proactive attitude updating and developing the compliance framework in order to better suits to practical aspects and specificities of the Group' companies activities.

In this regard, T*he Policy regarding Ethical Career Management was elaborated and adopted, The Policy regarding the Avoidance and Combating Conflicts of Interests* was updated in line with legal framework evolution and The Policy regarding Transactions with Related Parties in force was defined with respect to securities market regulations.

The Policy regarding Ethical Career Management is meant to set clear principia and rules for the decision-making processes involved in career management in order to prevent identified potential conflicts of interests and a number of reputational risks from materializing.

The aim of T*he Policy regarding Transactions with Related Parties* is to identify, manage, monitor and report transactions with related parties with respect to the arms lengths principle, legal requirements in force on transfer pricing and securities market, as well as OECD guidelines. It also aims to protect the Group companies against conflicts of interests, integrity breaches and any other noncompliance aspects that could damage related parties transactions, could affect Group's prestige and financial results or could lead to legal sanctions.

After adopting these policies, Electrica initiated personnel awareness programs and compliance monitoring plans regarding their provisions, implemented by the existent organizational structures dedicated to ethics and compliance, at Group' companies level.

As far as the operational capacity of the organizational entities dedicated to ethics and compliance is concerned, a uniform structure was set for the electricity distribution companies within the group by defining Ethics and Compliance Services with a direct reporting line to the company's Chief Executive Officer. Following the compliance framework approval, energy service companies within the Group have appointed ethics and compliance officers from existing staff as they are in insolvency procedures.

The efforts to professionalize the dedicated staff, but also to increase its cohesion and encourage the exchange of ideas and solutions materialized in a workshop and individual counseling sessions.

Implementing ethical and compliance standards and compliance monitoring process extended during 2017 on the energy services companies in insolvency within Electrica Group (SEM and SEO) and kept going in all the others companies, involving staff information and awareness upon *The Code of Ethics and Professional Conduct* and subsequent policies provisions.

By analyzing conclusions of audit and control missions initiated as a result of whistleblowing/ grievances on noncompliance with certain internal provisions, it was highlighted the need to ensure a better understanding of *The Policy regarding Ethical Career Management* and to increase the degree of compliance with its provisions. On this line, a series of workshops dedicated to HR personnel was organized with regional sessions so that the targeted personnel from all Group's companies could attend. Moreover, special monitoring attributions were defined for ethics and compliance dedicated organizational structures within the Group' companies and reporting deadlines were set.

THE ACTION PLAN REGARDING CORPORATE GOVERNANCE

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

Selecting independent directors

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

On 26 October 2017 the Ordinary General Meeting of Shareholders elected a new board of directors composed of 7 members by applying the cumulative voting method.

Afterwards, the Board of Directors decided on 13 November 2017 to appoint Mr. Cristian Busu as Chairman of the BoD with a mandate of one year.

The current composition of the Board is available on the Company's website.

Nomination and Remuneration Policies

Electrica developed the Nomination and Remuneration policies with the support of a reputable international consultant in human resources. These have been pozitivly received by the BoD and were approved by decision of the General Meeting of Shareholders, on March 31st, 2016. It is necessary to implement these policies at Group level.

Advisory Committees of the Board of Directors

At Electrica's Board of Directors level there are three advisory committees, led by independent directors, the composition of which was decided by the Board of Directors on 13 November 2017:

- Audit and Risk Committee (Bogdan George Iliescu - Chair, Arielle Malard de Rothschild - member, Elena Doina Dascalu - member);
- Nomination and Remuneration Committee (Pedro Mielgo Alvarez - Chair, Bogdan George Iliescu – Member, Gicu Iorga – member);
- Strategy and Corporate Governance Committee (Willem Schoeber - Chair, Arielle Malard de Rothschild - Member, Cristian Busu - Member).

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

Internal Control Framework

The Board of Directors approved the Internal audit procedure and associated documents updated versions ever since the beginning of 2015 and on the 15th of November 2016, The Code of Ethical Conduct of the Internal Auditor was approved, meant to set universal ethic standards, applicable to all its own or contacted auditors at group level: https://www.electrica.ro/en/the-group/internal-audit/ethical-code-of-conduct-for-internal-auditor-within-electrica-s-a-bucharest/.

The annual internal audit plan and all its updates are prepared by the specialized department, analyzed by the Audit and Risk Committee, approved by BoD decision based on the committee recommendation and implemented in the approved version.

Articles of Association of Electrica

EBRD guidelines were included in the *Articles of Association of Electrica* adopted on 4 July 2014. During 2017, the company's Articles of Association have been updated by the resolution of the Extraordinary General Meeting of Shareholders dated 27 April. As a result, the competences for the approval of the subsidiaries' global strategy (including but not limited to their development and restructuring), as well as the competence for the mandating of the Company to vote in the GMS of the subsidiaries regarding mergers and spin-ofs, falls to Electrica S.A.'s Board of Directors. The changes were aimed to transform the approval process, with regards to the subsidiaries, into a more flexible and more efficient mechanism. In the same time, the changes aimed to reduce the complexity and the number of the GMSs, as well as the related costs, both from the Company and shareholders' perspective. All the versions of the Articles of Association adopted since the listing of Electrica are available on the company website: https://www.electrica.ro/en/the-group/about/constitutive-act/

Clear lines of competence and responsibility

In order to establish attributions and competencies, as well as to clearly define a reporting system within the company, Electrica executed 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 to be certified according to ISO 9001/2015 and ISO 14001/2015 standards. Following the external audit conducted by Dekra Romania, Electrica received the certification for its integrated management system quality - environment - HSS.

The Board of Directors approved for Electrica S.A. a new organizational structure and a policy for the delegation of authority during the meeting of December 2016, their implementation being realized during 2017.

During the year, the policy for the delegation of authority was updated at Electrica SA level. The Boards of Directors has approved similar policies for each distribution subsidiaries. It is envisaged that during 2018 the rest of the Group subsidiaries will also implement a policy for the delegation of authority.
Regarding the organizational structure, during 2017 the project was extended also to the distribution subsidiaries and in the case of the electricity service company it has already started, while during 2018 it is expected to continue alignment of the organizational structures to the remaining subsidiaries, as the specific activities allows.

Code of Conduct

EBRD requirements were covered by the Code of Ethics and Professional Conduct developed with the support of Transparency International and the Whistleblowing Policy as part of the Corporate Governance Code. The documents were approved on February 2, 2015 and published on the website Electrica: https://www.electrica.ro/en/the-group/ethics-sustainability-and-conformity/code-of-ethics-and-professional-conduct/.

In 2017, the Code's implementation and compliance monitoring activities were carried on at Group level.

Compliance with BSE Governance Code

On 4 January 2016 the *New Code of Corporate Governance* of the Bucharest Stock Exchange entered into force and, on this occasion, Electrica published on 8 January 2016 the "Corporate Governance Code Apply or Explain" statement according to the new provision. Electrica publishes the updated statement yearly.

In the latest statement “Apply or Explain” (part of Electrica’s Individual Board of Directors Annual Report), the Company’s compliance with the new provisions of the Code of Corporate Governance of the Bucharest Stock Exchange is presented. On areas where the company is not fully compliant, clear actions are taken into account so that the degree of compliance is improved in the shortest time possible.

Given the changes in the ***BSE Code of Corporate Governance***, Electrica has made the changes necessary in its own ***Corporate Governance Code***, in cooperation with an external legal consultant, the updated version being available on the company website.

Between June and September 2016, Electrica developed the Market Abuse Procedure, in compliance with the national and European provisions in this field. It was adopted in September 2016 and is being implemented across the entire Group.

THE ENVIRONMENTAL AND SOCIAL RESPONSIBILITY PLAN

The implementation of the Social and Environmental Action Plan, annex to the Framework Agreement signed by Electrica S.A. with the European Bank for Reconstruction and Development started by the end of 2014, continuing during the next years and covering the following actions in order to better comply with EBRD requirements:

1.1. Between May - August 2016 a comprehensive project to identify and map Societatea Energetica Electrica S.A. processes was carried out with an external consultant. The project was was concluded with the redefining of the procedural framework applicable within the company and certification of the integrated management system quality - environment - HSS, in accordance with the ISO 9001: 2015 and ISO 14001: 2015, OHSAS 18001: 2007, following an external audit conducted by Dekra Romania. During 2017 Electrica launched an extended organizational transformation project aiming the optimization of Group processes with focus on the distribution activity and mainly its development (investment) component. The project will result also the in the aligning and integration of the companies’ quality – environment – HSS management systems at Group level. The implementation of the energy management international standard ISO 50001:2011 is taken is scheduled after the organizational transformation project ends.

1.2. To ensure contractors compliance with the Group EHS standards and procedures, Electrica developed certain contractual provisions to be integrated in all Group’ companies contracts for works, services or infrastructure use (with telecommunication operators, for example).

1.3. During 2017, all new grid development projects included chapters dedicated to EHS aspects, in line with the requirements. Special measures regarding infrastructure elements located/crossing or bordering Natura 2000 sites or other natural protected area, according to digital maps that mark the priority areas for mitigating risks. In this regard, as a risk-mitigating measure in stork populated areas, another 28 nests were mounted.

1.4. As far as the CSR is concerned, during 2017 Electrica S.A. approved and implemented policies dedicated to stakeholders’ engagement, donations and sponsorship and grants, policies available on the company website. During both 2016 and 2017, the company carried out CSR Programs materialized in supporting financially social causes through prestigious Romanian non-profit organizations. In addition, the first two editions of the Grants Program „Electrica puts Romania in another light” were implemented by financing social projects with long-term positiveimpact across the country. All information regarding Electrica S.A. donation, sponsorship and grants are available on the company’s site under the CSR section. By the end of 2017, Electrica launched its first Sustainability Report, elaborated for 2016, in accordance with GRI (Global Reporting Initiative) standards.

1.5. Grievances and complaints management within Electrica Group is based on conventional procedures in force at each company level, and is comprised of the involvement of the Communication and Public Relations departments for collection, the Audit departments and Control departments for investigations and analysis, as well as experts from other departments, if the situation requires. For 2018, the updating and aligning these procedures is considered. Since April 2015 at Electrica Group level a reporting system is available and functional for ethical misconduct, irregularities or any violations of the law by professional alert devices (whistleblowing system). It includes a hotline, postal addresses (physical and electronic) and an online platform for taking over reports, accessible on the websites of all companies within the group. Receiving and anonymization services of whistleblowing alerts are outsourced and the provider for these services for 2017 was Transparency International Romania.

1.6. The identification and assessment of environmental and social risks by an independent consultant was an integral part of the Project of improving and developing the risk management system inside Electrica S.A. according to ISO 31000:2010 “Risk Management – Principia and Guidelines” and the technical assistence in the field of risk management for the implementation, project launched in November 2017, to be implemented during 2018 in paralel with the Group’s organizational transformation project.

1.7. Regarding the development of a corporate policy related to reorganization/restructuring undertaken at the group level, in the context of the many projects launched throughout 2017 such as: redefining of the organizational structure, launching the largest organizational transformation project related to the distribution activity, but also the negociation of the new collective labor agreement applicable starting with January 2018, this shall be developed in the first half of 2018. In the same time interval, a unitary proceduce regarding training will be defined, the necessary budget already being predicted by the Human Resources Department.

2.1. Electrica has recently conducted a study at electromagnetic fields level in SDEE Transilvania Sud instalations (substations and 110 kV overhead power lines) with the certified laboratory RENAR of the National Research and Development Institute (ICEMENERG). The measurements showed that no parameter exceeds the accepted standards according to legal provisions in force in the locations where the study was conducted.

2.2. All group companies selectively collect generated waste and temporarily depozits them according to the legal provisions in force, also fulfilling its reporting obligations towards the competent environmental authorities, based on the procedures regarding the management of waste implemented on an individual company level. Electrica developed a framework procedure for implementing a universal waste management system at Group level, whose implementation will happen after the finalization of the organizational transformation process.

2.3. The companies within the Electrica Group have developed a program to eliminate asbestos and PCB from its own facilities, in accordance with national and European legislation in force, based on an risk assessment of using such materials within its own activities. The program monitored on a half a year and yearly basis through reports, the objective being taken into account in all investment projects.

2.4. Accidental electro-insulating oil leaks in transformers from the transformation stations of the distribution subsidiaries within the Electrica Group are monitored and recorded in the faults registers. For a number of locations (repair shops, warehouses) belonging to Electrica Serv soil and water tests were conducted, in accordance with the provisions set forward by the environmental authorities. Throughout 2017, no incidents with significant environmental impact wew recorded and no soil and underground water decontamination procedures were necessary.

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

TThe following table presents the consolidated statement of the financial position (amounts in RON million):

	31 December 2017	31 December 2016	Variation 2017/2016
ASSETS			
Non-current assets			
Intangible assets related to concession agreements	4,331	3,910	11%
Other intangible assets	14	17	-18%
Tangible assets	702	702	0%
Restricted cash	320	134	138%
Deferred tax assets	41	40	4%
Other non-current assets	1	2	-25%
Total non-current assets	**5,409**	**4,805**	**13%**
Current assets			
Trade receivables	804	778	3%
Other receivables	56	20	177%
Cash and cash equivalents	562	889	-37%
Deposits, treasury bills and gov. bonds	747	1,875	-60%
Inventories	22	23	-5%
Prepayments	4	6	-34%
Green Certificates	13	-	100%
Income tax receivables	1	2	-52%
Total current assets	**2,208**	**3,593**	**-39%**
Total assets	**7,617**	**8,398**	**-9%**
EQUITY AND LIABILITIES			
Equity			
Share capital	3,814	3,814	0%
Share premium	103	103	0%
Treasury share reserves	(75)	(75)	0%
Pre-paid capital contributions in kind from shareholders	5	5	0%
Revaluation reserve	124	105	18%
Other reserves	327	302	8%
Retained earnings	1,358	1,430	-5%
Total equity attributable to shareholders of the Company	**5,656**	**5,684**	**0%**
Non-controlling interests	-	837	-100%
Total equity	**5,656**	**6,520**	**-13%**
Non-current liabilities			
Long-term bank borrowings	320	128	151%
Financing for network construction related to concession agreements	11	42	-73%
Deferred tax liabilities	201	196	2%
Employee benefits	165	193	-14%
Other payables	40	45	-10%
Total non-current liabilities	**738**	**603**	**22%**
Current liabilities			
Financing for network construction related to concession agreements	33	86	-62%
Bank overdrafts	248	143	74%
Trade payables	689	723	-5%
Other payables	134	161	-17%
Deferred revenue	7	4	67%
Employee benefits	79	84	-6%
Provisions	30	62	-52%
Current income tax liability	4	12	-68%
Total current liabilities	**1,224**	**1,275**	**-4%**
Total liabilities	**1,962**	**1,878**	**4%**
Total equity and liabilities	**7,617**	**8,398**	**-9%**

Source: Electrica

NON-CURRENT ASSETS

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

Non-current assets increased by 12.6% in 2017 compared to 2016, from RON 4,805 million to RON 5,409 million, 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 38.5% in 2017 as compared to 2016, from RON 3,593 million to RON 2,208 million, 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 increased by RON 26 million, representing 3.4%, from RON 778 million in 2016 to RON 804 million in 2017. This variation is in line with the revenue increase.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents decreased by 36.7% in 2017 compared to 2016, from RON 889 million to RON 562 million.

DEPOSITS, TREASURY BILLS AND GOVERNMENT BONDS

Deposits, treasury bills and government bonds increased by RON 186 million per total compared to 2016, as a result of increasing the value of the collateral deposit to guarantee loans contracted by distribution subsidiaries to RON 320 million, while the deposits decreased as a result of the transaction recorded with FP.

A significant impact in 2017 on the Current assets derives also from the acquisition by Electrica S.A. of Fondul Proprietatea's holdings in Electrica subsidiaries (i.e. SDEE Muntenia Nord S.A., SDEE Transilvania Sud S.A., SDEE Transilvania Nord S.A. and Electrica Furnizare S.A.), the value of the transaction being of RON 752 million.

SHARE CAPITAL AND SHARE PREMIUM

The subscribed share capital in nominal terms consists of 345,939,929 ordinary shares on 31 December 2017 (345,939,929 ordinary shares on 31 December 2016) with a nominal value of RON 10/share. All the shares give equal rights to the net assets of the Company. 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 and, with the exception of the 6,890,593 shares repurchased by the Company in July 2014 with the scope to stabilize the share price.

	Number of ordinary shares	
	2017	2016
Number of shares at 1 January	345,939,929	345,939,929
Shares issued during the year	-	-
Number of shares at 31 December	**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 2017 there were no changes to the share capital.
Until 31 December 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.

OWN 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 and the amount is unchanged since then.

DIVIDENDS

Dividends for the financial year 2016, with a total gross value of RON 251 million were declared on the basis of individual annual audited statutory financial statements prepared in accordance with IFRS-EU. Dividends for 2016 were approved by the Ordinary General Meeting of Shareholders of April 27th, 2017 and were paid starting June 22nd, 2017.

REVALUATION RESERVES

The reconciliation between opening and closing revaluation reserve is as follows (amounts in RON million):

	2017	2016
Balance at 1 January	**105**	**140**
Revaluation of tangible assets attributable to shareholders of the Company	56	-
Related tax	(9)	
Release of revaluation reserve to retained earnings due to depreciation and disposals of tangible assets	(28)	(29)
Loss of control over subsidiaries	-	(6)
Balance at 31 December	**124**	**105**

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 million	Legal reserves	Other reserves	Total other reserves
Balance on 1 January 2015	**237**	**-**	**237**
Set-up of legal reserves	37	-	37
Balance on 31 December 2015	**274**	**-**	**274**
Set-up of legal reserves	28	-	28
Balance on 31 December 2016	**302**	**-**	**302**
Set-up of legal reserves	25	-	25
Balance on 31 December 2017	**327**	**-**	**327**

Source: Electrica

NON-CONTROLLING INTERESTS ("NCI")

Acquisition of non-controlling interest

Societatea Energetica Electrica S.A. and Fondul Proprietatea S.A. have executed on 1 November 2017 the Sale and Purchase Agreements for the acquisition of Fondul Proprietatea's holdings in Electrica subsidiaries (i.e. SDEE Muntenia Nord S.A., SDEE Transilvania Sud S.A., SDEE Transilvania Nord S.A. and Electrica Furnizare S.A.), this increasing the ownership percentage of Electrica over these subsidiaries. Below is detailed the impact of the transaction on the equity attributable to the owners of the Company (amounts in RON million):

	SDMN	SDTN	SDTS	EFSA	Intra- group eliminations	Total
Carrying amount of NCI as of 1 January 2017	290	229	226	89	2	**837**
Profit allocated to NCI	12	19	20	(7)	-	44
Dividends paid to NCI during the year	(19)	(22)	(22)	(35)	-	(98)
Carrying amount of NCI as of the date of acquisition	**283**	**226**	**224**	**48**	**2**	**783**
Consideration paid to NCI	**(210)**	**(202)**	**(174)**	**(167)**	**-**	**(752)**
Increase in retained earnings to owners of the Company	**73**	**24**	**51**	**(119)**	**2**	**31**

Source: Electrica

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 (amounts in RON million).

31 December 2017	SDMN	SDTN	SDTS	EFSA	Intra-group eliminations	Total
NCI percentage until the aquisition date	**22%**	**22%**	**22%**	**22%**		
Revenues	863	853	873	3,858		6,446
Profit	36	73	110	2		220
Other comprehensive income	-	-	-	-		-
Total comprehensive income	**36**	**73**	**110**	**2**		**220**
Profit allocated to NCI	**12**	**19**	**20**	**(7)**		**44**
Other comprehensive income allocated to NCI	**-**	**-**	**-**	**-**	**-**	**-**
Cash flows from operating activities	126	191	241	(71)		488
Cash flows from investment activities	(59)	(265)	(289)	(16)		(629)
Cash flows from financing activities*	(120)	52	(135)	(158)		(361)
Net increase/ (decrease) in cash and cash equivalents**	**(53)**	**(21)**	**(183)**	**(245)**		**(502)**
Dividends paid to NCI during the year	**(19)**	**(22)**	**(22)**	**(35)**		**(98)**

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

NON-CURRENT LIABILITIES

Non-current liabilities increased by 22.3% in 2017 compared to 2016, from RON 603 million to RON 738 mil, mainly as a result of the increase in the value of the loans contracted by the distribution subsidiaries.

CURRENT LIABILITIES

Current liabilities decreased by 4% in 2017 compared to 2016, to RON 1,224 mil from RON 1,275 million, as a result of changes in the following categories (representing 76% of total current liabilities):

TRADE PAYABLES

Trade payables decreased by 4.6% in 2017 compared to 2016, to RON 689 million from RON 723 million. 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 million	Provisions
Balance on 1 January 2017	**62**
Provisions recognized	29
Provisions used	(21)
Provisions reversed	(40)
Balance on 31 December 2017	**30**

Source: Electrica

As of 31 December 2017, provisions refer mainly to:

- RON 7.2 million representing potential tax charges of the Group (including interest and penalties);
- RON 22.6 million representing mainly the provision for the fine from Competition Council, RON 10.8 million, and other provisions for claims for which the Group might have the obligation to pay the amounts subject to litigations in the future;

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits have decreased by 6% in 2017 as compared to 2016.

RON million	31 December 2017	31 December2016
Personnel payables	34	37
Current portion of defined benefit liability and other long-term employee benefits	8	10
Social security charges	28	28
Tax on salaries	9	9
Termination benefits	0	0
Total	**79**	**84**

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.

OTHER CURRENT LIABILITIES

Other payables decreased by 16.6% in 2017 compared to 2016.

RON million	31 December 2017	31 December 2016
VAT payable	86	85
Other liabilities to the State	21	30
Liabilities related to radio and TV tax		10
Other liabilities	21	22
Liabilities related to Green Certificates	7	14
Total	**134**	**161**

Source: Electrica

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 which must be transferred according to the contract in the month following the reporting month. In accordance with Law no. 1/2017, beginning with 1 February 2017, the taxes for public radio broadcasting and television services were eliminated from the electricity invoices.

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 2017 and 2016 (amounts in RON million).

	2017	2016	Variation 2017/2016
Revenues	5.603	5.518	2%
Other operating income	173	243	-29%
Electricity purchased	(2.973)	(2.756)	8%
Green Certificates	(373)	(401)	-7%
Construction costs related to concession agreements	(745)	(528)	41%
Employee benefits	(642)	(654)	-2%
Repair, maintenance and equipment	(62)	(44)	40%
Depreciation and amortisation	(396)	(373)	6%
Impairment of property, plant and equipment, net	(9)	(1)	1167%
Impairment of trade and other receivables, net	(13)	(41)	-68%
Other operating expenses	(400)	(442)	-10%
Change in provisions, net	33	65	-50%
Operating profit	**197**	**586**	**-66%**
Financial income	20	20	0%
Financial costs	(10)	(17)	-38%
Net finance (income)/cost	**10**	**3**	**205%**
Profit before tax	**207**	**589**	**-65%**
Income tax expense	(35)	(120)	-71%
Profit for the year	**172**	**469**	**-63%**

Source: Electrica

THE CONSOLIDATED FINANCIAL STATEMENT

Electricity revenues in 2017 and 2016 amounted to RON 5,603 million and respectively, RON 5,518 million.
The increase of revenues by RON 85 million, representing 1.5%, in 2017 compared to 2016, was mainly due to the increase of the balancing market revenues, as a result of the significant increase in the selling prices, considering that in the period January- March 2017 was recorded the largest electricity consumption in recent decades, and very large volumes of energy were contracted in the balancing market.

Electricity purchased

The Group's electricity purchase cost increased by RON 217 million or 7.9% to RON 2,973 million in 2017 from RON 2,756 million in 2016. The variation is mainly generated by the cost of the purchased electricity, increased in the period ending on December 31, 2017, as a result of the significant increase of prices on the Romanian electricity market, mainly in January-March 2017, in the context of the highest electricity consumption of the last decades, resulting in increased electricity prices that have affected the entire market, generating chain reactions, including abnormal behavior of some players in the market.

As a percentage of revenue, the cost of purchasing electricity represented the main cost at Group level, accounting for 53.05% in 2017 and 49.9% in 2016.

Green certificates

Electricity suppliers have a legal obligation to acquire / supply green certificates based on the targets or annual quotas set by law according to the weight of gross production from renewable sources.
The cost of purchasing green certificates is a pass-through cost.
As a percentage of revenue, the cost of purchasing green certificates accounted for 6.7% in 2017 at the Group level compared to 7.3% in 2016.

Construction costs

In 2017, electrical network construction costs increased by RON 217 million or 41.1% to RON 745 million in 2017 from RON 528 million in 2016. This increase is mainly due to the increase in RAB in 2017 as a result of the investments made.

Employee benefits

Expenditures on employees' salaries and benefits decreased by RON 12 million or 1.8%, to RON 642 million in 2017 from RON 654 million in 2016. The variation is mainly due to the decrease of the salary expenses at Electrica Serv and Electrica Furnizare. As a percentage of revenue, employee benefits expense represents 11.6% in 2017 compared to 11.9% in 2016.

Repairs, maintenance and materials

Repairs, maintenance and materials expenses increased by RON 18 million or 40%, to RON 62 million in 2017 from RON 44 million in 2016. This increase is mainly attributable at consolidated level to the change in the business model regarding the maintenance and investing activities, through the internalization of some activities in the group, from Electrica Serv to the distribution subsidiaries. Expense with repairs, maintenance and materials accounted for 0.8% of the revenues recorded in 2017, or 1.1% of the revenues recorded in 2016.

Other operating expenses

Other operating expenses decreased by RON 42 million, or 9.5%, from RON 442 million in 2016 to RON 400 million in 2017.
The decrease is mainly due to litigation with the National Agency for Fiscal Administration ("ANAF"), recognized in 2016, amounting to RON 58 million, having as object late payment penalties claimed by ANAF as a result of previous tax inspections. This transaction is one-off, with no impact in 2017.

This category accounted for 7.1% of the revenues registered in 2017, respectively 8% of the revenues registered in 2016.

For the period to which the statutory audit relates, in addition to the audit services, KPMG has provided the following services to the Company and its controlled entities:

- Assurance services other than statutory audit: EUR 59,900;
- Advisory services: EUR 189,765;
- Tax services: EUR 78,275.

Change in provisions, net

This category registered an unfavorable evolution at the Group level, with a variation of RON 33 million in 2017 compared to 2016, from a positive position of RON 65 million to a lower positive position of RON 33 million. The variation is mainly caused by the reversal in 2016 of ELSA's provision for late payment penalties claimed by ANAF, this transaction being one-off, without impact in 2017.

Operating profit

As a result of the cumulative impact of the factors mentioned above, the operating profit decreased by RON 389 million or by 66.4%, to RON 197 million in 2017, from RON 586 million in 2016, this decrease being mainly due to the negative impact of events on the energy market that have led to significant increases in electricity purchase prices.

Net finance income/cost

The group financial result recorded a positive value in 2017, increasing by RON 7 million, from RON 3 million in 2016 to RON 10 million in 2017, as a result of lower interest expense related to bank loans contracted by subsidiaries.

Profit before tax

The profit before tax decreased by RON 382 million, from RON 589 million in 2016 to RON 207 million in 2017.

Income tax expense

The income tax increased by RON 85 mil, or 70.7%, to RON 35 million in 2017 from RON 120 million in 2016.

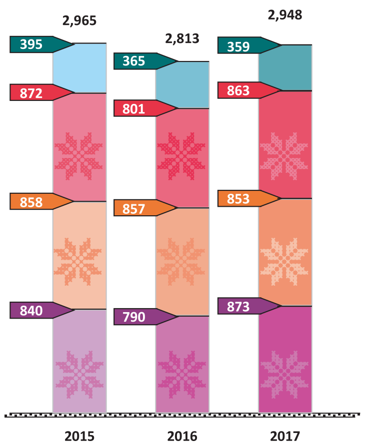
Net profit for the period

Considering the information presented, the net profit recorded in 2017 decreased by RON 297 million or 63.4%, to RON 172 million, from RON 469 million in 2016.

SEGMENT REPORTING - DISTRIBUTION

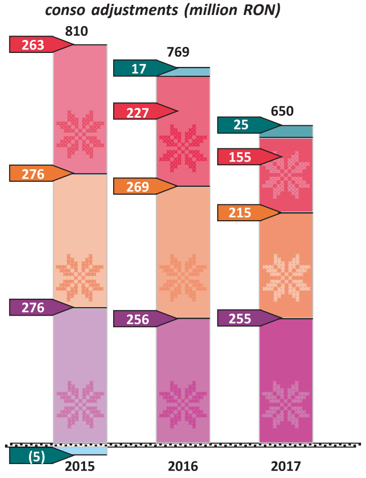
Key indicators - The distribution segment

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



Source: Electrica

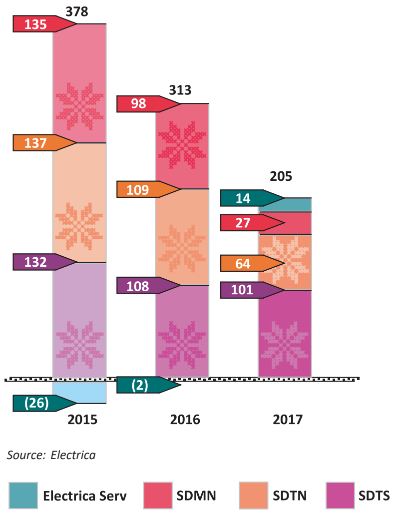
Figure 35: Distribution segment EBITDA w/o conso adjustments (million RON)



Source: Electrica

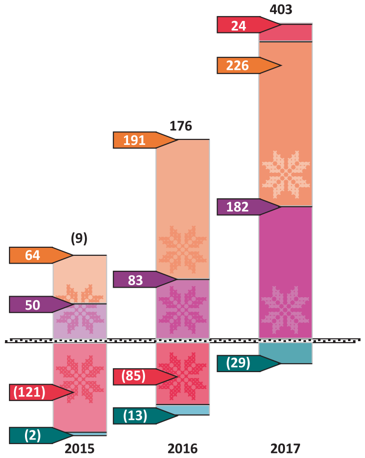
Electrica Serv SDMN SDTN SDTS

Figure 36: Distribution segment net profit (million RON)



Source: Electrica

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



Source: Electrica

The following table presents the Income Statement of the Group's distribution segment, for the period 2016 - 2017 (amounts in RON million).

	31 December 2017	31 December 2016
External revenues	1,438	1,142
Inter-segment revenue	1,238	1,356
Segment revenue	**2,676**	**2,498**
Segment profit (loss) before tax	**243**	**398**
Net finance (cost)/ income	(9)	(12)
Depreciation, amortization and impairment, net	(392)	(350)
EBITDA	650	760
Net profit / (loss) of the segment	**205**	**312**

Source: Electrica

Revenues

Revenue from the distribution segment increased by RON 178 million, or 7%, to RON 2,676 million in 2017 compared to RON 2,498 million in 2016. This increase was mainly due to the increase of the distributed quantity by 1.7%.

Electricity purchased

The cost of electricity purchased to cover network losses increased by RON 81 million, or 16.1%, to RON 581 million in 2017, from RON 501 million in 2016. This increase was mainly caused by the increase of the quantity of the electricity required to be purchased to cover network losses and energy acquisition costs, which increased significantly, especially in the first months of the year, in the context of increased energy consumption.

Employee benefits

Employee benefits decreased by RON 7 million or 1.4%, to RON 522 million in 2017, from RON 529 million in 2016, mainly due to the reorganization of the activity and increased efficiency, the most significant reduction being made at Electrica Serv.

Repairs, maintenance and materials

Repairs, maintenance and materials expenses decreased by RON 31 million, or 13%, to RON 201 million in 2017 from RON 232 million in 2016. 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 significant increase in electricity acquisition costs to cover network losses as well as other unfavorable elements, led to a decrease of RON 110 million or 20.72% of EBITDA on the distribution segment.
EBITDA margin declined by 612 bps in 2017, from 30.43% in 2016 to 24.31% in 2017.

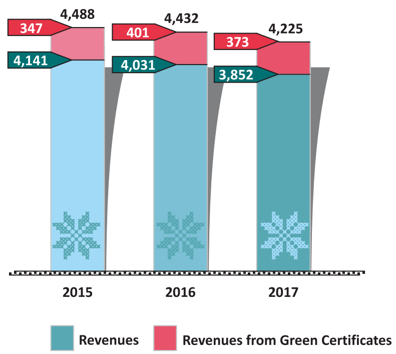
Net profit of the segment

The net profit followed a similar trend with EBITDA, decreasing by RON 106 million, or 34.1%. The net profit margin decreased to 7.67% in 2017 from 12.48% in 2016.

SEGMENT REPORTING – SUPPLY

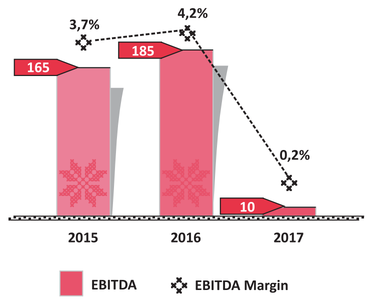
Key indicators - the supply segment

Figure 38: Revenues - supply segment (RON million)



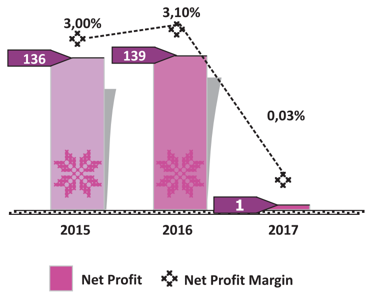
Source: Electrica

Figure 39: EBITDA - supply segment (RON million)



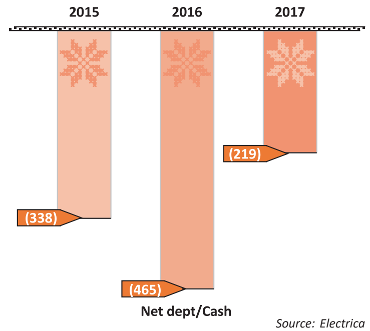
Source: Electrica

Figura 40: Net profit - the supply segment (RON million)



Source: Electrica

Figure 41: Net debt/ (Cash) - supply segment (RON million)



Source: Electrica

The following table presents the Income Statement of the Group`s supply segment for 2016 and 2017 (amounts in RON million):

	31 December 2017	31 December 2016
External revenues	4,126	4,347
Inter-segment revenues	99	85
Segment revenue	**4,225**	**4,432**
Segment profit (loss) before tax	**(2)**	**174**
Net finance (cost)/income	(1)	(1)
Depreciation, amortization and impairment, net	(13)	(10)
EBITDA	**10**	**185**
Net Profit (loss) of the segment	**1**	**139**

Source: Electrica

Revenues

The revenue from the supply activity decreased by RON 207 million or 4.7% to RON 4,225 million in 2017 from RON 4,432 million in 2016. This decrease is due to the net effect of the decrease by 11.7% of the quantity supplied on the retail market, due to increased competition on the electricity supply market and the increase of the supply tariff for the year 2017 by 7%.

Electricity purchased

Expenditure on purchased electricity increased by 59 million RON or 1.57%, to RON 3,801 million in 2017, from RON 3,742 million in 2016.
This increase is generated by the significant increase in the average purchase price of electricity, mainly in the first months of the year, in the context of the highest energy consumption in recent decades, which has led to the acquisition of a large quantity of energy from the balancing market, which canceled the effect of the 11.7% decrease of the purchased quantity.

Green certificates

Revenue from green certificates included in the end consumers invoice decreased although the selling price increased from RON 41.90/MWh in 2016 to RON 45.92/MWh in 2017. This increase in the selling price was offset by the 12.9% decrease in the quantity supplied, which was the main factor for the decrease of the green certificate income by RON 28 million.

The cost of purchasing green certificates decreased by RON 29 million, or by 7.1%, to 373 million in 2017 from 401 million in 2016, due to the net effect between the increase of the regulated quota of green certificates imposed on electricity suppliers by ANRE, from 0.317 green certificates for 1 MWh delivered in 2016 to 0.320 green certificates for 1 MWh provided in January-March 2017 and 0.358 during April to December 2017, and due to 12.9% supplied energy quantity decrease, as well.

Salaries and employee benefits

Salaries and employees benefits decreased by RON 3 million, from RON 82 million in 2016 to RON 79 million in 2017.

EBITDA

Increase in energy purchases by RON 59 million in 2017 compared to 2016 and lower revenues have led to a decrease in EBITDA of RON 175 million or 94.6%, respectively a decrease of 396 bps of the EBITDA margin from 4.2% in 2016 to 0.24% in 2017.

Segment net profit

Net profit decreased by RON 138 million or 99.2%, as a result of the increase in the electricity acquisition and the decrease of the revenues.

8.3 Consolidated cash flow statement

	2017 RON million	2016 RON million	Variation 2017/2016
Cash flows from operating activities			
Profit for the year	**171.6**	**468.9**	**-63%**
Adjustments for:			
Depreciation	32.0	40.9	-22%
Amortisation	363.6	332.2	9%
Impairment loss of property, plant and equipment, net	8.8	0.7	-99%
Loss/(Gain) on disposal of property, plant and equipment	4.6	(8.0)	-
Impairment of trade and other receivables, net	12.9	40.6	-68%
Change in provisions, net	(32.5)	(65.2)	-50%
Net finance income	(9.7)	(3.2)	205%
Gain on loss of control over subsidiaries in financial distress	-	(73.7)	-
Income tax expense	35.2	120.1	-71%
Total Adjustements:	**586.4**	**853.3**	**-31%**
Changes in :			
Trade receivables	(196.1)	(88.3)	122%
Other receivables	(28.5)	34.0	-
Deposits, treasury bills and government bonds	8.3	(4.9)	-
Prepayments	1.9	3.8	-49%
Green Certificates	(12.6)	31.3	-
Restricted cash	(185.5)	(134.5)	38%
Inventories	1.1	0.5	-100%
Trade payables	120.7	150.7	-20%
Other payables	(24.6)	(34.9)	-29%
Deferred revenue	2.9	-	100%
Employee benefits	(14.7)	5.3	-
Cash generated from operating activities	**259.4**	**816.3**	**-68%**
Interest paid	(2.2)	(4.6)	-51%
Income tax paid	(53.2)	(93.7)	-43%
Net cash from operating activities	**203.9**	**718.0**	**-72%**
Cash flows from investing activities			
Payments for purchases of tangible assets	(52.9)	(32.1)	65%
Payments for network construction related to concession agreements	(726.7)	(500.3)	45%
Payments for purchases of other intangible assets	(2.4)	(7.5)	-68%
Proceeds from the sale of tangible assets	2.6	27.8	-91%
Payments for purchases of treasury bills and government bonds	(543.1)	(2,437.5)	-78%
Proceeds from maturity of treasury bills and government bonds	1,838.2	2,436.4	-25%
Increase in deposits with maturity of 3 months or longer	(995.6)	(300.9)	231%
Proceeds from deposits with maturity of 3 months or longer	820.3	419.8	95%
Interest received	20.0	18.4	9%
Effect on loss on control over subsidiaries on cash	-	(1.6)	-
Consideration paid to acquire non-controlling interests	(752.0)	-	-
Net cash used in investing activities	**(391.7)**	**(377.6)**	**4%**

	2017 RON million	2016 RON million	Variation 2017/2016
Cash flows from financing activities			
Proceeds from long term bank loans	192.3	127.7	51%
Repayment of long term bank loans	-	(9.9)	-
Repayment of short-term bank loans	-	(50.0)	-
Dividends paid	(349.4)	(396.9)	-12%
Repayment of financing for network construction related to concession agreements	(86.8)	(92.7)	-6%
Payment of finance lease liabilities	-	-	-
Net cash from/(used in) financing activities	**(243.9)**	**(421.7)**	**-42%**
Net (decrease)/increase in cash and cash equivalents	**(431.6)**	**(81.3)**	**431%**
Cash and cash equivalents at 1 January	746.2	827.5	-10%
Cash and cash equivalents at 31 December	**314.6**	**746.2**	**-58%**

Source: Electrica

Cash flow

In 2017, the net cash from operating activities amounted to RON 204 million.

The profit before tax for the period was RON 207 million The main adjustments were: (i) adding the depreciation and amortization amounting to RON 396 million, a change in impairment and loss on disposal of tangible assets worth RON 13.4 million, a net change in trade and other receivables of RON 12.9 million, deducting a net finance result of RON 10 million, a change in provisions, net in amount of MRON 47, (ii) a variation of trade receivables and other receivables worth RON 225 million, of trade payables and other accounts payable worth RON 96 million and a variation regarding Green Certificates of RON 13 million

The income tax and interest paid totaled RON 55 million in 20176.

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

The profit before tax for the period was RON 589 million The main adjustments were: (i) adding the depreciation and amortization amounting to RON 373 million, a change in impairment and loss on disposal of tangible assets worth RON 7 million, 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 million, a gain from losing control over subsidiaries of RON 73.7 million, 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 million, of trade payables and other accounts payable worth RON 116 million and a variation regarding Green Certificates of RON 31 million.

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

9 POST BALANCE SHEET EVENTS

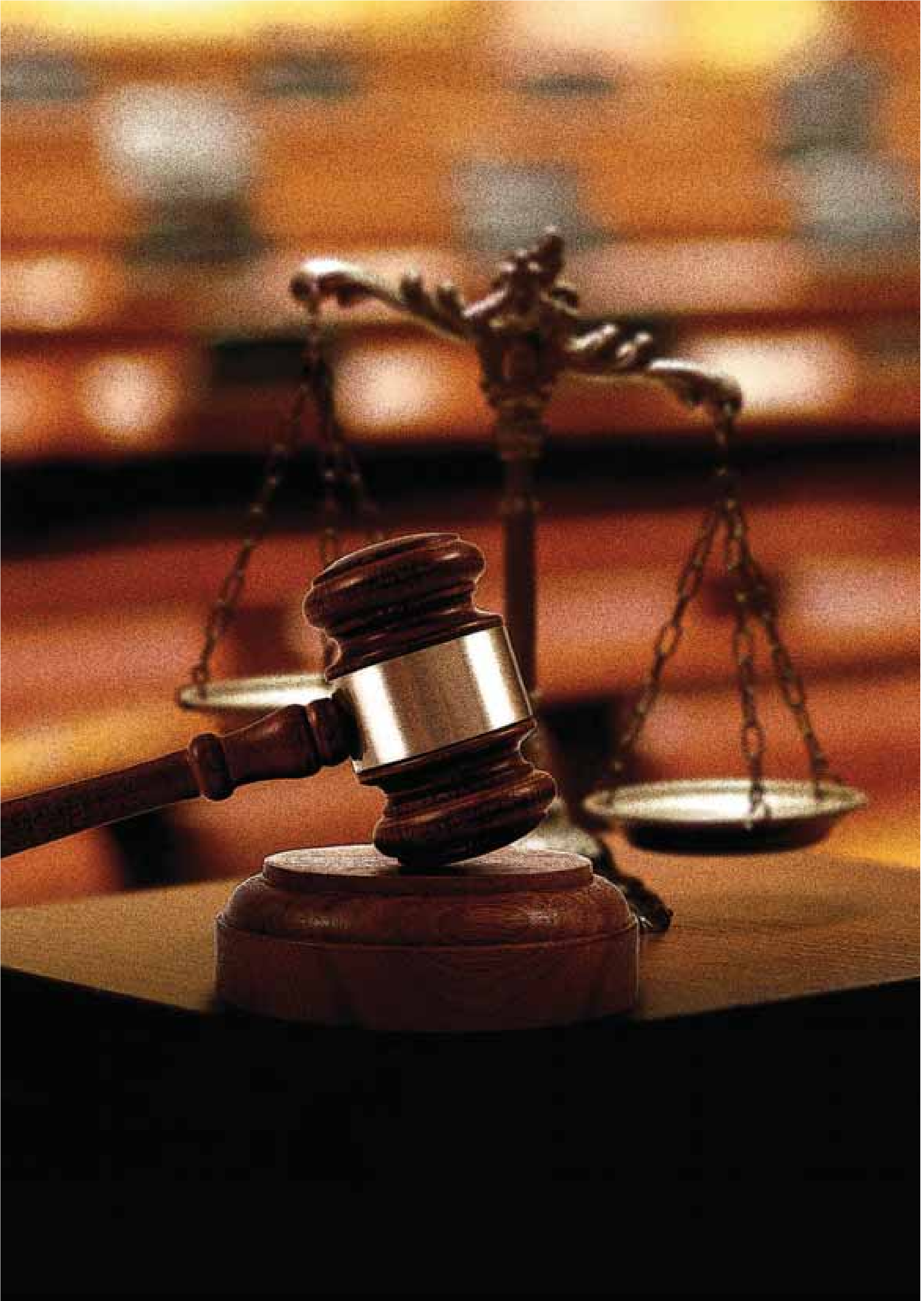
During the period between the 2017 financial year closing and the date of the present report, the following relevant events took place at Electrica S.A. level:

- On 3 January 2018, the Company informed its shareholders and investors about the conclusion in the second semester of 2017 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. On 30 January 2018, the auditor report of factual findings according to art. 82 of Law no. 24/2017 regarding the transactions reported in the second semester of 2017 was published;
- On 4 January 2018, the Company received the Competition Council's decision on the investigation commenced in 2017, whereby it was found the breach of the provisions of art. 5 par. (1) of the Competition Law no. 21/1996 and art. 101 par. (1) TFEU by several companies which have sold meters and related measuring equipment for electricity in Romania, by the procedures for the award of supply contracts in the period from 27 November 2008 to 30 September 2015 and by Electrica, as a facilitator, in the period from 24 November 2010 to 30 September 2015. The sanction applied to Electrica is a fine of RON 10,800,984.04, representing 2.98% of the total turnover achieved in the financial year 2016, the company following to contest in court the Decision of the Competition Council.
- Concerning the effects of the OGMS decision no. 2 of 26 October 2017:
    - On 16 January 2018 the shareholders were informed that the Bucharest Court rejected the application for suspension of these effects through an emergency injunction (File No. 42484/3/2017), filled by Mr. Stanciu Razvan, as groundless;
    - In January 2018, ELSA has received from the Bucharest Court of Law, the petition initiated by Mr. Gabriel Dumitrascu, shareholder of the company, which is the subject of the file no. 44217/3/2017, by which is requested the absolute nullity of the Decision no. 2 of the Ordinary General Meeting of the Shareholders of Electrica S.A. dated 26 October 2017, regarding the election of the members of the Board of Directors by the application of the cumulative vote (item 1 of the agenda), based on the provisions of art. 132 of Law 31/1990, having as a direct consequence the cancellation of all legal documents concluded by the new Board of Electrica S.A. The file is being sued, Electrica is going to file the appropriate defense in the case.
- On 9 February 2018, the Ordinary General Meeting of Shareholders of Electrica took place, during which Electrica's shareholders approved the Remuneration Policy of the members of the Board of Directors of the Company and the remuneration limits for he executive managers, both revised. The approach to submit the remuneration policy of the members of the Board of Directors of the Company and the limits of the remuneration limits of the Company's executive managers for the approval to the Ordinary General Meeting of Shareholders was made in order to neutralize the negative effects on the net remunerations of the directors and executive managers, resulting from changes in fiscal legislation.
- On 19 February 2018, the following documents were published: the updated version of the Dividend Policy, the updated Policy of Transactions with Related Parties as well as Electrica S.A.'s Forecast Policy.

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

During the period between the 2017 financial year closing and the date of the present report, the following relevant events took place related to SFISE Electrica Serv SA:

- On 9 January 2018, as a result of the resignation of Ms. Iuliana Andronache, from being a member of the Board of Directors, Mrs. Alexandra Borislavschi was appointed as a member of the Board of Directors of SFISE Electrica Serv SA for the remaining period of her predecessor's term, respectively until 13 December 2020.
- On 29 January 2018, the Articles of Association of FISE Electrica Serv SA was amended and according to the new one, the Board of Directors of the company consists of five non-executive members, which is why the Board of Directors that existed at that time was completed by the appointment of Mr. Mihai Darie and Mr. Mihai Ioanitescu, both of them for a term of 4 years, respectively until 29 January 2022.



APPENDIX 1 – LITIGATIONS

Electrica Group litigations in 2017 year – status as of 07 February, 2018

1. LITIGATION WITH FONDUL PROPRIETATEA

Crt. no.	Parties/Case file number	Subject matter	Court	Case status
1	Plaintiff: Fondul Proprietatea Defendant: SDEE Transilvania Sud S.A. 6208/62/2016	Presidential Ordinance for suspending the effects of the EGMS Decision 9/2016 regarding the amendment of the AoA and of the OGMS Decision no. 10/2016 regarding the members of the BoD	Brasov Court	Waiver of trial.
2	Plaintiff: Fondul Proprietatea Defendant: SDEE Transilvania Sud S.A. 6207/62/2016	Cancellation of the EGMS Decision 9/2016 regarding the amendment of the AoA and of the OGM Decision nr. 10/2016 regarding the members of the BoD	Brasov Court	Waiver of trial.
3	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 EGMS decision no. 6/2016 regarding the amendment of the Articles of Association	Bucharest Court	Waiver of trial.
4	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 regarding the increase of the share capital	Bucharest Court	Waiver of trial.
5	Plaintiff: Fondul Proprietatea Defendant: Electrica Furnizare 47011/3/2016	Action for the annulment of the EGMS Decision no 5/15.12.2016 regarding the increase of the share capital and of the Decision 6/15.12.2016 regarding the amendment of the AoA (process on merits)	Bucharest Court	Waiver of trial.
6	Plaintiff: Fondul Proprietatea Defendant: Electrica Furnizare Intervener: Electrica SA 47014/3/2016	Presiding judge's order for suspension of the effects of EGMS Decision no. 5 regarding the increase of the share capital and no. 6/2016 regarding the amendment of the Articles of Association	Court of Appeal Bucharest	The court of appeal upheld the request of Fondul Proprietatea and ordered the suspension of the execution of the EGMS Decision no. 5 and no. 6/2016. Ultimate solution.
7	Plaintiff: Fondul Proprietatea Defendant: Electrica Furnizare Intervener: Electrica SA 1537/3/2017	Applications under OUG 116/2009 request for intervention -ORC-TB- Regarding the non-registration at ORC of OGMS Decision no. 1/2017 regarding the election of the members of the BoD	Bucharest Court	Waiver of trial.

8	Plaintiff: Fondul Proprietatea Defendant: Electrica Furnizare 3144/3/2017	Action of annulment of the OGMS no. 1/2017 referred to appointing administrators	Bucharest Court	Waiver of trial.
9	Plaintiff: Electrica Furnizare Defendant:Fondul Proprietatea 3720/3/2017	Presidential ordinance for suspension effects of OGMS no. 1/2017 regarding the election of the members of the BoD	Court of Appeal Bucharest	The court of appeal upheld the request of Fondul Proprietatea and ordered the suspension of the execution of the OGM Decision no. 1/2017. Final decree.
10	Intervener: Fondul Proprietatea Defendant: SDEE Transilvania Nord 1148/1285/2016	Rejection of the decision for EGMS registration claim no. 9/ 13 December 2016, regarding the amendment of the AoA	Cluj Specialized Court	Waiver of trial.
11	Intervener: Fondul Proprietatea Defendant: SDEE Transilvania Nord 1149/1285/2016	Rejection of the decision for OGMS registration claim no. 10/ 13 December 2016, regarding the election of the members of the BoD	Cluj Specialized Court	Waiver of trial.
12	Plaintiff: Fondul Proprietatea Defendant: SDEE Transilvania Nord 1160/1285/2016	Claim for annulment of the EGMS decision no. 9/13 December 2016 regarding the amendment of the AoA	Cluj Specialized Court	Waiver of trial.
13	Plaintiff: Fondul Proprietatea Defendant: SDEE Transilvania Nord 1159/1285/2016	Issuing presiding judge's order for suspension of the enforcement of the EGMS decision no. 9/13 December 2016 regarding the amendment of the AoA and of OGMS decision no. 10/13 December 2016, regarding the election of the members of the BoD	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 SDTN and consequently: Order the suspension of the enforcement of the Decision of the Ordinary General Meeting of the Shareholders no. 10, dated 13 December 2016 and of the Decision of the Extraordinary General Meeting of the Shareholders no. 9, on 13 December 2016, issued by the defendant company, until the final solution of the Cluj Specialized Court on the case file no. 1160/1285/2016. Enforceable. SDTN appealed. The Court dismisses the appeal lodged by SDEE TN SA against President Ordinance no. 105/21.02.2017. Final decision.
14	Plaintiff: Fondul Proprietatea Defendant: SDEE Muntenia Nord Intervener: Electrica SA 7622/105/2016	Rejection of the registration of the OGMS decision dated 13 December 2016, regarding the election of the members of the BoD	Prahova Court	Waiver of trial.

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 ANRE no. 146/2014 regarding the establishment of the regulated rate of return applied to the approval of the tariffs for the electricity distribution service provided by the distribution operators from 1 January 2015 and the abrogation of Art. 122 of the Tariff Pricing Methodology for Electricity Distribution Service, approved by the Order of the President of ANRE no. 72/2013	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 President of ANRE no. 165/2015 regarding the modification of the Tariff Pricing Methodology for Electricity Distribution Service, approved by the Order of the President of the National Regulatory Authority for Energy no. 72/2013	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 regarding the approval of the specific tariffs for the electricity distribution service and the price for the reactive power for SDEE Transilvania Nord S.A.	Bucharest Court of Appeal	Suspended 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 regarding the approval of the specific tariffs for the electricity distribution service and the price for the reactive power, for SDEE Transilvania Sud S.A.	Bucharest Court of Appeal	Suspended 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 regarding the modification of the Tariff Pricing Methodology for Electricity Distribution Service, approved by the Order of the President of the National Regulatory Authority for Energy no. 72/2013	High Court of Cassation and Justice	Appeal – under preliminary filtering proceedings.
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. The suspension of the case was 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 preliminary filtering proceedings. The suspension of the case was claimed until the settlement of the case file 192/2/2015.

8	Plaintiff: Electrica S.A. Defendant: ANRE 343/2/2016	Action for partial suspension (regarding the special tariffs) of the administrative act – ANRE Order. No. 171/2015	High Court of Cassation and Justice	Waiver of trial.
9	Plaintiff: Electrica S.A. Defendant: ANRE 345/2/2016	Action for partial suspension (regarding the special tariffs) of the administrative act – ANRE Order. No. 172/2015	High Court of Cassation and Justice	Waiver of trial.
10	Plaintiff: SDEE Electrica Muntenia Nord S.A. Defendant: ANRE 184/2/2015	Contentious administrative matters – Cancellation of the ANRE President Order No. 146/2014 regarding the establishment of the regulated rate of return applied to the approval of the tariffs for the electricity distribution service provided by the distribution operators from 1 January 2015 and the abrogation of Art. 122 of the Tariff Pricing Methodology for Electricity Distribution Service, approved by the Order of the President of ANRE no. 72/2013	High Court of Cassation and Justice	Suspended case file until the final settlement of the case 7341/2/2014. The Plaintiff waived the judgement of the appeal against the suspension decision. The Court dismisses the appeal filed by FP against the Decision dated 25.06.2015 of the Court of Appleal – Section VIII – Administrative and Fiscal, as unfounded. The case file no. 7341/2/2014 is in preliminary procedure.
11	Plaintiff: SDEE Electrica Muntenia Nord S.A. Defendant: ANRE 164/2/2016	Cancellation of Order no. 165/2014, of the President of ANRE regarding the modification of the Tariff Pricing Methodology for Electricity Distribution Service, approved by the Order of the President of the National Regulatory Authority for Energy no. 72/2013	High Court of Cassation and Justice	The case file no 1574/17 July 2016 was interlinked to this case file. Through the Decision no. 2409/17 July 2016 the claims were rejected as ungrounded. Appeal – filter procedure.
12	Plaintiff: SDEE Electrica Muntenia Nord S.A. Defendant: ANRE 165/2/2016	Suspension of the enforcement of the ANRE President Order no. 165/2015 regarding the modification of the Tariff Pricing Methodology for Electricity Distribution Service, approved by the Order of the President of the National Regulatory Authority for Energy no. 72/2013	High Court of Cassation and Justice	Through the Decision no. 1086/1 April 2016, the Bucharest Court of Appeals rejected the claim on suspension of as ungrounded. Appeal was stated. The HCCJ has ordered the communication of the report on the admissibility of the appeal in principle to the parties.
13	Plaintiff: SDEE Electrica Muntenia Nord S.A. Defendant: ANRE 41/42/2016	Cancellation of the ANRE President Order No. 172/2015 regarding the approval of the specific tariffs for the electricity distribution service and the price for the reactive power, for SDEE Muntenia Nord S.A.	High Court of Cassation and Justice	By Decision 689/01.03.2017, the Court of Appeal dismissed the suspension request. SD MN has filed an appeal which is in the stage of preliminary procedure.
14	Plaintiff: SDEE Electrica Muntenia Nord S.A. Defendant: ANRE 42/42/2016	Suspension of the enforcement of the ANRE President Order no. 172/2015 regarding the approval of the specific tariffs for the electricity distribution service and the price for the reactive power, for SDEE Muntenia Nord S.A.	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. An appeal was stated and is in the stage of preliminary procedure.
15	Plaintiff: Electrica S.A. SDEE Electrica Muntenia Nord S.A. SDEE Electrica Transilvania Nord S.A. SDEE Electrica Transilvania Sud S.A. Defendant: ANRE 8019/2/2017	Annulment of administrative act for the refusal to issue a favourable opinion regarding the transfer of the AMR system; Obligation to issue favourable administrative documents for the cession of the AMR system; ANRE obligation to make corrections of the distribution tariffs	Bucharest Court of Appeal	In course of settlement.
16	Plaintiff: SDEE Transilvania Nord S.A. Defendant: ANRE 213/2/2015	Cancellation of Order no. of the President of National Energy Regulatory Authority (ANRE) 146/2014 regarding the establishment of the regulated rate of return applied to the approval of the tariffs for the electricity distribution service provided by the distribution operators from 1 January 2015 and the abrogation of Art. 122 of the Tariff Pricing Methodology for Electricity Distribution Service, approved by the Order of the President of ANRE no. 72/2013	High Court of Cassation and Justice	Appeal – under the preliminary filtering proceedings
17	Plaintiff: SDEE Transilvania Nord S.A. Defendant: ANRE 353/2/2015	Cancellation of the ANRE President Order No. 155/2014 regarding the approval of the specific tariffs for the electricity distribution service and the price for the reactive power for SDEE Transilvania Nord S.A.	High Court of Cassation and Justice	Appeal – under the preliminary filtering proceedings
18	Plaintiff: SDEE Transilvania Nord S.A. Defendant: ANRE 18/33/2016	Action for annulment of administrative act – ANRE Order no. 165/2015 regarding the modification of the Tariff Pricing Methodology for Electricity Distribution Service, approved by the Order of the President of the National Energy Regulatory Authority no. 72/2013	High Court of Cassation and Justice	Appeal – under the preliminary filtering proceedings
19	Plaintiff: SDEE Transilvania Nord S.A. Defendant: ANRE 17/33/2016	Action for suspension of the administrative act– ANRE Order no. 165/2015 regarding the modification of the Tariff Pricing Methodology for Electricity Distribution Service, approved by the Order of the President of the National Energy Regulatory Authority no. 72/2013	High Court of Cassation and Justice	Appeal in course of settlement.

20	Plaintiff: SDEE 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 regarding the modification of the Tariff Pricing Methodology for Electricity Distribution Service, approved by the Order of the President of the National Energy Regulatory Authority no. 72/2013	Bucharest Court of Appeal	Suspended until the settlement of 18/64/2016
21	Plaintiff: SDEE Transilvania Sud S.A. Defendant: ANRE 18/64/2016	Cancellation of the Order of the President of ANRE no. 165/2015 regarding the modification of the Tariff Pricing Methodology for Electricity Distribution Service, approved by the Order of the President of the National Energy Regulatory Authority no. 72/2013	High Court of Cassation and Justice	Appeal – under the preliminary filtering proceedings
22	Plaintiff: SDEE Transilvania Sud S.A. Defendant: ANRE 88/64/2016	Cancellation of the ANRE President Order no. 171/2015 regarding the approval of the specific tariffs for the electricity distribution service and the price for the reactive power, for SDEE Transilvania Sud S.A.	High Court of Cassation and Justice	Appeal – under the preliminary filtering proceedings
23	Plaintiff: SDEE Transilvania Sud S.A. Defendant: ANRE 41/64/2016	Cancellation of the ANRE President Order no. 171/2015 regarding the approval of the specific tariffs for the electricity distribution service and the price for the reactive power, for SDEE Transilvania Sud S.A.	High Court of Cassation and Justice	Appeal – under the preliminary filtering proceedings
24	Plaintiff: SDEE Transilvania Sud S.A. Defendant: ANRE 371/2/2015	Cancellation of the ANRE President Order no. 156/2014 regarding the approval of the specific tariffs for the electricity distribution service and the price for the reactive power, for SDEE Transilvania Sud S.A.	Bucharest Court of Appeal	Relisted. In course of settlement.
25	Plaintiff: SDEE Transilvania Sud S.A. Defendant: ANRE 208/2/2015	Cancellation of the ANRE President Order no. 146/2014 regarding the establishment of the regulated rate of return applied to the approval of the tariffs for the electricity distribution service provided by the distribution operators from 1 January 2015 and the abrogation of Art. 122 of the Tariff Pricing Methodology for Electricity Distribution Service, approved by the Order of the President of ANRE no. 72/2013	High Court of Cassation and Justice	Waiver of the trial.
26	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 cannot be covered by changing the regulated tariff mentioned above	High Court of Cassation and Justice	Appeal – under the preliminary filtering proceedings
27	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.
28	Plaintiff: Electrica Furnizare SA Defendant: ANRE 6662/2/2017	Judicial action having as its object the obligation of the party to change the CMC tariff approved by ANRE Notice no. 9/2017, order the party to pay the amount of the damage which cannot be covered by the amendment of the said tariff	Bucharest Court of Appeal	Electrica Furnizare S.A. has gave up on judgement, considering the ANRE's acknowledgment of the correction by the ANRE Notice no. 42/2017.

3. FISCAL MATTER DISPUTES

Crt. no.	Parties/Case file number	Subject matter	Court	Case status
1	Plaintiff: Electrica S.A. Defendant: ANAF 7614/2/2013	Complaint related to the Decision no.147/22 May 2013. Value of RON 2,387,992 (action for cancel against the Decision no. 147/22 May 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 RON 2,387,992)	High Court of Cassation and Justice	On 6 March 2015, the court: Admitted the claim in part and partially cancelled the Decisions no. 147/22 May 2013 and no. 214/30 October 2012, issued by the defendant for the amount of RON 2,383,070, representing fiscal ancillary obligations; It keeps the claimed fiscal-administrative acts for the amount of RON 4,922; It coerces the Defendant to the payment of the amount of RON 30,961.35, to the Plaintiff, as court charges. ANAF has stated Appeal – in course of settlement.
2	Plaintiff: Electrica S.A. Defendant: ANAF 5433/2/2013	Claim on the fiscal administrative act, cancelling the Decision 24/31 January 2013, on the ancillary payment obligations. Value of RON 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 RON 5,705,115) and no. 1271/2012 (on the amount of RON 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 RON 352,873). Rejects the action as for the rest. Coerces ANAF to pay RON 20,500 court charges to the Plaintiff. ANAF and Electrica have stated an Appeal. The High Court dismissed the appeals.

3	Plaintiff: Electrica S.A. Defendant: ANAF 51817/299/2016*	Challenge on enforcement, cancellation of the foreclosure for the amount of RON 41,209,736 – title 151/2016	District 1 Court	The Court partially admits the delay exception. Dismisses the challenge to enforcement regarding the cancellation of enforceable titles no. 13634 / 06.04.2016, no. 265 / 05.08.2014, no. 28 / 25.06.2015, no. 61 / 08.01.2013 and no. 983 / 09.08.2012, as well as of the subsequent execution acts, as late submission. Admits in part the application. Dispenses the enforceable titles no. 1160 / 10.10.2012, no. 1285 / 01.11.2012 and no. 311 / 06.05.2014, as well as of the subsequent execution acts. It cancels in part the notifying address regarding the establishment of the money supply attachment no. 151 / 07.12.2016 up to the amount of RON 24,905,291. It has the return of forced execution, in the sense of obliging the intimate to pay to the contestants the sum of RON 16,304,445. Obligates the respondent to pay to the challengers the sum of RON 4,300 in court costs. Both parties have filed an appeal, which was rejected as unfounded.
4	Plaintiff: Electrica S.A. Defendant: ANAF 17237/299/2017	1. Suspension of enforcement initiated by the ANAF-DGAMC in file no. 13267221 on the basis of enforceable title no. 13725 / 3.05.2017 and the order no. 13739 / 03.05.2017; 2. Cancellation of enforceable title no. 13725 / 3.05.2017, of the order no. 61/90/1/2017/263129 (bearing also No. 13739 / 3.05.2017) issued by ANAF-DGAMC for the amount of RON 39,248,818 and all subsequent execution acts issued in connection with the forced execution of the amount of RON 39,248,818 in the execution file no. 13267221	District 1 Court	Suspended untill the final settlement of case no. 9131/2/2017.
5	Plaintiff: Electrica S.A. Defendant: ANAF 3430/2/2017	Opposition to execution, cancellation foreclosure for RON 39,083,190 - Decision. 665/17/03/2017	High Court of Cassation and Justice	The first court dismissed the file as unfounded. Electrica filed an appeal, in course of settlement.
6	Plaintiff: Electrica S.A. Defendant: ANAF 40098/17	Administrative opposition for the amount of RON 16,915,950	CEDO	The action was dismissed.
7	Plaintiff: SDEE Muntenia Nord S.A. Defendant: Ploiesti Public Service for local Finances 309/42/2015	Cancellation of administrative act – Notice of assessment no. 124814/28 November 2014. The amount under litigation: RON 11,963,955, representing additional differences resulting from the report on the fiscal audit, out of which RON 8,528,896 additional tax on the buildings for the period of January 2009 - September 2014 and RON 3,439,085 lei accessory fiscal obligations calculated until the date of 11 November 2014	High Court of Cassation and Justice	Through the Decision no. 32/ 10 February 2016, Ploiesti Court of Appeals Ploiesti has rejected the claim, as ungrounded. SDEE Muntenia Nord has stated Appeal – within the regulating proceedings.
8	Plaintiff: SDEE Muntenia Nord S.A. Defendant: ANAF 1018/2/2016	Cancelation administrative act – Decision no. 462/23 November 2015 –amount of RON 7,731,693 (RON 4,689,686 lei income tax + RON 3,042,007 VAT) and for the amount of RON 6,154,799 (RON 3,991,503 interests/increases and late fees related to the income tax + RON 2,163,296 interests/penalties and delay fees related to the VAT)	Bucharest Court of Appeals	The first court dismissed the request as unfounded. The plaintiff filed an appeal, 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. 375/1 October 2014 – amount of RON 2,351,034	High Court of Cassation and Justice	Completely settled on 29.11.2017, by dismissing the complaint filed by the defendant. On the merits, the action for annulment was upheld as it was filed.
10	Plaintiff: SDEE Transilvania Nord S.A. Defendant: MFP-ANAF – DGRFP Cluj – AJFP Maramures 371/33/2017	Challenge of decision no. F-MM-180/2016 concerning taxes and additional VAT, as well as interest/delay penalties. Regulation proceedings. Initial proceedings in administrative appeal court were carried out in 2017, prior to the case filing. Amount: RON 32,295,033	Cluj Appeal Court	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 RON 25,047,353.32 representing delay fees of the invoices for electric power in the period of 1 April 2007 – 31 March 2008	High Court of Cassation and Justice	The court definitivly admits the case and forces SOCIETATEA ENERGETICA ELECTRICA SA to the payment of the amount of RON 25,047,458.32, representing contractual penalties related to the main debt amounting RON 68,453,678.47, related to the interval 1 April 2007 – 31 March 2008 and to the payment of the court charges amounting RON 761,576.79.
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 RON 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 (RON 9,646,826, according to the remarks dated 05.05.2015 / RON 5,444,761 according to the conclusions mentioned in the Decision dated 15.03.2017); 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	The first instance rejects the exception of the prescription of the material right to action as unfounded and the action as unfounded. Both parties have appealed. The appeal is in course of settlement.
3	Plaintiff: Electrica S.A. Defendant: Cez Distributie S.A. 11601/63/2009	Claim action in value of RON 4,425,068.55	High Court of Cassation and Justice	The Court admits the case, definitively and irrecoverably.
4	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 RON 2,591,163.01	Bucharest Court	Ongoing proceedings.
5	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 RON 3,826,034.8	Braila Court	Ongoing proceedings.
6	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 RON 658,535,805.38	Valcea Court	Ongoing proceedings.
7	Creditor: Electrica S.A. Debtor: Romenergy Industry SRL 2088/107/2016	Insolvency proceedings. Enter a claim to the statement of affairs in amount of RON 2,917,265.89	Alba Court	Ongoing proceedings.

8	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/14/27055/16 December 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 RON 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; -cancelling 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 RON 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).
9	Plaintiff: Electrica S.A. Defendant: AAAS 2155/2/2015	Annulment of the Administrative Decision no. P/14/27055/16.12.2014, of Order no. 883/16.12.2014 (restitution to Electrica of the amount of RON 7,505,637 and interests calculated from 27.03.2006 to the date of the payment) and of the Notification no. 883/16.12.2014, issued by AAAS; -suspension of the enforcement of the attached documents, until the final settlement of the case; -forcing the Defendant to pay the judicial costs	High Court of Cassation and Justice	On merits, the court cancelled the administrative decision no. P/14/27055/16.12.2014, of Order no. 883/16.12.2014 and of the Notification no. 883/16.12.2014 issued by the defendant. The Defendant filed an appeal, in course of settlement.
10	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 25 August 2015, developed in accordance with art. 783 NCPC until the completion of the amount of RON 10,342,891.72 (rest of debt and court charges); -Affidavit on 15 June 2015 regarding the writ of execution; -Affidavit on 16 June 2015 regarding the settlement of the foreclosure fees. (The Enforcebla title is constituted through the Civil sentence no. 6440/2013 from the case no. 8260/2013)	Bucharest Court	The Court rejects the claim to foreclosure as unfounded. Irrevocable decision.

11	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	Bucharest Court	The first instance partially admits the disputed challenge by the contestants. Cancels the deduction in the enforcement file no. 1914/2015 of BEJA Dorina Gonţ, Lucian Gonţ and Marian Panait regarding the third parties. Dismisses the application for the return of the execution as unfounded. The application for suspension of execution is rejected as being without purpose. With appeal within 10 days of communication. Electrica has filed an appeal, under the preliminary procedure.
12	Appellant: Electrica S.A. Respondent: Termoelectrica S.A. 16159/299/2017	Appeal against the foreclosure initiated by BEJ Spiridonescu Ileana Cornelia in the enforcement file no. 30 / B / 2017, as well as the subsequent execution acts for the amount of RON 26,122,588.63. In the alternative, annulment in part as regards the pursuit of the amount of RON 1,561,105.3, representing the receivable extinguished by offsetting, with the consequence of the return of the execution for this amount, the partial annulment of the execution and the subsequent acts regarding the pursuit of the sum of RON 782,067.12, representing the receivable extinguished by offsetting, with the consequence of the return for this amount	Bucharest Court	The merit court partially admits the appeal, reducing the foreclosure costs to RON 135,000. Orders the return of the execution for the amount of RON 178,553.52, representing enforcement costs unlawfully charged. Rejects the rest of the action. Electrica has filed an appeal.
13	Creditor: Electrica S.A. Debtor: Servicii Energetice Muntenia S.A. 40081/3/2014	Insolvency proceedings – debt RON 9,542,336.82	Bucharest Court	Ongoing proceedings. The amount has been ceased by Electrica S.A. from FISE Electrica Serv S.A.
14	Creditor: Electrica S.A. Debtor: Transenergo Com S.A. 1372/3/2017	Insolvency proceedings. Debt RON 37,088,830.45	Bucharest Court	Ongoing proceedings.
15	Creditor: Electrica S.A. Debitor: Electra Management &Suppy SRL 41095/3/2016	Faliment. Debit: 6.027.536,62 RON.	Bucharest Court	Ongoing proceedings.
16	Creditor: Electrica S.A. Debtor: Fidelis Energy SRL 3052/99/2017	Insolvency proceedings. Debt: RON 11,354,912.46	Iasi Court	Ongoing proceedings.
17	Plaintiff: SAPE Defendant: Electrica S.A. and others 46365/3/2016	Action in court – RON 3,629,529,919.935	Bucharest Court	In course of settlement.
18	Plaintiff: VIR Company International S.R.L. Defendant: SDEE Muntenia Nord S.A. 7507/105/2017	Claims. The amount requested by VIR Company International SRL consists of: - EUR 5,000,000, damage caused by delayed issuance of the connection certificate for the photovoltaic plant located in Calugareasca Valley village, Darvari village; - EUR 155,000, the amount of electricity generated by the boiler during the technological evidence period; - EUR 145,000, green certificates related to the amount of energy produced by the photovoltaic plant during the technological evidence period; In addition, it requires SDEE MN to pay the penalty interest of 5.75% / year for all amounts of money requested and court costs	Prahova Court	In course of settlement.
19	Creditor: SDEE Muntenia Nord S.A. Defendant: Transenergo Com S.A. 47088/3/2016	Claims: debt RON 8,306,493.06 – tariff for distribution	District 5 Court	On 10.02.2017, the claim in case 47088/3/2016 was rejected as SDEE MN did not pay the judicial tax, due to the opening of an insolvency procedure on 01.02.2017. SDEE Muntenia Nord S.A. is registred at the creditor mass of the debtor – case no. 1372/3/2017.
20	Creditor: SDEE Muntenia Nord S.A. Debtor: Transenergo Com S.A. 1372/3/2017	Insolvency proceedings. Debt: RON 8,418,833	Bucharest Court	Ongoing proceedings.
21	Plaintiff: SDEE Transilvania Nord S.A. Defendant: Romenergy Industry S.A. 2088/107/2016	Bankruptcy - debt: RON 5,439,537.09	Alba Court	Ongoing proceedings.
22	Plaintiff: Asirom Vienna Insurance Group S.A. Defendant: SDEE Transilvania Nord S.A. 439/111/2017	Recourse claims - the amount represents the damages paid by the plaintiff to ensured company SC Ciocorom SRL following a fire on 07.07.2013. SDEE TN is responsible for the over-voltage after a power outage. Damages claimed: RON 2,842,347	Bihor Court	In course of settlement.
23	Plaintiff: SDEE Transilvania Nord S.A. Defendant: Romenergy Industry S.A. 2157/111/2016	Claims of RON 2,677,707.00	Alba Court	Suspended based on Law no. 85/2014.
24	Plaintiff: SDEE Transilvania Sud S.A. Defendant: Romenergy Industry S.A. 2088/107/2016	Bankruptcy - debt: RON 3,987,508.14	Alba Court	Ongoing proceedings.

25	Plaintiff: SDEE Transilvania Sud S.A. Defendant: Romenergy Industry S.A. 3086/62/2016	Writ of payment - debt: RON 2,806,317.75	Brasov Court	Suspended case file until the settlement of the case file regarding the bankruptcy of Romenergy Industry S.A. (file no. 2088/107/2016).
26	Plaintiff: FISE Electrica Serv S.A. Defendant: National Leasing IFN SA 39542/3/2009	Claims – EUR 1,177,221.50, equivalent of RON 5,298,203.8, calculated on the exchange rate respectively of 4.5006 RON/EUR on 30 January	Bucharest Court	Suspended according to the insolvency Law no. 85/2006
27	Plaintiff: FISE Electrica Serv S.A. Defendant: Best Recuperare Creante SRL 2253/3/2011 (former 58348/3/2010)	Insolvency – amount to be recovered: RON 3,938,810.56	Bucharest Court	Ongoing proceedings.
28	Plaintiff: FISE Electrica Serv S.A. Defendant: National Leasing IFN S.A. 18711/3/2010	Insolvency – amount to be recovered: RON 53,023,201.08	Bucharest Court	Ongoing proceedings.
29	Plaintiff: FISE Electrica Serv S.A. Defendant: Best Recuperare Creante SRL 54060/3/2011	Summons for payment – RON 3,938,810.56	Bucharest Court	Suspended according to the insolvency Law no. 85/2006
30	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 – RON 4,128,969.65 (according to the sentence on the merits court)	Cluj Court of Appeals	Definitively settled.
31	Plaintiff: FISE Electrica Serv S.A. Defendant: Servicii Energetice Banat S.A. 8776/30/2013 (joint with cu 2982/30/2014)	Bankrupt - debt RON 73,453,299.30	Timis Court	Ongoing proceedings.
32	Plaintiff: FISE Electrica Serv S.A. Defendant: Servicii Energetice Oltenia SA 2570/63/2014	Insolvency - debt RON 26,448,133.90	Dolj Court	Ongoing proceedings.
33	Plaintiff: FISE Electrica Serv S.A. Defendant: Servicii Energetice Muntenia S.A. 40081/3/2014	Insolvency - debt RON 15,343,942.68	Bucharest Court	Ongoing proceedings. Debt assigned to Electrica S.A. Following the debt cession, FISE Electrica Serv S.A. is no longer creditor in this case.
34	Plaintiff: FISE Electrica Serv S.A. Defendant: Servicii Energetice Dobrogea S.A. 8785/118/2014	Insolvency proceedings - bankruptcy - debt RON 12.297.491,07	Constanta Court	Ongoing proceedings.
35	Plaintiff: FISE Electrica Serv S.A. Defendant: CNAS, CASMB 43602/3/2015	Recovery amounts of social insurance – FNUASS – RON 1,384,652 + interest	Bucharest Court of Appeal	Appeal. The court rejects the appeal filed by FISE Electrica Serv S.A. as unfounded. Admits the appeal filed by Casa de Asigurari de Sanatate a Municipiului Bucuresti. Partialy changes the disputed decision: forces the defendant to pay the plaintiff the amount of RON 161,657, representing amounts to be recovered from FNUASS, for the months January 2013-March 2013 and January 2014, as well as the payment of the legal interest, calculated from the due date of each amount to the day of the payment. Keeps the rest of the decision. Definitive.
36	Plaintiff: FISE Electrica Serv S.A. Defendant: Servicii Energetice Moldova 4435/110/2015	Insolvency proceedings - bankruptcy – debt: RON 73,708,082.90	Bacau Court	Ongoing proceedings.
37	Plaintiff: FISE Electrica Serv S.A. Defendant: New Koppel Romania 20376/3/2016	Claims – EUR 655,164.44 – equivalent of RON 2,948,239.98	Bucharest Court	Ongoing proceedings.
38	Plaintiff: Integrator S.A. Defendant: FISE Electrica Serv S.A. SAP Romania 34479/3/2016**	Claims – RON 17,677,309.00	Bucharest Court	The merit court rejects the claims. Apealable.
39	Plaintiff: FISE Electrica Serv S.A. Defendant: Servicii Energetice Dobrogea 8785/118/2014/a1	Bankrupcy – opposition to the preliminary table - debt RON 3,025,622.00	Constanta Court	Suspended.
40	Creditor: Electrica Furnizare S.A. Debtor: Metal S.A. Galati 2181/121/2013	Insolvency proceedings	Constanta Court	Suspendat.
41	Creditor: Electrica Furnizare S.A. Debtor: Apaterm S.A. Galati 4783/121/2011*	Enter a claim to the statement of affairs for the amount of RON 21,634,926.27	Galati Court	Closed bankruptcy on 30.01.2017.
42	Creditor: Electrica Furnizare S.A. Debtor: Vegetal Trading SRL Braila 1653/113/2014	Insolvency proceedings	Braila Court	Procedura in derulare.
43	Plaintiff: Carpatcement Holding S.A. Defendant: Ministry of Economy, Romanian Government, Electrica Furnizare S.A. 1665/2/2014	Enter a claim to the statement of affairs for the amount of RON 2,742,115.08	Galati Court	Ongoing proceedings.

44	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 RON 48,856,788.69	Harghita Court	Closed bankruptcy.
45	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 RON 20,711,587.76	Alba Court	Ongoing proceedings.
46	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 RON 9,314,175.96	Alba Court	Ongoing proceedings.
47	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 RON 4,792,025.80	Brasov Court	Ongoing proceedings.
48	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 RON 2,285,997.22	Brasov Court	Ongoing proceedings.
49	Creditor: Electrica Furnizare S.A. Debtor: European Drinks S.A. 4058/111/2016	Writ of payment. Debt: RON 5,535,461.37	Bihor Court	Settled by transaction, the amount being payed.
50	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 RON 71,443,401.67	Timisoara Court	Ongoing proceedings.
51	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 RON 56,533,826.02	Valcea Court	Ongoing proceedings.
52	Creditor: Electrica Furnizare S.A. Debtor : Energon Power and Gas S.R.L. 53/1285/2017	Insolvency proceedings Debt: RON 2,392,985.00	Cluj Specialised Court	Ongoing proceedings.
53	Creditor: Electrica Furnizare S.A. Debtor : CUG S.A. 2145/1285/2005	Bankrupcy Debt: RON 7,880,857	Cluj Specialised 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 Accounts; 2268/2/2014	Suspension and cancelling of the administrative act (Decision no.3/14 January 2014 and the Resolution no. 23/17 March 2014)	High Court of Cassation and Justice	Court on the merits: Admits in part the claim. Cancels partially the Resolution no. 23 on 17 March 2014 regarding the items 1 and 5 and the Decision no. 3/14 January 2014 regarding the items 4 and 8. Rejects, as ungrounded the claim regarding items 2, 3 and 4 in the Resolution no. 23/17 March 2014 and items 5, 6 and 7 in the Decision no 3/14 January 2014. Rejects the claim for suspension of the enforcement of the Decision no. 3/14 January 2014, as ungrounded. Electrica and CCR have stated Appeal. Currently, the case file is to ICCJ, in course of settlement.
2	Plaintiff: Electrica S.A. Defendant: Romanian Court of Accounts 2229/2/2017	Partial annulment of the Decision no. 12/27.12.2016, issued by the director of the 2nd Direction from the IVth Department of the Court of Accounts, regarding the faults from point 1 to 8, with the consequence of dismissing the actions from point 1, 3 to 9 inclusive, imposed to Electrica by the disputed Decision. Partial annulment of the Decision 12/27.02.2017 of the Court of Accounts, by which it was rejected the challenge filed by Electrica against the Decision 12, regarding the faults and orders mentioned above. In the alternative, the extension of the time limits for carrying out all the measures ordered to Electrica through Decision no. 12 / 27.12.2016 with at least 12 months; suspending the enforceability of Decision 12 until final settlement of the present dispute	Bucharest Court of Appeal	In course of settlement.
3	Plaintiff: FISE Electrica Serv S.A. Defendent: Romanian Court of Accounts 42098/2/2017	Litigation regarding Law no. 94/1992	Bucharest Court of Appeal	In course of settlement.
4	Plaintiff: Electrica Furnizare S.A. Defendant: Romanian Court of Accounts; 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. Admits the appeal filed by the Court of Accounts against the Decision no. 822 dated 11 March 2014 of Section VIII of the Court. Dismisses the disputed decision and, re-judging the case: rejects the case filed by the plaintiff Electrica Furnizare S.A. against the Court of Accounts as unfounded. Rejects the appeal filed by Electrica Furnizare S.A. against the same Decision as unfounded. Definitive.

5	Plaintiff: Electrica Furnizare S.A. Defendant: Romanian Court of Accounts; 2213/2/2017	Disputes with the Court of Accounts (Law no. 94/1992), action for the annulment of the Decision no. 11/2016, of the Decision no. 23/2017 and of the Control Report no. 5799/2016	Bucharest Court of Appeal	The first instance rejected the request filed by Electrica Furnizare S.A. as unfounded. The Decision has not been communicated, being appealable in 15 days from its communication.
6	Plaintiff: FISE Electrica Serv S.A. Defendant: Romanian Court of Accounts 2098/2/2017	Disputes with the Court of Accounts Administrative act – Decision no. 11/27.02.2017 – RON 2,351,034.00	Bucharest Court of Appeal	In course of settlement.
7	Plaintiff: FISE Electrica Serv S.A. Defendant: Romanian Court of Accounts 1677/105/2017	Disputes with the Court of Accounts – Annulment of Decision and of the control report	Prahova Court	In course of settlement.
8	Plaintiff –SDEE Transilvania Sud SA Defendant: Romanian Court of Accounts 2763/62/2017	Challenge – Law 94/1992 – Anullament of the Decision no. 7/12.01.2017 and of the Decision no. 24/11.04.2017	Brasov Court	In course of settlement.
9	Plaintiff: SDEE Muntenia Nord SA Defendant: Romanian Court of Accounts 1677/281/2017	Suspension and annulment of the Control Report of the Prahova Chamber of Accounts no. 6618/11.11.2016 and of the Decision no. 45/2016	Prahova Court	In course of settlement.

6. OTHER DISPUTES WITH POSSIBLE SIGNIFICANT IMPACT

Crt. no.	Parties/Case file number	Object	Court	Case status
1	Plaintiff: Niculescu Vladimir Defendant: SDEE 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 1,558 sqm and built area of 202 sqm, located in Valenii de Munte, 129 N. Iorga str. and being used by the Exploitation Center Valeni	Prahova Court	At the moment, the case is on the merits of Prahova Court Prahova.
2	Plaintiff: SDEE Transilvania Nord S.A. Defendant: Local Council of Oradea City Intervener: RCS&RDS 2527/111/2015	Cancellation of the Oradea LCD no. 245/28 April 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	Case settled. Admits the appeal lodged by SDEE TN against Consiliul Local al Municipiului Oradea and Delalina S.R.L. Cancels the Decision of Oradea City no. 245/28.04.2015 and the Specialty Report no. 122918/28.04.2015. It rejects the intervening claim filed by the intervener SC RCS & RDS SA.
3	Plaintiff: SDEE Transilvania Nord S.A. Defendant: Local Council of Oradea City Intervener: RCS&RDS 2526/111/2015	Cancellation of the Oradea LCD no 284/28 April 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	Case settled. Both on merit and on appeal, the court has rejected the plaintiff's action.
4	Plaintiff: SDEE Transilvania Nord S.A. Defendant: Local Council of Oradea City, RCS&RDS 3340/111/2015	Cancellation of the Oradea LCD no 108/2 February 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 re-examination 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. On 31.01.2018, the court rejects the request filed by the petitioner RCS & RDS SA for the re-examination of the judicial tax in case no. 3340/111/2015.
5	Plaintiff: Delalina S.R.L. Defendant: SDEE Transilvania Nord S.A. 910/111/2016	The obligation to issue technical permit for connection in the favour 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: SDEE Transilvania Nord S.A., 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)	High Court of Cassation and Justice	In merits, the court has rejected the exceptions and the action filed by the plaintiffs, which have initiated an appeal. In course of settlement.

7	Plaintiff: Delalina S.R.L., Foto Distributie S.R.L. Defendant: ANRE Intervener: SDEE Transilvania Nord S.A. 4013/2/2016	The case file has as object the cancellation of the ANRE decision on refusal to give licenses for electricity distribution	Court of Appeals Bucharest	The file was suspended until the settlement of case file no. 2414/2/2016.
8	Creditor: Pislea Nicolae and other Debtor: Electrica S.A. 40833/3/2017	Insolvency	Bucharest Court	Rejects the action for opening the insolvency proceeding, filed by the creditors as unfounded. Appealable in 7 days from the communication. Until 07.02.2018 there is no information regarding an appeal of the creditors.
9	Plaintiff: Stanciu Razvan Defendant: Electrica S.A. 39522/3/2017	Electrica's BoD was obligated not to accept any of the board candidate proposals, registered over the date mentioned in the Convening Notice, with the consequence of rejecting the so accepted proposals. Electrica's BoD was obligated to accept Mr. Alexandru Botez's candidate proposal	Bucharest Court	Based of art. 200 (4) of the Civil Procedure Code, the Court cancels the action filed by the plaintiff. Appealable in 15 days from it's communication. According to the Romanian Courts Website, until 07.02.2018, there is no information regarding an appeal filed by the plaintiff.
10	Plaintiff: Stanciu Razvan Defendant: Electrica S.A. 39528/3/2017	Presidential Ordinance. Electrica was obligated to suspend the holding and to take no decision regarding the 4th and 5th issues of the OGMS's agenda dated 26.10.2017, until the final settlement of the claim on the merits of the case	Bucharest Court	The court rejects the case as unfounded. Appealable in 5 days from the decision date. According to the Romanian Courts Website, until 07.02.2018, there is no information regarding an appeal filed by the plaintiff.
11	Plaintiff: Stanciu Razvan Defendant: Electrica S.A. 42479/3/2017	Action for the annulment of the OGMS Decission no. 2/26.10.2017, regarding the election of the members of the BoD by cumulative vote	Bucharest Court	In course of settlement.
12	Plaintiff: Stanciu Razvan Defendant: Electrica S.A. 42484/3/2017	Presidential Ordinance. Suspension of the execution of OGMS Decision dated 26.10.2017, regarding items 4 and 5 on de agenda, until the final settlement of the merits	Bucharest Court	The court rejects the case as unfounded. Appealable in 5 days from the decision date. According to the Romanian Courts Website, until 07.02.2018, there is no information regarding an appeal filed by the plaintiff.
13	Plaintiff : Dumitrascu Gabriel Defendant: Electrica S.A. 44217/3/2017	Action for the annulment of the OGMS Decision no. 2/26.10.2017 regarding item 1 – the election of the members of the BoD	Bucharest Court.	In course of settlement.

APPENDIX 2 – DETAILS OF MAIN INVESTMENTS IN 2017 BY THE ELECTRICA GROUP

In 2017, the most significant investments made by the Group are the following:

DESCRIPTION	VALUE (million RON)
MUNTENIA NORD	
Modernization of transformation points (TP), low voltage OHL and electrical connections in Romanu locality, Braila county	2,77
Acquisition and installation of counters	5,99
Electric power supply for social housing micro 17, Galati city	2,05
Modernization and SCADA system integration of 110/20 kV Vernesti substation	4,44
Modernization and SCADA system integration of 110/20 kV Gaesti sustation	4,79
Modernization of 110kV separators in FDEE SDMN transformer stations	4,48
VKLF / VKLS insulation replacement for metal and concrete pillars mounted on high-voltage overhead lines (110 kV OHL) from FDEE SDMN 106 area	2,74
Replacement of primary switching equipment to 110kV cells in the SDEE - SDMN (Bordei Verde, Coltea, km221, Lacu Rezi, Lebada, Lunca, Port Braila, Spiru Haret, Urleasca, Zatna, Faurei, Buzau Est, Ceil Focsani, Inetof, Moreni, Lespezi)	2,12
Automation system for distribution of MV OHL, STAGE - V, vol 1 (Braila, Focsani, Galati)	20,45
Automation system for distribution of MV OHL, STAGE - V, vol 2 (Buzau, Ploiesti)	22,32
Automation system for distribution of MV OHL, STAGE - V, vol 3 (Braila, Targoviste)	24,57
Replacement of 110/MT power transformers with low loss transformers	8,33
Modernization of equipments for aerial transformation points - stage 1	27,42
Modernization of power substations and SCADA system integration of SDMN - vol 2	4,71
Repairs of the network affected by the meteorological phenomena from 19.04.2017 to 22.04.2017, Galati county	11,41
TRANSILVANIA NORD	
Modernization and systematization of 110/ 20kV CET 2 substation - stage I	4,2
Reconstruction and refurbishment of 110kV OHL Baciu-Baia Mare 3	4,6
Increase of power supply reliability of users connected in 110/MV Somcuta substation	2,7
Increase of power supply reliability of users connected in 110/MV Beclean	4.5
Modernization of 110/35/20/10/6kV Baia Mare 1 substation	4,5
Modernization of 110 KV cells in SDEE TN substations	2,0
Modernization of networks and transformer points in Beius	2,2
Modernization of 110/20/6 kV Stei substation	2,1
Modernization of transformer points in Oradea	2,3
Modernization of transformer points powered from 110/20 kV Iosia and Fufarul substation in Oradea locality, Bihor county	3,9
Transformer replacement 20/0.4 kV SDEE Cluj Napoca	2,9
Replacement of low-voltage conductors in Satu Mare	2,3
Replacement of 110/20 kV power transformers with low loss transformers	16,3
Change of low-voltage conductors in Cluj-Napoca city	3,2
Replacement of MT/JT transformers in Oradea transformer points - Stage 2016	2,1
Construction of 20 kV bus-bar in the 110/6 kV Turda substation	2,0

Integration into SCADA system of the 110 KV substation, Phase III –IV	2,7
Increase of the power supply reliability for users connected in 110/MV Salonta substation	4,6
Increase of power supply reliability for users connected in 110/MV Aeroport-Oradea Sud substation	2,1
Modernization of 110/6 KV Poiana substation and new 20kV bus-bar construction	4,0
Switch to 20 kV distribution in Satu Mare area	3,9
Switch to 20 kV distribution in Zalau area	2,3
Optimization of central points Cluj and Oradea, implementation and installation EMS application with DMS Cluj update and DMS Oradea implementation - stage 2, EMS/DMS Oradea	5,2
Construction of MV underground cables in order to increase of power supply reability of users located in Baile Felix area, Bihor county	2,1
Switch to 20 kV distribution of SDEE SATU MARE network Distributor: Abator-PA1021Mara- Abator	2,7
Switch from 6 kV to 20 kV of network distibution from Carei city	1,6
Mounting of automatic reclosers and remote contolled separators in SD Zalau	2,5
TRANSILVANIA SUD	
Replacement of MV/LV transformers with low losses transformers	27,3
Replacement of 110 kV/MV power transformers with low losses transformers	15,3
Distribution Automation System point of transformation/point of connection - stage 3	14,9
Modernization of 110 KV cells in SDEE TS substations	4,97
Integration of substations belonging to CEM 110 kV Brasov in SCADA DMS system of S.C. FDEE Electrica Distributie Transilvania Sud S.A.	3,7
Increase of power supply reliability on 20 kV side of 110/20/6 kV ICA Ghimbav substation, Brasov county	3,6
Switch to 20 kV of 6 kV OHL Zarnesti and increase of power supply reliability for Magura area, Pestera locality, Brasov County - Objective 1	8,7
Modernization of electricity supply installations for flats housing within SDEE Brasov	4,5
Modernization of low votage OHL and electrical connections in Budila locality, Brasov county	2,5
Switch to 20 kV of 6 kV OHL Zarnesti and increase of power supply reliability for Magura area, Pestera locality, Brasov County - Objective 2 (Works in 110/20/6 kV Tohan substation)	3,2
Voltage level improvement and modernization of low voltaje OHL-s in Lisa locality, Brasov county	2
Voltage level improvement and modernization of low voltaje OHL-s in Hoghiz locality, Brasov county	2
Increase of power supply reliability of 110/20 kV Intorsura Buzaului substation, Covasna county	2,4
Conductor replacements of low voltaje OHL-s and modernization of electrical connections in PL Baraolt, Covasna Voltage level improvement and modernization of low voltaje OHL-s in Lisa locality, Brasov countycounty	6,4
Conductor replacements of low voltaje OHL-s and modernization of electrical connections in PL Covasna si Intorsatura Buzaului, Covasna county	3,3
Conductor replacements of low voltaje OHL-s and modernization of electrical connections in CE Tg. Secuiesc, Covasna county	5
Conductor replacements of low voltaje OHL-s and modernization of electrical connections in CE Sf. Gheorghe, Covasna county	3,4
Voltage level improvement of low voltaje OHL-s in Bretcu locality, Covasna county	2,4
Modernization of electricity supply installations for flats housing within SDEE Harghita	2,8
Modernization and increase of power supply reliability of 110/20/10 kV Baraj substation, Mures county	5,6
Refurbishment of 110/20 kV Medias substation, Sibiu county	3,6

In 2017, 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 (mil. RON)
MUNTENIA NORD	
Modernization of transformation points, low voltage OHL and electrical connections in Romanu locality, Braila county	2,75
Realisation of electrical connection for social housing micro 17, Galati city	2,10
Electrical meters acquisition and installation	5.99
Protection modernization of 110 kV cells and SCADA system integration of Buzau Nord substation	3,11
Modernization and SCADA system integration of 110/20 kV Vernesti substation	3,85
Modernization and SCADA system integration of 110 kV Laminorul sustation, Galati county	2,47
Modernization and SCADA system integration of Dragaiesti substation	2,21
Modernization and SCADA system integration of 110/20 kV Gaesti substation	3,78
Modernization of 110kV separators in SDEE SDMN substations	4,56
VKLF/VKLS insulation replacement for simple metal and concrete pillars installed on LEA 110 kV SDMN 106 areas	2.89
Replacement of primary commutation equipments to 110 kV cells of FDEE - SDMN substations (Bordei Verde, Coltea, km221, Lacu Rezi, Lebada, Lunca, Port Braila, Spiru Haret, Urleasca, Zatna, Faurei, Buzau Est, Ceil Focsani, Inetof, Moreni, Lespezi)	2,01
Automation system for distribution of MV OHL, STAGE - V, vol 1 (Braila, Focsani, Galati)	21,12
Automation system for distribution of MV OHL, STAGE - V, vol 2 (Buzau, Ploiesti)	22,88
Automation system for distribution of MV OHL, STAGE - V, vol 3 (Braila, Targoviste)	23,43
Replacement of 110/MT power transformers with low loss transformers	8,45
Modernization of equipments for aerial transformation points - stage 1	28,27
Modernization of power substations and SCADA system integration of SDMN - vol 2	4,71
Repairs of the network affected by the meteorological phenomena from 19.04.2017 to 22.04.2017, Galati county	11,41
TRANSILVANIA NORD	
Reconstruction and refurbishment of 110kV OHL Baciu-Baia Mare 3 double circuit with Dej, in stretch panel 293-310	4,6
Modernization of 110/20kV Salonta substation	2,1
Increase of power supply reliability of users connected in 110/MV Somcuta and 110/MV Beclean substations	4,5
Modernization and systematization of 110/ 20kV CET 2 substation - stage I	7,1
Modernization of 110/35/20/10/6kV Baia Mare 1 substation	2,1
Modernization of 110 KV cells in SDEE TN substations	3,0
Modernization of points of transformation in concrete construction in Beius city - 20 kV cable lines	3,2
Modernization onf MV networks - 57 works	20,8
Modernization of transformation points - 19 works	5,8
Replacement of 110/MV power transformers with low losses transformers SDEE TN	17,8
Replacement of transformer of SD Baia Mare point of transformation – stage 2017	2,1
Replacement of LV bare conductors with twisted conductors - 71 works	18,8
Replacement of MV/LV transformers with low losses transformers - 4 works	2,2
Increasing of distribution capacity to 20 kV of 110/20/10 kV CAMPULUI substation	4,1
Construction of 20 kV bus-bar in the 110/6 kV Turda substation	4,1
Modernization of 35/6 kV BAIA SPRIE 2 substation and new 20 kV bus-bar construction	2,3
SCADA stage III - preparation works for SCADA system integration - 15 substations	2,1
SCADA stage IV - SCADA system integration - 14 substation	6,9
Modernization of 110/6 KV Poiana substation and new 20kV bus-bar construction	2,4
Optimization of central points Cluj and Oradea, implementation and installation of EMS application with DMS Cluj update and DMS Oradea implementation – stage 2	5,1
Increase of power supply reliability of users from Salonta city – MV cable lines	5,8
Increase of power supply reliability for users connected in 110/MV Aeroport-Oradea Sud substation	3,9

Modernization of low voltage networks in Beius and Salonta	6,7
Switch to 20 kV distributors of CET 1 substation – OHL 20 kV – 5,65 km	2,7
Automation of distribution – modernization of transformer points (32 works)	2,0
Switch of 20 kV OHL to cable line with new LV loop creation, industrial area, Zalau city	2,7
Switch to 20 kV distribution of SDEE SATU MARE network Distributor: Abator-PA1021 Mara- Abator	2,9
Mounting of automatic reclosers and remote contolled separators in SD Zalau	2,1
Increase of power supply reliability by closing loop in MV and LV networks – 12 works	4,3
Decentralization of network distribution and network power injection – 22 works	4,1
Voltage level improvement of low voltage networks - 64 works	18,1
Modernization of LV lines and electrical connections - 78 works	26,7
Switch of 6 kV and 10 kV networks to 20 kV nominal tension	2,9
Smart Metering and integration of measurement points in the power balance system	3,1

TRANSILVANIA SUD	
Replacement of MV/LV transformers with low losses transformers	27,3
Extension of Distribution Automation System (SAD) at point of transformation/point of connection (TP/PC) – stage 3	16,3
Replacement of 110 kV/MV power transformers with low losses transformers	15,3
Modernization of 110 KV cells in SDEE TS substations	5,4
Integration of substations belonging to CEM 110 kV Brasov in SCADA DMS system of S.C. FDEE Electrica Distributie Transilvania Sud S.A.	3,7
Switch to 20 kV of 6 kV OHL Zarnesti and increase of power supply reliability for Magura area, Pestera locality, Brasov County - Objective 1	7
Increase of power supply reliability on 20 kV side of 110/20/6 kV ICA Ghimbav substation, Brasov county	3,8
Modernization of 110/20/6 kV Predeal substation and switch to 20 kV RED Predeal, Brasov county - Objective 2 and Objective 3, Brasov county	2,6
Modernization of electricity supply installations for flats housing within SDEE Brasov	5,4
Modernization of 110/20/6 kV Predeal substation and switch to 20 kV RED Predeal, Brasov County - Objective 2: Switch to 20 kV EDN Predeal, Brasov county	2,4
Modernization of low votage OHL and electrical connections in Budila locality, Brasov county	2,7
Decentralization of MV OHL, replacement of conductors of LV OHL and modernization, electrical connections securing in Mandra locality, Brasov county	2
Switch to 20 kV of 6 kV OHL Zarnesti and increase of power supply reliability for Magura area, Pestera locality, Brasov County - Objective 2 (Works in 110/20/6 kV Tohan substation)	3,4
Voltage level improvement of low voltage OHL-s and electrical connections Purcareni, in Purcareni locality, Brasov county	2,1
Voltage level improvement and modernization of low voltaje OHL-s in Lisa and Hoghiz, Brasov county	4,3
Increase of power supply reliability of 110/20 kV Intorsura Buzaului substation, Covasna county	2,6
Conductor replacements of low voltaje OHL-s and modernization of electrical connections in PL Baraolt, Covasna county	6,6
Conductor replacements of low voltaje OHL-s and modernization of electrical connections in PL Covasna si Intorsatura Buzaului, Covasna county	3,2
Conductor replacements of low voltaje OHL-s and modernization of electrical connections in CE Tg. Secuiesc and Sf. Gheorghe, Covasna county	8,4
Improvement voltage level of low voltaje OHL-s in Bretcu locality, Covasna county	2,4
Modernization of electricity supply installations for flats housing within SDEE Harghita	2,9
Modernization and increase of power supply reliability of 110/20/10 kV Baraj substation, Mures county	6,6
Refurbishment of 110/20 kV Medias substation, Sibiu county	4

APPENDIX 3

INTERNAL AUDIT REPORT FOR 2017

The Annual Audit plan prepared for 2017, endorsed by the Audit & Risk Committee and approved by the Board of Director, provided a total of seven missions planned for 2017 on the following auditable areas: marketing, legal, technical, procurement, transport, investments, financial-accounting activity. This plan was developed with the aim to determine the effectiveness of the internal controls within the company.

In 2017, at the request of the Board of Directors/CEO, three ad-hoc audit missions were carried out on the following specific subjects:

1. The assessment of the procurement of goods, services and works within Electrica and its distribution subsidiaries (SDTN, SDMN, SDTS) approved by the Chairman of the Audit and Risk Committee.
2. Analysis of the performance indicators established for the general managers of the distribution subsidiaries, at the CEO request;
3. Method of settlement of the treatment and rest tickets within Electrica and its subsidiaries (SDTN, SDMN, SDTS, EFSA and FISE), at the CEO request.

Conclusions

In the first semester of 2017, 3 internal audit missions were carried out in different organizational structures, according to the Annual Internal Audit Plan, 11 audit reports being drafted that have included a total of 160 recommendations, 22 of which had a high degree of risk in case of non-implementation. The missions carried out in the first semester are:

- Assessment of the Marketing activity in the electricity supply business within Electrica and EFSA
- Coordination and monitoring of investments within the distribution subsidiaries (SDTN, SDMN, SDTS)
- Assessment of the IT activity within Electrica Group companies.
- Assessment of the performance indicators established for the distribution subsidiaries' CEOs (SDTN, SDMN, SDTS), at the request of the CEO.

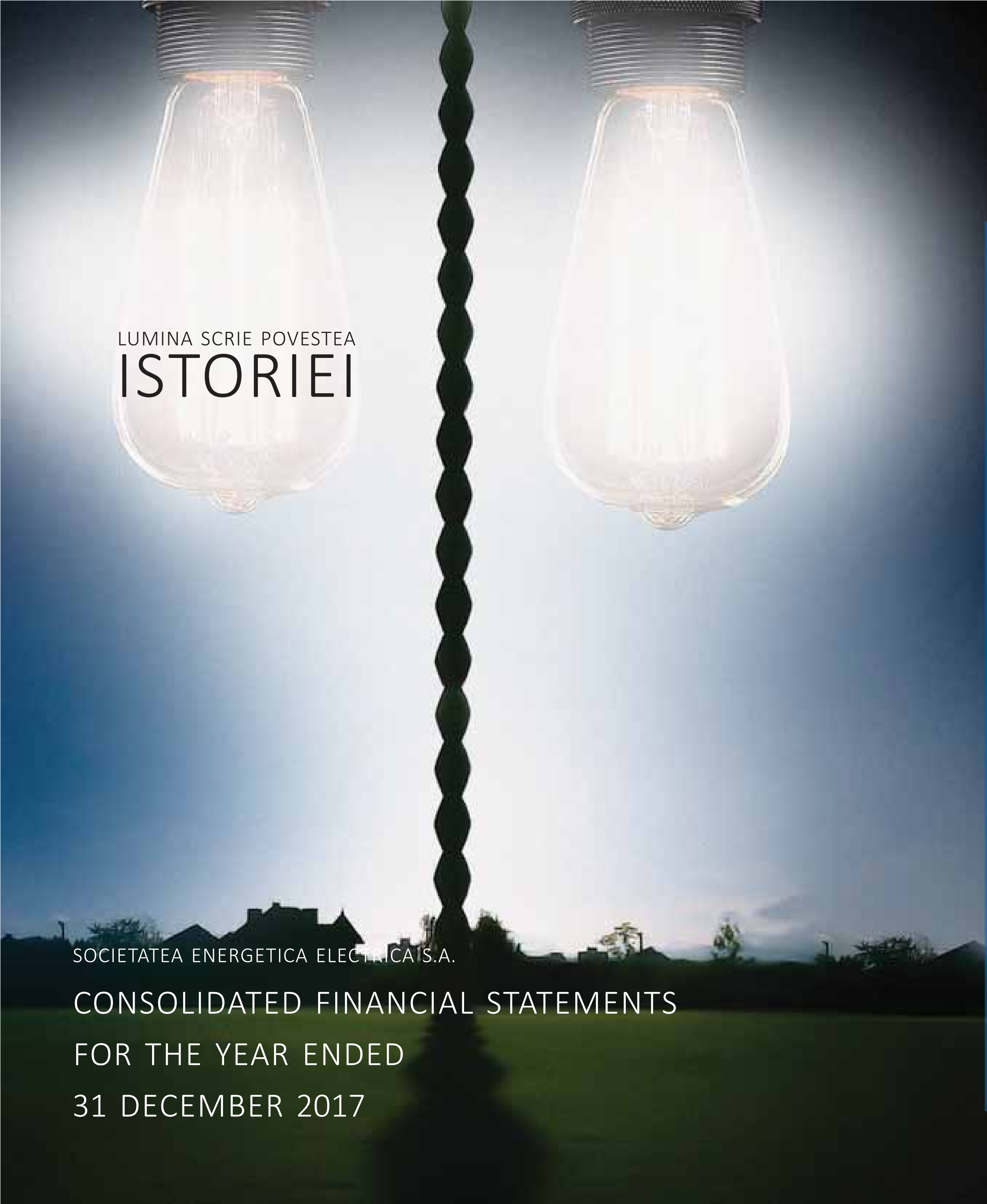
In the second semester of 2017, 4 audit missions were carried out included both in the annual plan as well as ad-hoc missions carried out at the request of the company's management, as follows:

- 1 audit mission, according to the annual internal audit plan, on the topic of Analysis of the services provided by third parties and procurement of electricity, being elaborated an Audit Report that comprised 6 recommendations.
- 3 ad-hoc audit missions during which 11 audit reports were issued, which included a total of 58 recommendations.

All the missions were conducted by teams of two internal auditors, in some cases with the co-optation of specialists from the Control Department, supervised by the internal audit mission coordinator.

The internal audit reports that were based on the Mission mandate approved by the Chairman of the Audit and Risk Committee, were endorsed by the executives of the audited entities, endorsed by the Audit Committee of Electrica S.A, and the implementation of the recommendations has been and is continuously monitored through their tracking sheets. Following the completion of the audit missions and the acceptance of the recommendations by those concerned, the audited structures prepare their own action plans in order to comply with the recommendations.

During 2017, the Manual of Policies and Procedures was updated, based on the model presented by Romanian Chamber of Financial Auditors ("CAFR"), an organization that has fully mastered the International Standards for the Professional Practice of the Internal Auditor. The assessment system of the implementation priority of recommendations based on the generated risk and on the probability of occurrence thereof was implemented. The Audit Procedures Manual was endorsed by the Audit Committee and approved by the Company's Board of Directors.



LUMINA SCRIE POVESTEA

ISTORIEI

SOCIETATEA ENERGETICA ELECTRICA S.A.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017 PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

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SOCIETATEA ENERGETICA ELECTRICA S.A.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

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

	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Intangible assets related to concession arrangements	23	4,330,909	3,910,388
Other intangible assets	23	14,053	17,218
Property, plant and equipment	22	701,510	701,962
Restricted cash	21	320,000	134,492
Deferred tax assets	17	41,100	39,668
Other non-current assets		1,305	1,741
Total non-current assets		**5,408,877**	**4,805,469**
Current assets			
Trade receivables	18	804,361	777,989
Other receivables	20	55,534	20,030
Cash and cash equivalents	21	562,493	888,841
Deposits, treasury bills and government bonds	19	746,981	1,875,054
Inventories		21,620	22,750
Prepayments		3,692	5,635
Green certificates		12,643	-
Income tax receivable	17	1,134	2,385
Total current assets		**2,208,458**	**3,592,684**
Total assets		**7,617,335**	**8,398,153**
EQUITY AND LIABILITIES			
Equity			
Share capital	24	3,814,242	3,814,242
Share premium		103,049	103,049
Treasury shares reserve	24	(75,372)	(75,372)
Pre-paid capital contributions in kind from shareholders		5,144	5,144
Revaluation reserve	24	123,748	104,681
Legal reserves	24	326,779	302,236
Retained earnings		1,357,966	1,429,908
Total equity attributable to the owners of the Company		**5,655,556**	**5,683,888**
Non-controlling interests	25	-	836,599
Total equity		**5,655,556**	**6,520,487**

	Note	31 December 2017	31 December 2016
Liabilities			
Non-current liabilities			
Financing for network construction related to concession agreements	26	11,122	41,617
Deferred tax liabilities	17	200,504	195,689
Employee benefits	15	165,448	192,965
Other payables	28	40,440	44,921
Long-term bank borrowings	30	320,000	127,733
Total non-current liabilities		**737,514**	**602,925**
Current liabilities			
Financing for network construction related to concession agreements	25	32,709	85,513
Bank overdrafts	21	247,904	142,626
Trade payables	27	689,405	722,830
Other payables	28	134,226	160,890
Deferred revenue		7,364	4,415
Employee benefits	15,16	78,918	83,972
Provisions	29	29,889	62,407
Current income tax liability		3,850	12,088
Total current liabilities		**1,224,265**	**1,274,741**
Total liabilities		**1,961,779**	**1,877,666**
Total equity and liabilities		**7,617,335**	**8,398,153**

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

Chief Executive Officer	**Chief Financial Officer**
Dan Catalin Stancu	Mihai Darie

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Note	2017	2016
Revenues	9	5,603,235	5,517,802
Other income	11	173,487	243,454
Electricity purchased	10	(2,972,793)	(2,756,032)
Green certificates		(372,878)	(401,382)
Construction costs related to concession agreements	23	(745,332)	(528,372)
Employee benefits	16	(642,418)	(654,383)
Repairs, maintenance and materials		(61,724)	(44,077)
Depreciation and amortization	22,23	(395,601)	(373,096)
Impairment of property, plant and equipment, net	22,23	(8,805)	(695)
Impairment of trade and other receivables, net	18,20	(12,864)	(40,614)
Change in provisions, net	29	32,518	65,206
Other operating expenses	11	(399,791)	(441,959)
Operating profit		**197,034**	**585,852**
Finance income	12	20,116	20,037
Finance costs	12	(10,399)	(16,856)
Net finance income		**9,717**	**3,181**
Profit before tax		**206,751**	**589,033**
Income tax expense	17	(35,192)	(120,136)
Profit for the year		**171,559**	**468,897**
Profit for the year attributable to:			
-owners of the Company		127,730	356,566
-non-controlling interests	25	43,829	112,331
Profit for the year		**171,559**	**468,897**
Earnings per share			
Basic and diluted earnings per share (RON)	**13**	**0.38**	**1.05**

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

Chief Executive Officer	**Chief Financial Officer**
Dan Catalin Stancu	Mihai Darie

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Note	2017	2016
Profit for the year		**171,559**	**468,897**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Remeasurements of the defined benefit liability	15	19,173	4,792
Tax related to remeasurements of the defined benefit liability	17	(1,300)	(768)
Revaluation of property, plant and equipment	24	55,874	-
Related tax	24	(8,940)	-
Other comprehensive income, net of tax		**64,807**	**4,024**
Total comprehensive income		**236,366**	**472,921**
Total comprehensive income attributable to:			
owners of the Company		192,537	359,555
non-controlling interests		43,829	113,366
Total comprehensive income		**236,366**	**472,921**

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

Chief Executive Officer	**Chief Financial Officer**
Dan Catalin Stancu	Mihai Darie

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Note	Attributable to the owners of the Company								Non-controlling interests	Total equity
		Share capital	Share premium	Treasury shares	Pre-paid capital contributions in kind from shareholders	Revaluation reserve	Legal reserves	Retained earnings	Total		
Balance at 1 January 2017		**3,814,242**	**103,049**	**(75,372)**	**5,144**	**104,681**	**302,236**	**1,429,908**	**5,683,888**	**836,599**	**6,520,487**
Comprehensive income											
Profit for the year		-	-	-	-	-	-	127,730	**127,730**	43,829	**171,559**
Other comprehensive income		-	-	-	-	46,934	-	17,873	**64,807**	-	**64,807**
Total comprehensive income		**-**	**-**	**-**	**-**	**46,934**	**-**	**145,603**	**192,537**	**43,829**	**236,366**
Transactions with owners of the Company											
Contributions and distributions											
Dividends to the owners of the Company	24	-	-	-	-	-	-	(251,405)	**(251,405)**	-	**(251,405)**
Total contributions and distributions		**-**	**-**	**-**	**-**	**-**	**-**	**(251,405)**	**(251,405)**	**-**	**(251,405)**
Changes in ownership interests											
Acquisition of NCI without a change in control		-	-	-	-	-	-	30,536	30,536	(782,559)	(752,023)
Total changes in ownership interests		**-**	**-**	**-**	**-**	**-**	**-**	**30,536**	**30,536**	**(782,559)**	**(752,023)**
Total transactions with owners of the Company								**(220,869)**	**(220,869)**	**(782,559)**	**(1,003,428)**
Other changes in equity											
Dividends to non-controlling interests	24	-	-	-	-	-	-	-	-	(97,869)	(97,869)
Set up of legal reserves	24	-	-	-	-	-	24,543	(24,543)	-	-	-
Transfer of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment	24	-	-	-	-	(27,867)	-	27,867	-	-	-
Balance at 31 December 2017		**3,814,242**	**103,049**	**(75,372)**	**5,144**	**123,748**	**326,779**	**1,357,966**	**5,655,556**	**-**	**5,655,556**
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	24	-	-	-	-	-	-	(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	24	-	-	-	-	-	-	-	-	(105,724)	**(105,724)**
Set up of legal reserves	24	-	-	-	-	-	28,337	(28,337)	-	-	-
Transfer of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment	24	-	-	-	-	(29,251)	-	29,251	-	-	-
Loss of control over subsidiaries in financial distress	24	-	-	-	-	(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**

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

SOCIETATEA ENERGETICA ELECTRICA SA
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Note	2017	2016
Cash flows from operating activities			
Profit for the year		**171,559**	**468,897**
Adjustments for:			
Depreciation	22	32,013	40,886
Amortisation	23	363,588	332,210
Impairment loss of property, plant and equipment, net	22	8,805	695
Loss/(Gain) on disposal of property, plant and equipment		4,576	**(8,015)**
Impairment of trade and other receivables, net	18,20	12,864	40,614
Change in provisions, net	29	**(32,518)**	**(65,206)**
Net finance income	12	**(9,717)**	**(3,181)**
Gain on loss of control over subsidiaries in financial distress	11,33	-	**(73,693)**
Income tax expense	17	35,192	120,136
		586,362	**853,343**
Changes in :			
Trade receivables		(196,138)	(88,336)
Other receivables		(28,487)	33,954
Deposits, treasury bills and government bonds		8,321	(4,943)
Prepayments		1,943	3,825
Green certificates		(12,643)	31,304
Restricted cash		(185,508)	(134,492)
Inventories		1,130	508
Trade payables		120,741	150,682
Other payables		(24,610)	(34,854)
Employee benefits		(14,698)	5,323
Deferred revenue		2,949	-
Cash generated from operating activities		**259,362**	**816,314**
Interest paid		(2,237)	(4,575)
Income tax paid		(53,206)	(93,722)
Net cash from operating activities		**203,919**	**718,017**

	Nota	2017	2016
Cash flows from investing activities			
Payments for purchases of property, plant and equipment		(52,949)	(32,140)
Payments for network construction related to concession agreements		(726,729)	(500,262)
Payments for purchase of other intangible assets		(2,390)	(7,530)
Proceeds from sale of property, plant and equipment		2,559	27,829
Payments for purchase of treasury bills and government bonds	19	(543,114)	(2,437,538)
Proceeds from maturity of treasury bills and government bonds	19	1,838,245	2,436,404
Increase in deposits with maturity of 3 months or longer		(995,625)	(300,895)
Proceeds from deposits with maturity of 3 months or longer		820,320	419,799
Interest received		20,042	18,358
Effect on loss on control over subsidiaries on cash		-	(1,609)
Consideration paid to acquire non-controlling interests		(752,030)	-
Net cash used in investing activities		**(391,671)**	**(377,584)**
Cash flows from financing activities			
Proceeds from long term bank loans		192,267	127,733
Proceeds from short term bank loans		-	-
Repayment of long term bank loans		-	(9,900)
Repayment of short term bank loans		-	(50,000)
Dividends paid	24	(349,373)	(396,922)
Repayment of financing for network construction related to concession agreements	26	(86,768)	(92,658)
Net cash used in financing activities		**(243,874)**	**(421,747)**
Net decrease in cash and cash equivalents		**(431,626)**	**(81,314)**
Cash and cash equivalents at 1 January	21	746,215	827,529
Cash and cash equivalents at 31 December	**21**	**314,589**	**746,215**

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

The non-cash transactions are disclosed in Note 21.

Chief Executive Officer	**Chief Financial Officer**
Dan Catalin Stancu	Mihai Darie

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017
(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 sole registration code 13267221 and Trade Register registration number J40/7425/2000.

As at 31 December 2017 and 2016 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 6.9247% (2016: 8.66%).

The Company's subsidiaries are the following:

Subsidiary	Activity	Tax code	Head Office	% shareholding as at 31 Dec 2017	% shareholding as at 31 Dec 2016
Societatea de Distributie a Energiei Electrice Muntenia Nord S.A.	Electricity distribution in geographical area of Muntenia Nord	14506181	Ploiesti	99,9999696922382%	78.0000021%
Societatea de Distributie a Energiei Electrice Transilvania Nord S.A.	Electricity distribution in geographical area of Transilvania Nord	14476722	Cluj-Napoca	99,9999829770757%	77.99999%
Societatea de Distributie a Energiei Electrice Transilvania Sud S.A.	Electricity distribution in geographical area of Transilvania Sud	14493260	Brasov	99,999976413243%	78.0000019%
Electrica Furnizare S.A.	Electricity Supply	28909028	Bucuresti	99,9998390431663%	77.99997%
Electrica Serv S.A.	Services in the energy sector (maintenance, repairs, construction)	17329505	Bucuresti	100%	100%
Servicii Energetice Muntenia S.A.	Services in the energy sector (maintenance, repairs, construction)	29384120	Bucuresti	100%	100%
Servicii Energetice Oltenia S.A.	Services in the energy sector (maintenance, repairs, construction)	29389861	Craiova	100%	100%
Servicii Energetice Moldova S.A.*	Services in the energy sector (maintenance, repairs, construction)	29386768	Bacau	n/a	n/a

**Societatea Energetica Electrica SA lost the control of Servicii Energetice Moldova starting January 2016 when the bankruptcy proceedings of the subsidiary began*

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 33.

Initial public offering

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

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

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

The acquisition of Fondul Proprietatea's holdings in Electrica subsidiaries

Societatea Energetica Electrica S.A. and Fondul Proprietatea have executed on 1 November 2017 the Sale and Purchase Agreements for the acquisition of Fondul Proprietatea's holdings in Electrica subsidiaries (i.e. SDEE Muntenia Nord S.A., SDEE Transilvania Sud S.A., SDEE Transilvania Nord S.A. and Electrica Furnizare S.A.).

The Aggregated Purchase Price of the transaction is RON 752,031,841, reflecting the following four transactions: a total price of RON 209,744,928 for 21.9999979% of the share capital of Societatea de Distributie a Energiei Electrice Muntenia Nord S.A.; RON 201,702,667 for 22.00001% of the share capital of Societatea de Distributie a Energiei Electrice Transilvania Nord S.A.; RON 173,504,365 for 21.9999981% of the share capital of Societatea de Distributie a Energiei Electrice Transilvania Sud S.A.; RON 167,079,881 for 22.000027% of the share capital of Electrica Furnizare S.A.

Out of the total number of shares held by Fondul Proprietatea in each subsidiary, ten shares of each of the subsidiaries were transferred to other group companies, as follows: 10 shares, representing 0.0000282195174818077% of the share capital, held in SDEE Muntenia Nord S.A. to SDEE Transilvania Sud S.A. for a total price of RON 269; 10 shares, representing 0.0000269350068519964% of the share capital, held in SDEE Transilvania Nord S.A. to SDEE Muntenia Nord S.A. for a total price of RON 247; 10 shares, representing 0.0000235867191675586% of the share capital, held in SDEE Transilvania Sud S.A. to SDEE Transilvania Nord S.A. for a total price of RON 186; 10 shares held in Electrica Furnizare S.A. to Societatea Filiala de Intretinere si Servicii Energetice Electrica Serv S.A. for a total price of RON 1,223.

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017 (All amounts are in THOUSAND RON, if not otherwise stated)

(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 substantiation 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 setting methodology for the tariff of distribution of electricity is approved by ANRE Order no. 72/2013 with subsequent amendments (Orders no. 112/2014, no. 146/2014 and no. 165/2015). The specific distribution tariffs applicable for the years 2017 and 2016 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			Order 173, 171, 172/14.12.2015		
	1 January-31 December 2017			1 January-31 December 2016		
	High voltage	Medium voltage	Low voltage	High voltage	Medium voltage	Low voltage
Transilvania Nord	19.05	60.98	157.71	19.93	64.20	167.74
Transilvania Sud	20.63	61.64	165.37	21.22	63.58	172.02
Muntenia Nord	14.79	48.46	157.81	15.93	52.60	171.38

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, revenues from reactive energy and revenues from other activities.

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 noncontrollable 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 2018 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 115, 114, 116/12.12.2017		
	1 January-31 December 2018		
	High voltage	Medium voltage	Low voltage
Transilvania Nord	18.73	60.11	157.35
Transilvania Sud	20.29	60.38	160.80
Muntenia Nord	14.79	46.33	155.71

Regulatory asset base (RAB)

In accordance with the Methodology of establishing the tariffs for distribution of electricity approved through ANRE Order no. 72/2013 with subsequent amendments (Orders no. 112/2014, no. 146/2014 and no. 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. In RAB are not included land, current assets, assets put into conservation, inventories, as well as the tangible assets financed through financial contributions, whichever their source might be.

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 value of the revaluation 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; failure to meet the approved investments programme if the annual realised value is lower than the annual value previously approved; and revenues generated from other operations made by the distribution operator.

At the end of each regulated period, ANRE performs corrections for the controllable costs and for investments, as follows:

- The revenue resulted from exceeding/failing to accomplish the investments approved by ANRE, in any year of the regulated period p, are reduced from/added to the revenue related to the regulated period p+1;
- At the computation of the target income for the first year of the regulated period p+1, the authority determines the value related to the efficiency gain above the approved values for the regulated period p and allocates 50% from these to the users (the mechanism of gain splitting).

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 2017 the Group is in an over-recovery position of approximately RON 234 million (2016: RON 332 million), which will be deducted from the tariffs for subsequent year.

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 (repealed by Orders no 82/2013 and 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-center, 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" ("CMC") in the invoice to customers that did not use the eligibility right. The CMC 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 CMC pricing proposals to ANRE for approval and the related calculations for the 3 distinct voltage levels.

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 to market operations and supply) and the operating supply costs of 4.7 RON/client/month in 2017.

In 2017, the household consumers have been invoiced, according to the timetable, with a tariff that consists in a mix between a regulated tariff component (20%- for first semester and 10% for the second semester) and a competitive market component, "CMC" (80% for the first semester and 90% for the second semester). Non-household customers that benefit from the universal service were invoiced with last resort tariffs ("LR") for 100% from the realised consumption.

The tariffs for electricity supplied under regulated regime in 2017 are those established by ANRE Order no. 115/2016 for the first semester and ANRE Order no 50/2017, for the second semester.
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.

For 2017, the mandatory annual quota for green certificates was established by ANRE through Order no. 119/2016 for first semester and Order no. 27/2017 for the period April – December, following that until 1 March 2018, ANRE to establish, also through Order, the annual mandatory quota for the acquisition of green certificates related to 2017, 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 6 March 2018. The financial statements will be submitted for shareholders' approval in the meeting scheduled on 27 April 2018.

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 on the Bucharest Stock Exchange.

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.

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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 18 and 31 – assumptions and estimates about the recoverability of trade receivables;
- Note 6 j) – estimates regarding the useful lives of property, plant and equipment;
- Note 22 - assumptions regarding the revalued amount of property, plant and equipment;
- Note 33 – assumptions and estimates regarding the measurement of assets of the subsidiaries under financial distress;
- Note 17 – recognition of deferred tax assets: availability of future taxable profit against which tax loss carried forward can be used;
- Notes 29 and 34 – recognition and measurement of provisions and contingencies;
- Note 15 – measurement of defined benefit obligations and other long-term employee benefits: key actuarial assumptions.

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.
Further information about the assumptions made in measuring fair values is included in the following notes:

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

5 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the land and buildings which are measured based on revaluation model. The assets and liabilities of the subsidiaries in financial distress are not recognised on a going concern basis but on an alternate basis, as disclosed in Note 3.

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) 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 as expense.

(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.

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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.
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 and office equipment	3-10 (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 amortization and accumulated impairment losses.

(ii) Amortization
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 amortization 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 2017 (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 amortization 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) Amortization
Amortization 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.
Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(M) ASSETS HELD FOR DISTRIBUTION TO SHAREHOLDERS

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.

(v) 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.

(O) 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.

(P) 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.

(Q) 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.

(R) 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.

(S) 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.

(T) LEASES

(i) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease.
At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes that, for a finance lease, it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

(ii) Leased assets

Assets held by the Group under leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets and finance lease liability are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.
Assets held under other leases are classified as operating leases and are not recognised in the Group's consolidated statement of financial position.

(iii) Lease payments

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

(iv) Rental income

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

(u) Segment reporting

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

(v) Subsequent events

Events occurring after the reporting date 31 December 2017, which provide additional information about conditions prevailing at the reporting date (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 date (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

A number of standards were adopted by the EU but are not yet mandatorily effective for the year ending 31 December 2017 and have not been applied in preparing these separate 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 started to apply IFRS 9 on 1 January 2018. The Group concluded that the new requirements, if applied at 31 December 2017, would not had a material impact on its consolidated financial statements.
- IFRS 15 "Revenues 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 started to apply IFRS 15 on 1 January 2018.

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Rendering of services
The Group concluded that no significant differences occurred in the timing of revenue recognition or the net impact on the result for the year.

Transition
The Group adopted IFRS 15 at 1 January 2018, using the retrospective approach. As a result, the Group will apply all of the requirements of IFRS 15 to each comparative period presented.

IFRS 16 "Leases". IFRS 16 is effective for annual periods beginning on or after 1 January 2019. IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. 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 is currently performing the detailed assessment of the impact resulting from the application of IFRS 16.

A number of interpretations were not yet adopted by the EU. Relevant to the Group is IFRIC 23 "Uncertainty over Income Tax Treatments". IFRIC 23 applies for annual periods beginning on or after 1 January 2019. Earlier adoption is permitted. IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. It is sometimes unclear how tax law applies to a particular transaction or circumstance, which may cast uncertainty about a tax treatment adopted in the tax return. Under IFRIC 23, the key test is whether it's probable that the tax authority will accept the entity's chosen tax treatment. Tax obligations recognized in the financial statements may be equal to the related tax return or not, depending on the probability that the tax treatment applied by the entity will be accepted by the tax authorities. The uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty – either the most likely amount or the expected value. The Interpretation also requires companies to reassess the judgements and estimates applied if facts and circumstances change - i.e. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires. IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about: judgements made, assumptions and other estimates used and the potential impact of uncertainties that are not reflected.

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).
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 2017	Electricity supply	Electricity distribution	External electricity network maintenance	Headquarter	Total for reportable segments	Consolidation eliminations and adjustments	Consolidated total
External revenues	4,125,678	1,437,646	39,911	-	5,603,235	-	5,603,235
Inter-segment revenue	98,975	1,238,100	13,821	-	1,350,896	(1,350,896)	-
Segment revenue	**4,224,653**	**2,675,746**	**53,732**	**-**	**6,954,131**	**(1,350,896)**	**5,603,235**
Segment profit before tax	**(1,607)**	**243,190**	**17,368**	**285,013**	**543,964**	**(337,213)**	**206,751**
Net finance (cost)/ income	1,131	(8,505)	108	364,324	**357,058**	(347,341)	**9,717**
Depreciation, amortization and impairment, net	(12,664)	(392,085)	343	-	**(404,406)**	-	**(404,406)**
Gain on control loss over subsidiaries	-	-	-	-	**-**		**-**
EBITDA*	9,926	650,413	6,006	(77,366)	588,979	12,461	601,440
Segment net profit (loss)	1,164	205,227	17,368	285,013	**508,772**	(337,213)	**171,559**
Employee benefits	(78,591)	(522,060)	(15,919)	(25,848)	**(642,418)**	-	**(642,418)**
Segment assets	**1,067,230**	**5,769,629**	**144,458**	**1,222,115**	**8,203,432**	**(586,097)**	**7,617,335**
Trade and other receivables	697,069	447,032	27,909	297	**1,172,307**	(312,412)	**859,895**
Cash and cash equivalents	219,306	208,391	8,802	125,994	**562,493**	-	**562,493**
Restricted cash	-	-	-	320,000	**320,000**	-	**320,000**
Deposits, treasury bills and government bonds	-	-	-	746,981	**746,981**	-	**746,981**
Trade and other payables, and short term employee benefits	710,796	482,322	58,397	12,449	**1,263,964**	(320,975)	**942,989**
Bank overdrafts	-	247,904	-	-	**247,904**	-	**247,904**
Financing for network construction related to concession agreements and bank borrowings	-	363,831	-	-	**363,831**	-	**363,831**
Capital expenditure	10,626	776,901	2,136	1,199	**790,862**	-	**790,862**

**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.*

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

Year ended 31 December 2017	Distribution Muntenia Nord	Distribution Transilvania Nord	Distribution Transilvania Sud	Electricity network maintenance	Eliminations	Total Electricity distribution
External revenues	446,055	469,517	473,767	48,307	-	**1,437,646**
Inter-segment revenue	416,919	383,428	398,949	310,745	(271,941)	**1,238,100**
Segment revenue	**862,974**	**852,945**	**872,716**	**359,052**	**(271,941)**	**2,675,746**
Segment profit /(loss) before tax	**35,823**	**79,190**	**117,660**	**10,516**	**1**	**243,190**
Net finance (cost)/ income	(1,928)	(2,873)	(2,374)	(1,330)	-	**(8,505)**
Depreciation, amortization and impairment, net	(117,911)	(133,304)	(135,455)	(12,807)	7,392	**(392,085)**
EBITDA*	154,904	215,367	255,489	24,653	-	650,413
Net profit	26,567	63,645	101,169	13,846	-	**205,227**
Employee benefits	(139,519)	(138,917)	(134,589)	(120,933)	11,898	**(522,060)**
Segment assets	**1,908,339**	**1,772,965**	**1,691,300**	**469,321**	**(72,296)**	**5,769,629**
Trade and other receivables	138,621	129,961	150,196	100,550	(72,296)	**447,032**
Cash and cash equivalents	96,140	23,972	59,367	28,912	-	**208,391**
Deposits, treasury bills and government bonds	-	-	-	-	-	**-**
Trade and other payables, and short term employee benefits	155,541	185,121	159,883	54,073	(72,296)	**482,322**
Bank overdrafts	21,185	128,511	98,208	-	-	**247,904**
Financing for network construction related to concession agreements and bank borrowings	99,139	121,127	143,565	-	-	**363,831**
Capital expenditure	267,009	253,576	254,180	2,136	-	**776,901**

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 (loss) 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**
Cash restricted	-	-	-	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.*

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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**

**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 2017	31 December 2016
Total assets		
Total assets for reportable segments	8,203,432	8,733,467
Elimination of inter-segment assets	(627,197)	(373,733)
Unallocated amounts	41,100	38,419
Consolidated total assets	**7,617,335**	**8,398,153**
Trade and other receivables		
Trade and other receivables for reportable segments	1,172,307	1,238,096
Elimination of inter-segment trade and other receivables	(312,412)	(438,828)
Unallocated amounts	-	(1,249)
Consolidated trade and other receivables	**859,895**	**798,019**
Trade and other payables and short term employee benefits		
Trade and other payables and short term employee benefits for reportable segments	1,263,964	1,351,950
Elimination of inter-segment trade and other payables and short term employee benefits	(320,975)	(348,348)
Unallocated amounts	-	(1,249)
Consolidated trade and other payables and short term employee benefits	**942,989**	**1,002,353**

9 Revenue

	2017	2016
Electricity distribution and supply	4,728,726	4,892,158
Construction revenue related to concession agreements (Note 26)	760,240	537,872
Repairs and maintenance and other services rendered	101,711	69,544
Re-connection fees	9,542	9,454
Sales of merchandise	3,016	8,774
Total	**5,603,235**	**5,517,802**

10 Electricity Purchased

The cost of electricity purchased increased in the period ended at 31 December 2017, following the significant increase of the prices on the Romanian energy market, mainly in the period January – March 2017, in the context of the highest electricity consumption from the last decades, when record prices were registered, that affected the entire market, generating chain reactions, including abnormal behaviours of some players in the market.

11 Income and expenses

(A) OTHER INCOME

	2017	2016
Rent income	93,576	87,985
Late payment penalties from customers	21,909	24,443
Revenue from clients' notifications	19,478	26,274
Commissions for the collection of radio and TV taxes (Note 28)	3,633	14,312
Compensations received from energy suppliers	5,300	-
Gain on loss of control over subsidiaries (Note 33)	-	73,693
Other	29,591	16,747
Total	**173,487**	**243,454**

(B) OTHER OPERATING EXPENSES

	2017	2016
Rent	70,075	67,332
Meter readings	35,452	34,855
Printing and distribution of invoices	32,901	33,041
Cash collection services	26,095	30,964
IT services	26,192	32,258
Postage and telecommunication	11,622	18,984
Utilities	31,226	27,115
Security	7,010	9,921
Call centre	8,805	7,747
Penalties for late payment and other payments to the State	3,181	63,140
Commercial penalties	25,809	-
Other taxes and duties	46,895	48,262
Legal and consultancy fees	4,413	3,819
Cost of merchandise sold	1,881	4,791
Bank commissions	1,091	2,271
Recontracting costs	8,502	-
Other	58,641	57,459
Total	**399,791**	**441,959**

"Penalties for late payment and other payment to the State" in 2016 includes an amount of RON 58,127 thousand in connection with disputes with the National Agency for Fiscal Administration "NAFA", for several claims related to a prior fiscal inspection reports.

In 2010, Electrica SA was sued by Termoelectrica S.A., claiming the payment of 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, but the court definitively admits the case and forces Electrica to the payment of the amount of RON 25,048 thousand and to the payment of the court charges amounting RON 762 thousand. Therefore the amount of RON thousand 25,809 „Commercial penalties" in 2017 refers only to penalties and court charges related to Termoelectrica dispute. These amounts are presented in "Commercial penalties" in the table above.

12 Net finance income

	2017	2016
Interest income	20,052	17,935
Other finance income	64	2,102
Total finance income	**20,116**	**20,037**
Interest expense	(3,390)	(4,439)
Interest (cost)/income for employee benefits (Note 15)	(6,346)	(10,728)
Foreign exchange losses	(663)	(1,689)
Total finance costs	(10,399)	(16,856)
Net finance income	**9,717**	**3,181**

13 Earnings per share

The calculation of basic and diluted earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding:

Profit attributable to ordinary shareholders	2017	2016
Profit for the year attributable to the owners of the Company	127,730	356,566
Profit attributable to ordinary shareholders	**127,730**	**356,566**

Weighted-average number of ordinary shares (in number of shares)	2017	2016
Issued ordinary shares at 1 January (Note 24)	**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	2017	2016
Basic and diluted earnings per share (RON)	0.38	1.05

14 Short-term employee benefits

	31 December 2017	31 December 2016
Personnel payables	34,162	36,743
Current portion of defined benefit liability and other long-term employee benefits	8,216	10,260
Social security charges	27,890	27,859
Tax on salaries	8,650	9,059
Termination benefits payable	-	51
Total	**78,918**	**83,972**

For details of the related employee benefit expenses, see Note 16.

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

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15 Post-employment and other long-term employee benefits

In accordance with Government Decisions no. 1041/2003 and no. 1461/2003, the Group provides benefits in kind in the form of free electricity to retired employees of the Group.
The Group also provides cash benefits to employees depending on seniority and years of service at retirement.
In 2017 and 2016, employee benefit obligations were computed by independent actuaries using the projected unit credit method with benefits calculated proportionally to period of service.

	31 December 2017	31 December 2016
Defined benefit liability	105,451	124,445
Other long-term employee benefits	68,213	78,780
Total	**173,664**	**203,225**
- Current portion*	8.216	10.260
- Non-current portion	165.448	192.965

**included in Personnel payables in Note 14*

(i) Movement in the defined benefit liability and other long-term employee benefits
The following tables shows a reconciliation from the opening balances to the closing balances for the defined benefit liability and other long-term employee benefits and its components. There are no plan assets.

Defined benefit liability	**2017**	**2016**
Balance at 1 January	**124,445**	**126,322**
Included in profit or loss		
Current service cost	668	2,383
Interest (income) / cost	4,608	8,003
Included in other comprehensive income		
Remeasurements loss (gain)		
- Actuarial loss /(gain)	(19,173)	(4,792)
Other		
Benefits paid	(5,097)	(7,471)
Balance at 31 December	**105,451**	**124,445**

Other long-term employee benefits	**2017**	**2016**
Balance at 1 January	**78,780**	**79,790**
Included in profit or loss		
Current service cost	2,494	2,331
Actuarial gain	(11,770)	(3,432)
Interest cost /(income)	1,738	2,725
Benefits paid	(3,029)	(2,634)
Balance at 31 December	**68,213**	**78,780**

(ii) Actuarial assumptions

The following were the main actuarial assumptions at each reporting date:

(a) Macroeconomic assumptions:

- inflation. The actuaries used information from National Forecast Commission:

Year	Valuation date 31 December 2017	Valuation date 31 December 2016
2017	-	-
2018	2.6%	2.3%
2019	2.2%	2.2%
2020	2%	2%
2021+	1.8%	2%

- the discount rate used was the yield for Romanian government bonds maturing in 15 years at the reporting date, of 4.5% for the year 2017 (2016: 3.63%);
- the electricity price per KWh used is 0.4372 RON at 31 December 2017 (2016: 0.4576 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, but also considering the foreseen changes starting January 1st, 2018 .

(b) Group specific assumptions:
- Gross salaries' growth rate for 2018 is 19.9%. Starting January 1st 2018, as a result of Government Emergency Ordinance No. 79 updating the Fiscal Code, some social security contributions were transferred from the employer to the employee; the Group has adopted measures aimed at preserving the net salaries of the employees, which required increases of 19,9% of the gross salaries, as an effect of contributions transfer For the years 2019 and 2020, the assumed salary increases correspond to the inflation forecast by the National Forecasting Commission. Starting 2021, salaries' growth is forecast at 1.8% per year;
- Employees' turnover: turnover rate for 2018 was determined considering the expected staff variation for the year, and for the following years the historical data for 2013-2017 were considered;
- Jubilee and retirement bonuses granted based on seniority per the collective labour contract, as follows:

Jubilee bonus based on years of service	**No of gross monthly base salaries**	
Seniority	**31 December 2017**	**31 December 2016**
20 years	0.8	0.8
30 years	1.6	1.6
35 years	2.4	2.4
40 years	3.2	3.2
45 years	4	4

Retirement bonus based on years of service in the Group

Seniority	**31 December 2017**	**31 December 2016**
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 of charge 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 or dies.

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:

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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	3
3 - 5 years	6
5 - 10 years	7
10 - 20 years	11
More than 20 years	16

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.

16 Employee benefit expenses

	2017	2016
Average number of employees	9,210	10,000
Number of employees at 31 December	8,792	9,685
Wages and salaries*	463,413	481,867
Social security contributions	117,005	118,865
Meal tickets	22,006	19,433
Termination benefits	51,892	39,418
Total employees benefits for the year	**654,316**	**659,583**
Capitalised employee benefit expenses	(11,898)	(5,200)
Total employees benefits in the statement of profit or loss	**642,418**	**654,383**

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

The overall decrease of wages and salaries is generated mainly by the decrease in the number of employees.
Termination benefits represent compensation payments in case of employees' voluntary departure as well as management compensation in case of mandate contracts termination.
Management remuneration is disclosed in Note 32 b).

17 Income taxes

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. The Group considers that the accounting records for taxes due are adequate for all open tax years, based on assessment made by management taking into account various factors, including the interpretation of tax legislation and

previous experience. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(i) Amounts recognised in profit or loss

	2017	2016
Current tax expense	42,049	85,473
Deferred tax expense/(income)	(6,857)	26,117
Adjustments for prior years' current tax	-	8,546
Total income tax expense	**35,192**	**120,136**

(ii) Amounts recognised in other comprehensive income

	2017			2016		
	Before tax	Tax (expense) benefit	Net of tax	Before tax	Tax (expense) benefit	Net of
Remeasurement of defined benefit liability	19,173	(1,300)	17,873	4,792	(768)	4,024
Revaluation of property, plant and equipment	55,873	(8,940)	46,934	-	-	-
Total	**75,046**	**(10,240)**	**64,807**	**4,792**	**(768)**	**4,024**

(iii) Reconciliation of effective tax rate

	2017		2016	
Profit before tax		**206,751**		**589,033**
Tax using Company's domestic tax rate	**16%**	**33,080**	**16%**	**94,245**
Non-deductible expenses	4%	7,540	1%	3,892
Effect of share of profit of equity-accounted investees	0%	-	-	-
Non-taxable income	-2%	(3,862)	-1%	(7,397)
Deduction of legal reserves	-1%	(1.734)	-1%	(3.285)
Other tax effects	-1%	(2.437)	-2%	(9.226)
Adjustment for prior years	1%	3.036	1%	8.546
Recognition of tax effect of previously unrecognised tax losses	-3%	(5.242)		
Current-year tax losses for which no deferred tax asset is recognised	6%	11.667	1%	8.614
Deferred tax asset derecognized	0%	-	1%	7.089
Change in recognised temporary differences	-3%	(6.857)	3%	17.658
Income tax	**17%**	**35.192**	**20%**	**120.136**

(iv) Movement in deferred tax balances

					Balance at 31 December 2017		
2017	**Net balance at 1 January 2017**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Effect of loss of control over subsidiary**	**Net**	**Deferred tax assets**	**Deferred tax liabilities**
Property, plant and equipment	56,914	(5,685)	8,940	-	60,169	-	60,169
Intangible assets related to concession agreements	159,146	1,018			160,164	-	160,164
Employee benefits	(12,801)	1,891	1,300	-	(9,610)	(9,610)	-
Impairment of trade receivables	(44,124)	15,671	-	-	(28,453)	(28,453)	-
Tax loss carried forward	(2,544)	(22,572)	-	-	(25,116)	(25,116)	-
Other items	(570)	2,820	-	-	2,250	-	2,250
Tax liabilities (assets) before set-off	**156,021**	**(6,857)**	**10,240**	**-**	**159,404**	**(63,179)**	**222,583**
Set off of tax						22,079	(22,079)
Net tax liabilities (assets)						**(41,100)**	**200,504**

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2016	Net balance at 1 January 2016	Recognised in profit or loss	Recognised in other comprehensive 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)	**130,656**	**26,117**	**768**	**(1,520)**	**156,021**	**(39,668)**	**195,689**

(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.

	2017	2016
Tax losses	**387,199**	**349,362**

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

	Tax losses	
Year when the tax loss was generated:	**2017**	**2016**
2017 (expiring in 2024)	72,920	-
2016 (expiring in 2023)	49,337	53,838
2015 (expiring in 2022)	37,486	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
Total	**387,199**	**349,362**

18 Trade receivables

	31 December 2017	31 December 2016
Trade receivables, gross	1,863,868	1,906,093
Bad debt allowance	(1,059,507)	(1,128,104)
Total trade receivables, net	**804,361**	**777,989**

Trade receivables from related parties are presented in Note 32.

Trade receivables gross comprise:

	31 December 2017	31 December 2016
Electricity distribution and supply	741,351	755,151
Late payment penalties receivable	87,276	113,781
Electricity receivables and late payment penalties from clients in litigation, insolvency and bankruptcy	924,696	926,148
Repairs, maintenance and other services	37,842	26,936
Other	72,703	84,077
Total trade receivables, gross	**1,863,868**	**1,906,093**

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

Bad debt allowance	**2017**	**2016**
Balance as at 1 January	**1,128,104**	**1,125,117**
Impairment recognized	46,234	74,145
Impairment reversed	(26,726)	(28,918)
Amounts written off	(88,105)	(42,240)
Balance as at 31 December	**1,059,507**	**1,128,104**

For the aging of trade receivables refer to Note 31.

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

Impairment recognized during the period refers mainly to doubtful receivables from Fidelis Energy SRL (RON 11,218 thousand), Transenergo Com S.A. (RON 5,367 thousand), Electra Management (RON 2,100 thousand), Arelco Power (RON 2,105 thousand), as well as several other traders of electricity which entered insolvency procedures given the recent adverse changes in prices on the electricity spot market.

In 2016, impairment recognized 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. Electrica 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 was of RON 44,426 thousand, out of which Electrica SA benefits from an insurance policy for RON 4,000 thousand.

Amounts written off in 2017 refer mainly to Filiala Balan S.A., (subsidiary of C.N.C.A.F. MINVEST S.A.) (RON 48,482 thousand) and Metal S.R.L. (RON 19,017 thousand), clients of Electrica Furnizare for which the bankruptcy procedure was closed.

Amounts written off in 2016 refer mainly to RON 35,483 thousand from Tractorul UTB Brasov, client of Electrica Furnizare, for which the bankruptcy procedure was closed.

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19 Deposits, treasury bills and government bonds

	31 December 2017	31 December 2016
Treasury bills and government bonds denominated in RON with original maturity of more than three months	462,739	1,757,746
Deposits with maturity of more than three months	284,242	117,308
Total deposits, treasury bills and government bonds	**746,981**	**1,875,054**

Treasury bills and government bonds with original maturity of more than three months have an average interest rate (yield) of 0.78% (2016: 0.63%) 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.

20 Other receivables

	31 December 2017	31 December 2016
Good performance guarantees	3,382	7,127
VAT receivable	26,067	2,301
Interest receivable	17	43
Structural funds	11	72
Other receivables	48.078	39,152
Bad debt allowance	(22.021)	(28,665)
Total other receivables, net	**55.534**	**20,030**

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

Bad debt allowance	**2017**	**2016**
Balance as at 1 January	**28,665**	**35,862**
Impairment recognized	118	-
Amounts written off	-	(2,584)
Impairment reversed	(6,762)	(4,613)
Balance as at 31 December	**22,021**	**28,665**

21 Cash and cash equivalents

	31 December 2017	31 December 2016
Bank current accounts	330,562	148,111
Call deposits	231,769	740,487
Cash in hand	162	243
Total cash and cash equivalents in the consolidated statement of financial position	**562,493**	**888,841**
Overdrafts used for cash management purposes	(247,904)	(142,626)
Total cash and cash equivalents in the consolidated statement of cash flows	**314,589**	**746,215**

As at 31 December 2017, Electrica SA has collateral deposits at BRD - Groupe Societe Generale as guarantees for the long term borrowings received from BRD by Societatea de Distributie a Energiei Electrice Transilvania Sud, Societatea de Distributie a Energiei Electrice Transilvania Nord and Societatea de Distributie a Energiei Electrice Muntenia. The amount of the collateral deposits as at 31 December 2017 is RON 320,000 thousands (31 December 2016: RON 134,492 thousands) presented in the statement of financial position as long-term restricted cash.

The Group has overdrafts from Raiffeisen Bank and BCR as follows:

Bank	**Contract date**	**Facility type**	**Maturity**	**Overdraft limit (th RON)**	**Balance at 31 December 2017**
Raiffeisen Bank S.A.	November 2017	overdraft facility for financing working capital	Until November 2018	100,000	98,208
BCR	January 2017	Overdraft facility	Until March 2018	180,000	128,511
BCR	May 2017	overdraft facility for financing working capital	Until October 2018	95,000	21,185
Raiffeisen Bank S.A.	August 2017	overdraft facility for financing working capital	August 2018	67,000	-
Total				**442,000**	**247,904**

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**

The security for these overdrafts is presented in Note 35 d).
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 150 million in 2017 (2016: RON 101 million);
- effect of loss of control over subsidiaries under financial distress (see Note 33).

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22 Property, plant and equipment

The movements in property, plant and equipment in 2017 and 2016 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 2016	**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 33)	(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**
Additions	-	1,548	6,271	1,486	4,203	13,508
Transfer from construction in progress	-	5,513	862	801	(7,176)	-
Disposals	(461)	(5,373)	(26,259)	(679)	(144)	(32,916)
Revaluation recognized in profit or loss, net	(1,907)	(2,901)	-	-	-	(4,808)
Revaluation recognized in other comprehensive income, net	14,287	28,487	13,099	-	-	55,873
Gross book value netted off against the accumulated depreciation at revaluation	-	(24,213)	(13,268)	-	-	(37,481)
Balance at 31 December 2017	**289,749**	**228,446**	**266,768**	**92,797**	**57,713**	**935,473**
Accumulated depreciation and impairment losses						
Balance at 1 January 2016	**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 33)	(2,500)	(8,966)	-	(5,653)	-	(17,119)
Balance at 31 December 2016	**-**	**30,058**	**102,741**	**77,916**	**29,250**	**239,965**
Depreciation	-	9,729	20,617	1,667	-	32,013
Accumulated depreciation of disposals	-	(251)	(3,624)	(656)	-	(4,531)
Impairment loss	-	860	3,137	-	-	3,997
Reversal of impairment loss	-	-	-	-	-	-
Accumulated depreciation netted off against gross book value at revaluation	**-**	**(24,213)**	**(13,268)**	**-**	**-**	**(37,481)**
Balance at 31 December 2017	**-**	**16,183**	**109,603**	**78,927**	**29,250**	**233,963**
Net carrying amounts						
At 1 January 2016	**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**
At 31 December 2017	**289,749**	**212,263**	**157,165**	**13,870**	**28,463**	**701,510**

The tangible assets include mainly land, buildings and the Automatic Meter Reading system ("AMR"). At December 31, 2017, the Group performed the revaluation of land, buildings and equipments.
The restrictions on property, plant and equipment are presented in Note 35 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 2017, 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* Buildings were evaluated using the following methods, depending on the best use and the availability and credibility of available market information: *Market approach* The market approach is based on the selling price per square meter for buildings with similar characteristics, adjusted for liquidity, location, size etc. *The DCF method* 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 (between 80% and 90%) ▶ Discount rates (between 9% and 11%) ▶ Costs not paid by tenants (between 7% and 13%) ▶ Annual rent per sqm (between 2.5 and 10 EUR/sqm)	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)

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Other PPE	*Market Approach and net replacement cost approach* The market approach was applied for equipments with an active market (automobiles, office equipment etc.) The net replacement cost has been applied for specialised assets, for which there is no no market where these can be valued.	▶ Price adjustments (market approach) depending on the availability of trading negotiation and the current market conditions at each comparable level ▶ Adjustments for physical depreciation, functional wear and economic wear	The estimated fair value would increase (decrease) if: ▶ Price adjustments would be positive (negative) ▶ Adjustments for wear would be lower (higher)

23 Intangible Assets

Intangible assets include mainly intangible assets related to distribution service concession agreements recorded in accordance with IFRIC 12 "Service Concession Arrangements", licenses and costs of implementation of SAP ERP, customer management and billing system, and automation software, as follows:

	Intangible assets related to concession agreements	Software and licenses	Intangible assets in progress	Total
Gross book value				
Balance at 1 January 2016	**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**
Additions	776,901	2,392	1,971	781,264
Disposals	-	(1,621)	(316)	(1,937)
Balance at 31 December 2017	**7,301,440**	**177,346**	**3,259**	**7,482,045**
Accumulated amortization and impairment losses				
Balance at 1 January 2016	**2,286,456**	**156,713**	**-**	**2,443,169**
Amortization	327,695	4,515	-	332,210
Accumulated amortization of disposals	-	(267)	-	(267)
Balance at 31 December 2016	**2,614,151**	**160,961**	**-**	**2,775,112**
Amortization	356,380	7,208	-	363,588
Accumulated amortization of disposals	-	(1,617)	-	(1,617)
Balance at 31 December 2017	**2,970,531**	**166,552**	**-**	**3,137,083**
At 1 January 2016	**3,700,211**	**12,691**	**1,604**	**3,714,506**
At 31 December 2016	**3,910,388**	**15,614**	**1,604**	**3,927,606**
At 31 December 2017	**4,330,909**	**10,794**	**3,259**	**4,344,962**

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 5(a), 6(b) and 6(k)).

For the year ended 31 December 2017 the Group has recognized construction revenue related to the concession agreements of RON 776,901 thousand (2016: RON 537,872 thousand) and construction costs of RON 745,332 thousand (2016: RON 528,372 thousand). Intangible assets in progress as at 31 December 2017 and 2016 include the cost of implementation for IT applications that imply a certain implementation period.

24 Capital and reserves

(A) SHARE CAPITAL AND SHARE PREMIUM

The issued share capital in nominal terms consists of 345,939,929 ordinary shares at 31 December 2017 (2016: 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 Company 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. The nominal share capital of Electrica as of December 31, 2017 is RON 3,459,399 thousand, and the adjustments reflecting the IAS 29 impact have a value of RON 354,843 thousand. The total represents the share capital presented in the Consolidated Statement of Financial Position, having a value of RON 3,814,242 thousand.

(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:

	2017	2016
Balance at 1 January	**104,681**	**140,358**
Reserve from the revaluation of property, plant and equipment, attributable to the owners	55,874	-
Related tax	(8,940)	
Release of revaluation reserve to retained earnings corresponding to depreciation and disposals of property, plant and equipment	(27,867)	(29,251)
Loss of control over subsidiaries	-	(6,426)
Balance as at 31 December	**123,748**	**104,681**

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(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 2016	**273,899**
Set-up of legal reserves	28,337
Balance at 31 December 2016	**302,236**
Set-up of legal reserves	24,543
Balance at 31 December 2017	**326,779**

(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 2017 and 2016 (from the statutory profits of preceding years) were as follows:

	Distribution of dividends	
	2017	**2016**
To the owners of the Company	251,405	291,582
To non-controlling interests	97,869	105,724
Total	**349,274**	**397,306**

The dividends per share were: 2017: RON 0.7415, 2016: RON 0.8600, 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 251,405 thousand (2016: RON 291,582 thousand), the dividends paid were RON 250,944 thousand (2016: RON 291,198 thousand), the remaining differences represents dividends unclaimed by the shareholders from the Depositary.

25 Non-controlling interests

Acquisition of non-controlling interest

Societatea Energetica Electrica S.A. and Fondul Proprietatea have executed on 1 November 2017 the Sale and Purchase Agreements for the acquisition of Fondul Proprietatea's holdings in Electrica subsidiaries (i.e. SDEE Muntenia Nord S.A., SDEE Transilvania Sud S.A., SDEE Transilvania Nord S.A. and Electrica Furnizare S.A.), this increasing the ownership percentage of Electrica over these subsidiaries. Below is detailed the impact of the transaction on the equity attributable to the owners of the Company:

	Societatea de Distributie a Energiei Electrice Muntenia Nord	Societatea de Distributie a Energiei Electrice Transilvania Nord	Societatea de Distributie a Energiei Electrice Transilvania Sud	Electrica Furnizare	Intra-group eliminations	Total
Carrying amount of NCI as of 1 January 2017	290,261	229,124	226,231	89,332	1,658	**836,606**
Profit allocated to NCI	11,767	18,849	19,947	(6,734)		**43,829**
Other comprehensive income allocated to NCI	-	-	-	-	-	**-**
Dividends paid to NCI during the year	(19,337)	(22,116)	(21,708)	(34,708)		**(97,869)**
Carrying amount of NCI as of the date of acquisition	**282,691**	**225,857**	**224,470**	**47,890**	**1,658**	**782,566**
Consideration paid to NCI	**(209,745)**	**(201,702)**	**(173,504)**	**(167,079)**	**-**	**(752,030)**
Increase in retained earnings to owners of the Company	**72,946**	**24,155**	**50,966**	**(119,189)**	**1,658**	**30,536**

In the table below, it is summarised the information related to each of the Group's subsidiaries that has material non-controlling interest ("NCI"), before any intra-group elimination:

31 December 2017	Societatea de Distributie a Energiei Electrice Muntenia Nord	Societatea de Distributie a Energiei Electrice Transilvania Nord	Societatea de Distributie a Energiei Electrice Transilvania Sud	Electrica Furnizare	Intra-group eliminations	Total
NCI percentage until the acquisition date	**22%**	**22%**	**22%**	**22%**		
Revenues	862,974	852,945	872,716	3,857,855		6,446,490
Net profit	35,650	72,588	110,113	2,022		220,373
Other comprehensive income	-	-	-	-		-
Total comprehensive income	**35,650**	**72,588**	**110,113**	**2,022**		**220,373**
Profit allocated to NCI	11,767	18,849	19,947	(6,734)		43,829
Cash flows from operating activities	126,180	191,490	240,867	(70,675)		487,862
Cash flows used in investing activities	(59,084)	(264,569)	(289,176)	(16,362)		(629,191)
Cash flows used in financing activities**	(120,284)	52,322	(134,566)	(158,215)		(360,744)
Net increase/(decrease) in cash and cash equivalents*	**(53,188)**	**(20,757)**	**(182,875)**	**(245,252)**		**(502,072)**
Dividends paid to NCI during the year	**(19,337)**	**(22,116)**	**(21,708)**	**(34,708)**		**(97,869)**

**Amounts presented represent cash flows of the subsidiaries*
***Cash flows from financing activities include dividends paid to NCI*

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31 December 2016	Societatea de Distributie a Energiei Electrice Muntenia Nord	Societatea de Distributie a Energiei Electrice Transilvania Nord	Societatea de Distributie a Energiei Electrice Transilvania Sud	Electrica Furnizare	Intra-group eliminations	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*

26 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 2.065% in 2017 (2016: 1.93%).
The amounts are due as follows:

	31 December 2017	31 December 2016
Less than 1 year	32,709	85,513
Between 1 and 5 years	11,122	41,617
Total	**43,831**	**127,130**

27 Trade payables

	31 December 2017	31 December 2016
Electricity suppliers	346,692	308,056
Capital expenditure suppliers	237,077	214,749
Other suppliers	105,636	200,025
Total	**689,405**	**722,830**

Electricity suppliers are mainly state-owned power generators, as detailed in Note 32, but also other participants on the electricity market.
Other suppliers include suppliers of services, materials, consumables, etc.

28 Other payables

	31 December 2017		31 December 2016	
	Current	Non-current	Current	Non-current
VAT payable	85,832	-	85,346	-
Liabilities to the State	21,003	-	29,837	-
Payables related to radio and TV tax	-	-	9,981	-
Liabilities related to green certificates acquisition obligation	6,665	-	13,980	-
Other liabilities	20,726	40,440	21,746	44,921
Total	**134,226**	**40,440**	**160,890**	**44,921**

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. In accordance with Law no. 1/2017, beginning with 1 February 2017, the taxes for public radio broadcasting and television services were eliminated from the electricity invoices.
Other liabilities include mainly guarantees and sundry creditors. Other non-current liabilities refer to guarantees from customers related to electricity supply.

29 Provisions

	Fiscal risks	Restructuring	Other	Total
Balance at 1 January 2017	**35,533**	**12,715**	**14,159**	**62,407**
Provisions made	12,200	-	16,750	28,950
Provisions used	(7,583)	(12,715)	(900)	(21,198)
Provisions reversed	(32,906)	-	(7,364)	(40,270)
Balance at 31 December 2017	**7,244**	**-**	**22,645**	**29,889**

As at 31 December 2017, provisions refer mainly to:

- RON 7,827 thousand representing potential tax charges of the Group (including interest and penalties);
- RON 22,645 thousand representing mainly the provision for the fine from Competition Council, RON 10,801 thousand, and other provisions for claims for which the Group might have the obligation to pay the amounts subject to litigations and other in the future;

The provisions made in 2017 refer mainly to:

- RON 12,200 thousand represent Group's estimate of additional taxes and penalties which might result from the Group's dispute with the National Agency of Fiscal Administration ("NAFA"). This provision was also reversed in

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2017, since the management considers that are high chances of winning the litigation, based on the Court's admission of Electrica's action (for further details please see note 34).

- RON 10,801 thousand based on the Competition Council's decision (for further information please see the details below)
- RON 1,472 thousand, for the litigations in which Distributie Transilvania Nord has the role of defendant and for which there is a risk that will have the obligation in the future to pay the amounts claimed by the claimants; the provisions refer to compensations claimed by natural/legal persons.

The provisions used in 2017 refer mainly to:

- payment of lay-off indemnities in respect of restructuring programme of Electrica Serv of RON 12,715 thousand;
- payment of the amount due to NAFA, RON 7,583 thousand, provisioned previously as a result of the fiscal inspection performed at Electrica Furnizare for the period 2011 – 2016.

Provisions reversed in 2017 refer mainly to:

- reversal of provision related to the control performed by the Court of Accounts at Distributie Transilvania Sud, amounting to RON 20,706 thousand, following the closure of the fiscal inspection on 22.12.2017;
- reversal of the provision made for the NAFA litigation, presented above;
- provisions for litigations cancelled during 2017 for settled litigations (for which the sentence has been issued by the Court) amounting to RON 2,551 thousand.

Competition Council

On 4 January 2018, Electrica received the Competition Council's decision on the investigation commenced in 2017, whereby it was found the breach of the provisions of art. 5 par. (1) of the Competition Law no. 21/1996 and art. 101 par. (1) TFEU by several companies which have sold meters and related measuring equipment for electricity in Romania, in the procedures for the award of supply contracts in the period from 27 November 2008 to 30 September 2015 and by Electrica, as a facilitator, in the period from 24 November 2010 to 30 September 2015.

The sanction applied to Electrica consists in a fine amounting to RON 10,801 thousand representing 2.98% of the total turnover of Electrica SA in the financial year 2016. In determining the amount of the fine, it was taken into account that (i) Electrica cooperated fully and effectively with the Competition Council during the investigation procedure, outside the scope of the leniency policy and beyond the legal duty to cooperate, and (ii) it is for the very first time when the authority retains the role of facilitator for a company organizing public procurement procedures.

Reorganization plan for the distribution segment

In the context of the Group's plan regarding the implementation of a new target operating model of the distribution segment, the Board of Directors' intent is to implement a program for activities streamline, which might involve collective lay-offs based on the analysis of indirect and direct productive employees and future targets. No restructuring plan has been approved until the reporting date. Therefore, the management assessed that the conditions for recognizing restructuring provisions are not met as of 31 December 2017.

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.

30 Long-term bank borrowings

	31 December 2017	31 December 2016
Long-term bank borrowings	320,000	127,733
Total	**320,000**	**127,733**

On 17 October 2016 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) concluded long term loan contracts with BRD – Groupe Societe Generale, in which Electrica SA has the quality of guarantor. These are fully reimbursable at maturity (16 October 2017).

Lender	Facility type	Maturity	Loan amount	Balance at 31 December 2017	Balance at 31 December 2016
BRD	term loan, non-revolving facility, financing the treasury deficit generated by the investment activity	until 16 October 2021	80,000	80,000	-
BRD	term loan, non-revolving facility, financing the treasury deficit generated by the investment activity	until 16 October 2021	114,000	114,000	95,502
BRD	term loan, non-revolving facility, financing the treasury deficit generated by the investment activity	until 16 October 2021	126,000	126,000	32,231
Total			**320,000**	**320,000**	**127,733**

These loans are guaranteed with collateral deposits (see Note 21).

31 Financial instruments - fair values and risk management

(A) ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

		Carrying amount				Fair value			
						Level			
	Note	Loans and receivables	Held to maturity financial assets	Other financial liabilities	Total	1	2	3	Total
31 december 2017									
Financial assets not measured at fair value									
Trade receivables	18	804,361	-	-	804,361				
Deposits, treasury bills and government bonds			746,981	-	746,981				
Cash and cash equivalents	21	562,493	-	-	562,493				
Restricted cash		320,000	-	-	320,000				
Total		**1,686,854**	**746,981**	**-**	**2,433,835**				
Financial liabilities not measured at fair value									
Bank overdrafts	21	-	-	247,904	247,904				
Financing for network construction related to concession agreements	26	-	-	43,831	43,831		45,367		45,367
Long-term bank borrowings		-	-	320,000	320,000				
Trade payables	27	-	-	689,405	689,405				
Total		**-**	**-**	**1,301,140**	**1,301,140**				

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		Carrying amount				Fair value			
	Note	Loans and receivables	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	18	777,989	-	-	777,989				
Deposits, treasury bills and government bonds			1,875,054	-	1,875,054				
Cash and cash equivalents	21	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	21	-	-	142,626	142,626				
Financing for network construction related to concession agreements	26	-	-	127,130	127,130		129,383		129,383
Long-term bank borrowings		-	-	127,733	127,733				
Trade payables	27	-	-	722,830	722,830				
Total		**-**	**-**	**1,120,319**	**1,120,319**				

(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 1.22% as at 31 December 2016 (2017: 0.98%).	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 aging of trade receivables was as follows:

	31 December 2017		31 December 2016	
	Gross value	Bad debt allowance	Gross value	Bad debt allowance
Neither past due nor impaired	530,412	(7,541)	603,467	-
Past due 1-90 days	274,512	(5,881)	209,205	(46,494)
Past due 90-180 days	25,297	(22,344)	16,616	(11,673)
Past due 180-360 days	60,469	(56,416)	14,087	(11,514)
Past due 1-2 years	34,794	(28,941)	30,872	(26,577)
Past due 2-3 years	92,634	(92,634)	21,618	(21,618)
Past due more than 3 years	845,750	(845,750)	1,010,228	(1,010,228)
Total	**1,863,868**	**(1,059,507)**	**1,906,093**	**(1,128,104)**

	Net trade receivables	
	31 December 2017	31 December 2016
Neither past due nor impaired	522,871	603,467
Past due 1-90 days	268,631	162,711
Past due 90-180 days	2,953	4,943
Past due 180-360 days	4,053	2,573
Past due 1-2 years	5,853	4,295
Total	**804,361**	**777,989**

Details of the main movements in the allowances for doubtful debts are disclosed in Note 18.

(ii) Liquidity risk

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

The Group aims to maintain the level of its cash and cash equivalents at an amount in excess of expected cash outflows on financial liabilities. The Group also monitors the level of expected cash inflows on trade receivables together with expected cash outflows on trade and other payables. In addition, the Group maintains overdrafts (refer to Note 21).
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 2017						
Bank overdrafts	247,904	247,904	247,904	-	-	-
Financing for network construction related to concession agreements	43,831	50,579	33,906	15,265	1,408	-
Long term bank borrowings	320,000	332,775	2,555	2,555	327,665	-
Trade payables	689,405	689,405	689,405	-	-	-
Total	**1,301,140**	**1,320,663**	**973,770**	**17,820**	**329,073**	**-**
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**	**-**

(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. 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:

in thousands of RON	31 December 2017 EUR	31 December 2017 USD
Cash and cash equivalents	95	-
Other investments	1,236	56
Deposits (deposits, treasury bills and government bonds)	-	-
Financing for network construction related to concession agreements	(43,766)	-
Net statement of financial position exposure	**(42,435)**	**56**

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

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

RON	Average rate 2017	Average rate 2016	Year-end spot rate 2017	Year-end spot rate 2016
EUR 1	4.5681	4.4900	4,6597	4.5411
USD 1	4.0525	4.0569	3,8915	4.3033

Sensitivity analysis

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

Effect	Profit before tax Strengthening	Profit before tax Weakening
31 December 2017		
EUR (5% movement)	(2,122)	2,122
31 December 2016		
EUR (5% movement)	(6,230)	6,230

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.

Effect	Profit before tax Strengthening	Profit before tax Weakening
31 December 2017		
USD (5% movement)	3	(3)
31 December 2016		
USD (5% movement)	233	(233)

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 also medium term bank loans (please see Note 30).

Exposure to interest rate risk

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

	31 December 2017	31 December 2016
Fixed-rate instruments		
Financial assets		
Call deposits	231,769	740,487
Deposits, treasury bills and government bonds	746,981	1,875,054
Financial liabilities		
Financing for network construction related to concession agreements	(43,831)	(127,130)
Long-term bank borrowings	(320,000)	(127,733)
	614,919	**2,360,678**
Variable-rate instruments		
Financial liabilities		
Bank overdrafts	(247,904)	(142,626)
	(247,904)	**(142,626)**

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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 pboints 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 2017		
Variable-rate instruments	(1,240)	1,240
31 December 2016		
Variable-rate instruments	(713)	713

32 Related parties

(A) MAIN SHAREHOLDERS

As at 31 December 2017 and 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 6,9247% (2016: 8,66%).

(B) MANAGEMENT AND ADMINISTRATORS' COMPENSATION

	2017	2016
Executive Management compensation	8,461	4,573

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

At the beginning of 2017, Electrica SA`s management consisted in four managers remunerated based on mandate agreement. For one of them the mandate agreement ended in January 2017 and for another one, in December 2017. During 2017 six new managers were hired based on the same type of contract, in February, March, May, August and December. As of December 31st 2017 the Company had seven managers in place with mandate agreement, the latter one starting January 2018, effectively.

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

	2017	2016
Members of Board of Directors	2,436	3,322

Electrica SA's Board of Directors comprises 7 members. 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.

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.

No loans were granted to directors or administrators in 2017 and 2016.

(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:

Supplier	Purchases (without VAT)		Balance (including VAT)	
	2017	**2016**	**31 December 2017**	**31 December 2016**
Nuclearelectrica	256,342	305,597	22,176	30,893
Transelectrica	639,036	614,439	94,150	141,474
Complexul Energetic Oltenia	194,358	57,166	42,700	8,395
Hidroelectrica	343,775	550,038	16,840	52,297
OPCOM	721,591	302,239	4,298	3,889
Electrocentrale Bucuresti	6,312	24,998	-	-
SNGN ROMGAZ	24	56,331	-	-
Societatea Comerciala "Cupru Min"	-	1,887	-	1,887
CN Posta Romana SA	1,742	348	22	6
E-Distributie Muntenia	11,015	25,460	1,997	4,230
E-Distributie Banat	3,008	9,286	514	1,731
E-Distributie Dobrogea	5,306	7,473	743	2,041
Others	16,727	12,453	4,119	2,544
Total	**2,199,237**	**1,967,715**	**187,559**	**249,387**

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	**2017**	**31 December 2017**		
CFR Telecomunicatii	21	1	-	1
Electrificare CFR	8,646	944	-	944
SNGN ROMGAZ	16,674	1,279	-	1,279
OPCOM	24,879	3,662	-	3,662
Societatea Comerciala "Cupru Min"	32,264	6,635	-	6,635
Transelectrica	14,566	1,841	-	1,841
CN Romarm	9,547	286	-	286
CN Remin SA	366	71,219	(71,148)	71
C.N.C.A.F. MINVEST S.A.	-	29,903	29,903	-
Oltchim	-	715,259	(715,259)	-
Baita SA	820	822	(726)	96
E.ON Energie Romania	55,290	11,351	-	11,351
E-Distributie Muntenia	4	-	-	-
Enel Energie Muntenia SA	26,959	6,187	-	6,187
ENEL ENERGIE SA	19,739	5,651	-	5,651
Others	41,772	15,546	(6,817)	8,729
Total	**251,547**	**870,586**	**(823,853)**	**46,733**

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Client	Sales (without VAT) 2016	Balance, gross (including VAT) 31 December 2016	Allowance (including VAT) 31 December 2016	Balance, net 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**

33 Subsidiaries in financial distress

The Company's subsidiary Servicii Energetice Moldova entered in bankruptcy in January 2016 and consequently the Company discontinued its consolidation as of the date as it no longer has control over this entity.

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

	Carrying amount Servicii Energetice Moldova as of 31 January 2016
Property, plant and equipment	21,709
Trade receivables	2,027
Cash and cash equivalents	1,609
Total assets	**25,345**
Trade payables	2,685
Other payables	41,931
Employee benefits	52,902
Deferred tax liabilities	1,520
Total liabilities	**99,038**
Gain on loss of control	**73,693**

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 31 December 2017 the carrying amount of the assets and liabilities of these companies included in the consolidated financial information were as follows:

31 December 2017	Servicii Energetice Muntenia	Servicii Energetice Oltenia	Total
Property, plant and equipment	89,989	20,399	110,388
Trade receivables	9,464	8,957	18,421
Cash and cash equivalents	6,657	2,145	8,802
Total assets	**106,110**	**31,501**	**137,611**
Trade payables	(15,404)	(3,071)	(18,475)
Payables to the State budget	(406)	(5,128)	(5,534)
Social security and other salary taxes	(483)	(5,250)	(5,733)
Provisions, employee benefits and deferred taxes	(19,349)	(9,066)	(28,415)
Total liabilities	**(35,642)**	**(22,515)**	**(58,157)**

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)**

The Group has not classified the assets and liabilities of these subsidiaries as held for sale as at 31 December 2017, 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 2017.

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.

34 Contingencies

A) CONTINGENT LIABILITIES

Tax inspection report for Electrica Serv

In May 2017 a tax inspection at Electrica Serv was finalized and the tax authorities concluded that additional tax obligations of RON 12,281 thousand should be paid by the subsidiary. This amount represents VAT (and related interest and penalties) that was deducted in the period 2012-2013 in relation with certain invoices issued by a lease supplier who was inactive at that time. Management is in process of opening legal action against the tax authorities. Management estimates that it is likely that a favorable outcome will result out of this dispute, based on, among other aspects, similar case favourable settled at the Court of Justice of the European Union.

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017 (All amounts are in THOUSAND RON, if not otherwise stated)

Litigation with National Agency of Fiscal Administration ("NAFA")

In May 2017, after the revision of Electica's tax record, the tax authorities issued an enforcement order for additional interest and penalties of RON 39,248 thousand as a result of certain tax record allocations for prior periods. Electrica filed a complaint with the tax authorities against the enforcement order and also opened a legal action to suspend the enforced payment by the resolution of the above mentioned complaint. These additional interest and penalties are related to the prior enforcement orders received by Electrica in the prior years of RON 73,460 thousand and which were settled by enforced payments in 2016. Since there were uncertainties regarding the outcome of these legal actions, Electrica recognized a provision of RON 12,200 thousand which was the management best estimate as of the end of the first semester 2017.

In February 2018, Electrica has obtained a favourable Supreme Court ruling in one of the litigations with NAFA, which essentially maintains into force a prior Court of Appeal decisions, which is favourable for the Group, in management's view. Based on this Court ruling and in conjunction with all other litigations with NAFA on the same historical taxes, including penalties and interest, as well as based on analysis with internal and external lawyers, the management best estimate as of 31 December 2017 is that Electrica shall be able to obtain favourable Court rulings with the end result of no future cash outflows. As a result, the previous recognized provision of RON 12,200 thousand has been reversed in full as of 31 December 2017 and there is no provision recognized as of 31 December 2017 related to NAFA litigations.

Other litigations and claims

The Group is involved in many litigations and claims (ie. with Property Fund, ANRE, ANAF, Court of Accounts, claims for damages, claims over land titles, labour related litigations etc.).

As summarised in Note 29, 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 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. As of the date of these financial statements, both parties have filed an appeal.

(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 11 (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 and liabilities were recorded in the consolidated financial statements for all significant tax obligations; however a risk persists that the tax authorities might have different positions.

35 Commitments

(A) CONTRACTUAL COMMITMENTS

The Group has the following contractual commitments as at 31 December 2017:

	Amount
Purchase of electricity	1,242,080
Purchase of green certificates	136,713
Purchase of property, plant and equipment and intangible assets	396,987
Total	**1,775,780**

(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
Energopetroleum Top Service SRL	7,578
Center TEA & Co SRL	12,179
RCI Finantare Romania SRL	1,327
Total	**158,792**

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

	31 December 2017	31 December 2016
Less than 1 year	25,136	25,544
Between 1 and 5 year	17,682	33,163
Total	**42,818**	**58,707**

(C) INVESTMENT PROGRAM

The investment program approved for the year 2018 is as follows:

	2018
Distribution activity	970,000
Supply activity	34,000
Maintenance activity	2,000
Other/ shared	4,000
Total	**1,010,000**

The amounts actually incurred may differ from the ones planned.

(D) GUARANTEES AND PLEDGES

At 31 December 2017 and 2016, the Group has guarantees on its bank accounts opened at ING, BRD and BCR for the overdrafts contracted (please see Note 21). At 31 December 2017 the Group has outstanding bank letters of guarantee of RON 332,753 thousand (2016: RON 459,421 thousand) issued in favour of its suppliers.

SOCIETATEA ENERGETICA ELECTRICA S.A.

INDEPENDENT AUDITORS' REPORT

KPMG Audit SRL
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Independent Auditors' Report

(free translation[1])

To the Shareholders of Societatea Energetica Electrica S.A.
9 Grigore Alexandrescu St., Bucharest, Romania
Registration no: 13267221

Report on the Audit of the Separate Financial Statements

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 2017, 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.

The separate financial statements as at and for the year ended 31 December 2017 are identified as follows:

• Net assets/Total equity:	RON 3,924,157,518
• Net profit for the year:	RON 258,163,915

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2017, and of its unconsolidated financial performance and its unconsolidated 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").

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

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Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"), EU Regulation no. 537/2014 of the European Parliament and of the Council ("the Regulation") and Law no. 162/2017 ("the Law"). Our responsibilities under those standards and regulations 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 *International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants* ("IESBA Code") together with the ethical requirements that are relevant to our audit of the separate financial statements in Romania, including the Regulation and the Law, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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.

- Taxation
- Impairment of investment in Electrica Serv

Taxation

Contingent liabilities (RON 39,248,000 – Notes 26 and 29)

Refer to Notes 6(f), 6(p), 6(q) (accounting policy), 26 and 29 (financial disclosures) to the separate financial statements.

The key audit matter	How the matter was addressed in our audit
The Company has been subject to various adjustments related to corporate income tax imposed by tax authorities as a result of their tax audits performed in the prior years. In addition, the Company is involved in litigation or disputes with tax authorities regarding findings of the prior years' tax audits. 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: • assisted by our own tax specialists, assessing the Company's interpretation and application of relevant tax law, and evaluating the reasonableness of key assumptions used and estimates made in relation to uncertain tax positions and the level of related liabilities, provisions, or contingent liabilities, with particular focus on the litigation with tax authorities regarding an enforced order of RON 39,248,000, as discussed in Note 26; • 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 in dispute, with particular focus on the litigation with tax authorities regarding an enforced order of RON 39,248,000, as discussed in Note 26; • inspecting the Company's correspondence with tax authorities during the reporting period and subsequently, until the date of our report; • assessing the adequacy of tax related disclosures in the separate financial statements, with particular focus on those in respect of uncertain tax positions and tax-related contingencies.

KPMG

Impairment of the investment in Electrica Serv

Carrying amount of the investment in Electrica Serv (RON 300,893,867 – Note 22)

Refer to Notes 6(k)(ii) (accounting policy) and 22 (financial disclosures) to the separate financial statements.

The key audit matter	How the matter was addressed in our audit
The Company wholly owns Electrica Serv, an unlisted subsidiary ("the Investee"); the investment in the subsidiary is carried at cost of RON 445,743,000, less impairment losses recognised in the prior years of RON 144,849,133). As discussed in Note 22, as part of the reorganization process initiated in 2017, Electrica Serv transferred its core business (electricity distribution network services) to its main customers - the electricity distribution subsidiaries of the Company. Following the transfer, the level of the Investee's activities was significantly reduced and is currently limited to performing specialized transportation services. Pursuant to the requirements of the relevant financial reporting standards, the above represents an impairment trigger. Consequently, the Company's management assessed whether an additional impairment loss is required in respect of the Investee as at 31 December 2017 by estimating its recoverable amount	Our audit procedures included, among others: • assisted by our own valuation specialists, assessing the impairment testing methodologies used by the Company by reference to the relevant financial reporting standards, including the assessment of the internal consistency, inputs and sources used by the appraisers and of the mathematical accuracy of the relevant discounted cash flow model; • assisted by our own valuation specialists, evaluating and challenging the reasonableness of key assumptions applied by the Company in performing the impairment test. The main assumptions include those related to: o projected future revenues and expenses, by reference to our understanding of the business,

based on a discounted cash flow model. The discounted cash flow model used in the impairment assessment involved a significant degree of management judgement and developing a number of subjective assumptions, including primarily those in respect of future business developments, expected revenues and expenses, proceeds from sale of existing idle property of the Investee, terminal value and discount rate. For the above reasons, we considered this area to be a key audit matter.	management's future plans and existing contracts; o expected proceeds from sale of idle property of the Investee and terminal values by comparing such assumptions to the results of historical transactions published market and industry data and other relevant information; o discount rate applied, by reference to data specific to the Investments' industry; • assisted by our own valuation specialists, evaluating the competence, capabilities and objectivity of the external appraisers engaged by the Investee to perform the valuation of its property, plant and equipment, obtaining an understanding of the scope of their engagement. and assessing the methodology applied and results obtained; • inspecting minutes of the shareholders' and board of directors' meetings of the Company and the Investee for any discussions and/or decisions with respect to the reorganization, and future plans for the Investee's activities; • performing a sensitivity analysis based on the reasonably possible upside or downside changes in the key assumptions; • assessing the adequacy of disclosures assessment in the separate financial statements related to the impairment, with particular focus on significant management assumptions.

Other Information

Administrators are responsible for the preparation and presentation of other information. The Other information comprises the separate Administrators' Report and information included in the Annual Report, but does not include the separate financial statements and our auditors' report thereon.

Our opinion on the separate financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the separate Administrators' Report, we read and report whether the separate Administrators' Report is prepared, in all material respects, in accordance with Order of Minister of Public Finance no. 2844/2016, articles 15 - 19 of the accounting regulations in accordance with International Financial Reporting Standards.

Based solely on the work required to be undertaken in the course of the audit of the separate financial statements, in our opinion:

a) the information given in the separate Administrators' Report for the financial year for which the separate financial statements are prepared is consistent, in all material respects, with the separate financial statements;

b) the separate Administrators' Report has been prepared, in all material respects, in accordance with Order of Minister of Public Finance no. 2844/2016, articles 15 - 19 of the accounting regulations in accordance with International Financial Reporting Standards.

In addition, based on the knowledge and understanding of the Company and its environment obtained in the course of our audit, we are required to report if we have identified material misstatements in the separate Administrators' Report and other information that we have obtained prior to the date of this auditors' report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

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 such internal control as 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, 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 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 Company's financial reporting process.

Auditors' Responsibility 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.

Report on Other Legal and Regulatory Requirements - Public Interest Entities

We were appointed by the General Shareholders' Meeting on 27 April 2016 to audit the separate financial statements of the Company for the year ended 31 December 2017. Our total uninterrupted period of engagement is 16 years, covering the periods ending 31 December 2002 to 31 December 2017.

We confirm that:

- Our audit opinion is consistent with the additional report presented to the Audit Committee of the Company, which we issued on 5 March 2018. We also remained independent of the audited entity in conducting the audit.

- We have not provided to the Company the prohibited non-audit services referred to in article 5(1) of EU Regulation no. 537/2014.

Other matters

This independent auditors' report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for the report on the audit of the separate financial statements and the report on other legal and regulatory requirements, 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

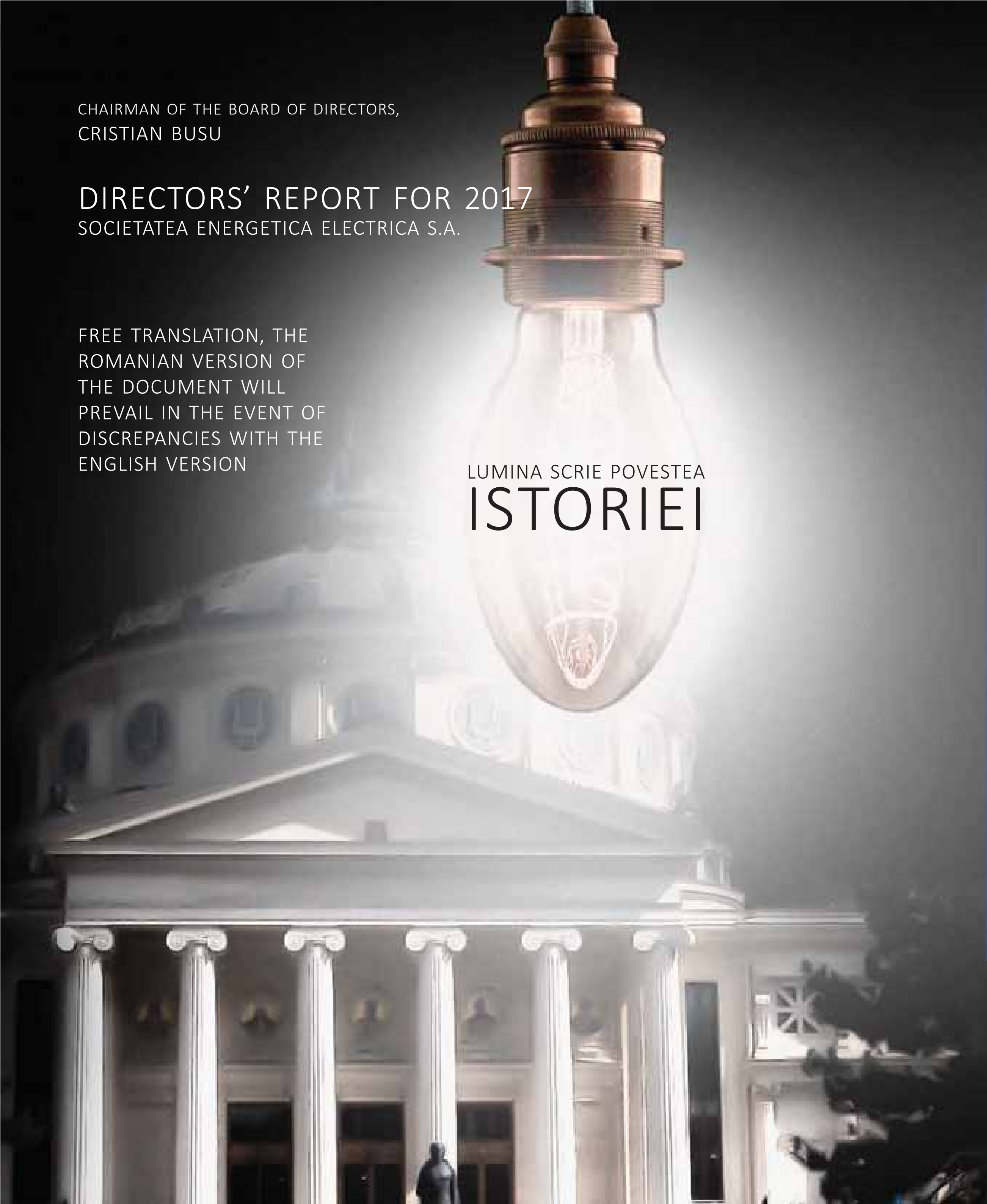
Bucharest,

6 March 2018

CHAIRMAN OF THE BOARD OF DIRECTORS,
CRISTIAN BUSU

DIRECTORS' REPORT FOR 2017
SOCIETATEA ENERGETICA ELECTRICA S.A.

FREE TRANSLATION, THE ROMANIAN VERSION OF THE DOCUMENT WILL PREVAIL IN THE EVENT OF DISCREPANCIES WITH THE ENGLISH VERSION



LUMINA SCRIE POVESTEA
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Identification details of the report and issuer

Report date: March 6th, 2018
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
Registered with the Trade Register under no.: J40/7425/2000
Share capital: 3,459,399,290 RON subscribed and paid
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 issues securities are traded: As at December 31st, 2017, 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 MAIN MARKET
Market symbol	EL	ELSA

1 HIGHLIGHTS

Societatea Energetica Electrica S.A., hereinafter refer to as "Electrica", "ELSA" or " Company", registered with the National Trade Registry Office under no. J40/7425/2000, with sole 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 of electricity.

A summary of the key indicators is presented below:

- In the period ended December 31, 2017 revenues collected by the Company from dividends distributed by its subsidiaries decreased by RON 27,497 thousands compared to 2016;
- In the period ended December 31, 2017, the net profit amounted to RON 258,163 thousands, decreasing by RON 6,862 thousands or 3% as compared to 2016.

Starting with 4 July 2014, the Company's shares were listed on the Bucharest Stock Exchange (BVB), and Global Depository Receipts were listed on London Stock Exchange (LSE). 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.

2 ORGANIZATIONAL STRUCTURE

The Company's subsidiaries as at December 31st 2017 are the following:

Subsidiary	Activity	Registration code	Headquarters	% stake as of December 31st, 2017
Societatea de Distributie a Energiei Electrice Muntenia Nord S.A. (SDMN)	Electricity distribution in North Muntenia geographical area	14506181	Ploiesti	99,9999696922382%
Societatea de Distributie a Energiei Electrice Transilvania Nord S.A. (SDTN)	Electricity distribution in Northern Transylvania geographical area	14476722	Cluj-Napoca	99,9999829770757%
Societatea de Distributie a Energiei Electrice Transilvania Sud S.A. (SDTS)	Electricity distribution in Southern Transylvania geographical area	14493260	Brasov	99,9999764132243%
Electrica Furnizare S.A. ("EFSA")	Electricity supply	28909028	Bucharest	99,9998390431663%
Electrica Serv S.A. ("FISE")	Services in the energy sector (maintenance, repair, construction)	17329505	Bucharest	100%
Servicii Energetice Muntenia S.A. (in restructuring) ("SEMU")	Services in the energy sector (maintenance, repair, construction)	29384120	Bucharest	100%
Servicii Energetice Oltenia S.A. (in restructuring) ("SEO")	Services in the energy sector (maintenance, repair, construction)	29389861	Craiova	100%
Servicii Energetice Moldova S.A.*	Services in the energy sector (maintenance, repairs, construction)	29386768	Bacau	n/a

Source: Electrica
**Societatea Energetica Electrica S.A. lost the control of Servicii Energetice Moldova starting January 2016 when the bankruptcy proceedings of the subsidiary began*

Electrica's subsidiaries do not hold any shares issued by the parent company.

3 KEY EVENTS IN 2017

THE MAIN EVENTS OF 2017:

- Regarding corporate governance
  - The most important decisions of the General Meeting of Electrica's Shareholders in 2017 (27 April 2017 and 26 October 2017) refer to:
    - → Approval of the 2017 standalone and consolidated annual budgets of Electrica;
    - → Approval of the 2016 standalone and consolidated audited financial statements of Electrica;
    - → Approval of the 2016 profit distribution; gross dividend – RON 0.7415 per share; payment date – 22 June 2017;
    - → Approval of the proposal for amendment of the Articles of Association of Societatea Energetica Electrica SA by eliminating two provisions so that the decisions for subsidiaries' mergers, spin offs and global strategy at subsidiary level, including but not limited to development and restructuring to be transferred to BoD;
    - → Rejection of the empowerment of Electrica BoD to approve changes in the structure of the income and expenses budget of Electrica for financial year 2017, at standalone and consolidated levels up to a total variation of 10% in the line of total revenues and total expenses;
    - → Election of the members of the Board of Directors of Electrica SA by applying the cumulative voting method: Arielle Malard De Rothschild, Cristian Busu, Doina Elena Dascalu, Gicu Iorga, Pedro Mielgo Alvarez, Willem Jan Antoon Henri Schoeber, Bogdan George Iliescu;
    - → Establishing the mandate's duration for the elected Directors for a period of four years;
    - → Approval of the acquisition by the Group companies of the shares held by Fondul Proprietatea S.A. ("FP") in SDMN, SDTN, SDTS and EFSA.

- Regarding the non-executive management:
  - On 27 January 2017, the Board of Directors of Electrica SA decided to appoint Mr. Cristian Busu as Board of Directors chair for a mandate of one year, as well as the members of the BoD committees and elected their chairs for one year mandate;
  - On 28 April 2017, The Chairman of the Board of Directors of Electrica SA acknowledged that Mrs. Corina Georgeta Popescu decided, with effect from 1 May 2017, to renounce to her position as member of the Board of Directors of Electrica SA. Following Mrs. Popescu's renunciation to her position of member of the Board of Directors of Electrica SA starting with 1 May 2017, the Board of Directors appointed Mr. Gicu Iorga as interim member of the Board of Directors, starting with 1 May 2017 until 30 April 2018, or until the next Ordinary General Meeting of Shareholders of the Company, whichever would have come first;
  - After the election of the new Board of Directors members, on 13 November 2017, the Board of Directors decided to appoint Mr. Cristian Busu as Chair of the Board of Directors for a mandate of one year. Also, the Board of Directors decided the composition of the committees and elected their chairs for one year mandate.

- Regarding the executive management:
  - On 27 January 2017, the Board of Directors of Electrica SA decided to revoke Mr. Ramiro Robert Eduard Angelescu from the position of Executive Manager of the Sales Coordination Division of ELSA, starting as of 27 January 2017 and to appoint Mrs. Livioara Sujdea as Executive Manager - Chief Distribution Officer, starting with 1 February 2017;
  - During the meeting held on 6 March 2017, the Board of Directors decided to appoint Mr. Dan Crisfalusi, as Executive Manager -Chief IT & Telecom Officer, starting with 6 March 2017, for a four-year period;
  - On 13 April 2017, the Board of Directors decided to appoint Mrs. Acristini-Georgescu Anamaria Dana, as Executive Manager – Chief Strategy Officer, starting with 1 May 2017, for a four-year period;
  - On 10 August 2017, the Board of Directors decided to appoint Mrs. Dana Alexandra Dragan as Executive Manager of Human Resources Division, starting with 15 August 2017, for one-year period with the possibility of extending the contract up to four years;
  - On 7 December 2017, the Board of Directors decided to appoint Mrs. Catalina Popa as Executive Sales Director, starting with 12 December 2017, for a period of four years;
  - During the meeting held on 15 December 2017, the Board of Directors approved the revocation of Mrs. Iuliana Andronache from the position of Chief Financial Officer of Electrica SA starting with 15 December 2017. During the same meeting, the Board of Directors decided to appoint Mr. Mihai Darie as Chief Financial Officer, starting with 3 January 2018, for a period of four years.

- Other relevant events:

Litigations:

- On 27 January 2017 the Board of Directors took note of the cases disputed by Electrica SA with ANRE and approved the following:
  - → Withdrawal of legal actions in cases regarding the suspension of applicability of ANRE orders by which the distribution tariffs were determined for 2015 and 2016;
  - → Formulating requests for suspension in the cases dealing 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 8 June 2017, Electrica SA received a subpoena from SAPE against Electrica SA, former managers and directors of the entity, the Ministry of Economy and the Ministry of Energy;
- On 20 November 2017, Electrica S.A. received the notification issued by the Bucharest Court (Romanian: Tribunalul Bucuresti), referring to the File No. 42479/3/2017, by which Mr. Stanciu Razvan, as shareholder of the Company, filed a complaint to request the ascertainment of the "absolute nullity of the decision no. 2 of the Ordinary General Meeting of Shareholders ("OGMS") of Electrica S.A. regarding the election of the members of the board of directors by applying the cumulative vote (item 4 on the agenda) and the establishment of the mandate's duration for the elected directors for a period of 4 (four) years (item 5 of the agenda), pursuant art. 132 of Law 31/1990, having as a direct consequence the cancellation of all legal acts concluded by the new Board of Directors of Electrica S.A.". The trial is ongoing;
- At the same time, on 21 November 2017, Electrica S.A. took note from the court's archive that Mr. Stanciu Razvan also filed an application for the suspension of the effects of the OGMS decision dated the 26th of October through an emergency injunction (File No. 42484/3/2017) on items 4 and 5 on the agenda, until the above mentioned file will be settled, the term of the trial being set for 29 November 2017. This claim was rejected on December 12, 2017 as being unfounded.

Important steps in the acquisition of the shares of Fondul Proprietatea in Electrica's subsidiaries in 2017:

- 14 July - Electrica signed a Memorandum of Understanding ("MoU") with Fondul Proprietatea S.A. for an aggregated value of the transaction amounting to RON 752 million, plus the 2016 dividends to be paid to FP;
- 26 October - the EGMS approved the acquisition by the Group companies of the shares held by FP in the distribution and supply subsidiaries of the Group;
- 31 October - Electrica and FP extended the Long Stop Date of the MoU signed on 14 July 2017 from the initially agreed 31 October 2017 until 30 November 2017;
- 1 November - Electrica and FP executed the Sale and Purchase Agreements for the acquisition of FP's holdings in Electrica subsidiaries.

Structure of the transaction - The Aggregated Purchase Price agreed in the MoU of the transaction was RON 752,031,841 as follows:

- a total price of RON 209,744,928 for 21.9999979% of the share capital of SDMN;
- a total price of RON 201,702,667 for 22.00001% of the share capital of SDTN;
- a total price of RON 173,504,365 for 21.9999981% of the share capital of SDTS;
- a total price of RON 167,079,881 for 22.000027% of the share capital EFSA.

In addition to the above price, FP was also entitled to receive dividends in total amount of RON 97,968,159 for the financial year 2016 distributed by the above mentioned subsidiaries, since the dividends were declared prior to the transaction date.

The existence of additional buyers (besides Electrica) was imposed through the provisions under Art. 10, paragraph (3) of the Company Law no. 31/1990.
As a result:

- Electrica acquired all the shares owned by FP in those subsidiaries except 10 shares in each subsidiary;
- Each distribution subsidiary acquired 10 shares in another distribution subsidiary (SDTS acquired 10 shares in SDMN; SDMN acquired 10 shares in SDTN; SDTN acquired 10 shares in SDTS);
- Electrica Serv S.A. acquired 10 shares in EFSA.

Policies in place to comply with best practices of corporate governance:

- Approval of the Remuneration policy of Electrica's directors and executive managers drafted based on OGMS resolutions no. 2/09.07.2015 and no. 1/31.03.2016;
- Approval of the Dividend Policy, published on 4 May 2017;
- Approval of the Policy of Transactions with Related Parties, applicable starting with 10 November 2017;

Intra-group loans and other intra-group facilities approved to be granted by Electrica SA:

- Approval for granting a total of RON 540 million intra-group loans to the distribution subsidiaries (for financing the 2017 CAPEX plan) and to Electrica Serv - 10 August;
- Approval for issuance of a Corporate Guarantee in favor of Electrica Serv S.A. in total amount of RON 39 million for guaranteeing a working capital credit line contracted by Electrica Serv S.A. from ING Bank - 11 September;
- Approval for granting a revolving intercompany overdraft of RON 100 million to Electrica Furnizare S.A. for financing fluctuations of working capital, at market conditions

Certifications

- During September 2017 the following certifications were obtained: 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";
- The certifications were issued by DEKRA CERTIFICATION, top global provider for audit and certification services.

4 DECLARATION ON CORPORATE GOVERNANCE

4.1 Ownership Structure

The General Meeting of Shareholders ("GMS") is the main corporate decision body of Electrica S.A., with responsibilities of decision regarding matters provided 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.

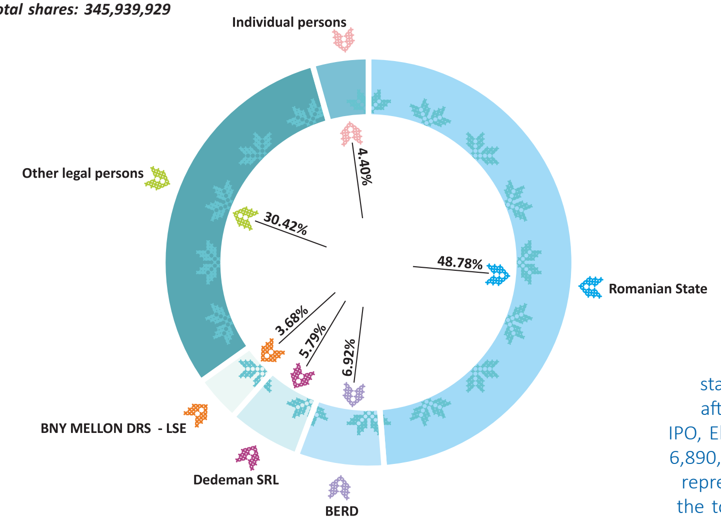
Until July 2014, the Romanian state, through the Ministry of Energy, was the sole shareholder of Electrica S.A. As of July 4, 2014, after an Initial Public Offering, the Company's shares are listed on the Bucharest Stock Exchange, and Global Depository Receipts are listed on London Stock Exchange. The latest information on ownership structure was made available by the Central Depository on 15 February 2018 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	23,955,272	6.9247%
Dedeman SRL	20,044,550	5.7942%
BNY MELLON DRS, New York, USA	12,720,340	3.6770%
Legal entities	105,247,642	30.4237%
Individuals	15,220,940	4.3999%
TOTAL	**345,939,929**	**100%**

Source: Central Depository, Electrica S.A.

Figure 1: Ownership structure on 15 February 2018

Total shares: 345,939,929



Following the stabilization process after the June 2014 IPO, Electrica S.A. owns 6,890,593 of its 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 27 April 2017 the general meeting of the shareholders is the governing body of the Company. The general meetings of the shareholders are ordinary and extraordinary.

The ordinary general meeting of the shareholders has the following main duties:

- to appoint and revoke the members of the Board of directors and establish the level of their remuneration and other rights according to the legal provisions;
- to establish the revenues and expenses budget, to set out the activity schedule of the Company;
- to establish the revenues 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 auditor;
- 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 their liability, in accordance with the law;
- to decide to file legal actions against the directors, managers as well as financial auditor for damages they caused to the Company by breaching their obligations towards the Company;
- to decide on mortgaging, renting or closing of one or more units of the Company;
- to appoint and revoke 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.

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 liens 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, sale, 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

- 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.

- 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.
- The rights and obligations deriving from the shares are transferred to the new acquirers together with the shares.
- 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.
- The obligations of the Company are secured by its social patrimony, and the liability of the shareholders is limited to the subscribed share capital.
- 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:

- 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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:

- 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.
- 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

Electrica adopted a one-tier (unitary) corporate governance system, consistent with the principles of good corporate governance, transparency and accountability towards its shareholders and other categories of stakeholders, aiming to support and drive the business development and efficient exchange of relevant corporate information.

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

According to the provisions of the Company's Articles of Association, starting with December 14th 2015, the Board of Directors is composed of 7 non-executive directors, elected by the Ordinary General Meeting of Shareholders for a 4-years mandate, four of whom must meet the criteria of independence provided by the Articles of Association.

During 2017, the composition of the Board of Directors has undergone some changes, as follows:

- At the beginning of the year, the Board of Directors consisted of seven non-executive members, as follows: Mr. Cristian Busu, Mrs. Arielle Malard de Rothschild, Mrs. Ioana Dragan, Mrs. Corina Popescu, Mr. Bogdan Iliescu, Mr. Pedro Mielgo Alvarez and Mr. Willem Schoeber.
- On March 31st, 2017, Mrs. Corina Popescu renounced her position as a member of the Board of Directors. In this context, the Board of Directors decided to appoint Mr. Gicu Iorga as interim member of the Board of Directors, starting with May 1st 2017;
- On October 26th, 2017, according to shareholder's request, a new Board of Directors was elected by the General Meeting of Shareholders through the cumulative vote method, as it follows: Mrs. Arielle Malard de Rothschild, Mr. Cristian Busu, Mrs. Doina Dascalu, Mr. Gicu Iorga, Mr. Pedro Mielgo Alvarez, Mr. Willem Schoeber and Mr. Bogdan Iliescu. Their term of office is four years.

During the entire year of 2017, four of the seven directors fulfilled the independence criteria provided by the Articles of Association, according to statements presented in the context of the General Meeting of Shareholders of October 26th, 2017, respectively: Mrs. Arielle Malard de Rothschild, Mr. Pedro Mielgo Alvarez, Mr. Bogdan Iliescu and Mr. Willem Schoeber.

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

No.	Name	Term of office (starting with October 26th, 2017)	Status	Date of first election
1.	Mr. Cristian Busu	4 years	non-executive director	September 22nd, 2014
2.	Mrs. Doina Dascalu	4 years	non-executive director	October 26th , 2017
3.	Mr. Bogdan Iliescu	4 years	non-executive, independent director	December 14th, 2015
4.	Mr. Gicu Iorga	4 years *	non-executive director	April 28th, 2017
5.	Mrs. Arielle Malard de Rothschild	4 years	non-executive, independent director	September 22nd, 2014
6.	Mr. Pedro Mielgo Alvarez	4 years	non-executive, independent director	December 14th, 2015
7.	Mr. Willem choeber	4 years	non-executive, independent director	April 26th, 2016

Source: Electrica
**Note: Following Mrs. Corina Popescu renunciation to her mandate as member of the Board of Directors, on April 28th, 2017, the Board of Directors appointed Mr. Gicu Iorga as interim member, and the General Meeting of Shareholders from October 26th 2017 elected him as a member of the Board of Directors, for a four years period.*

More details on the Board members' biographies can be found on the company's website at: https://www.electrica.ro/en/the-group/about/board-of-directors/.

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	• Currently Vice-President of SIF Oltenia and member of the Board of Directors and of the Audit Committee at SIF OLTENIA. • From November 2015 until January 2017 - State Secretary in the Ministry of Energy • Manager at the Central branch of Marfin Bank in Bucharest. • Between 2009 and 2013 - served as Financial Manager of Fondul Proprietatea and was a member of the Representatives Committee. • Economic Adviser for the Economic Department of the Romanian Government. • Associate professor at the Bucharest Academy of Economic Studies, where, in his capacity conducted various teaching and research activities. • Between 2000 and 2005 - worked for Prudential Financial in New York as financial planner/broker.
Doina Dascalu	4 years	• Currently - State Counsellor - Prime Minister’s office. • Between 2008 – 2017 - Counsellor of Accounts, for a nine-year term of office at the Parliament of Romania and vice-president of the Romanian Court of Accounts. • From 2005 until 2008 - Secretary of State with the Ministry of Public Finances – the Budget Department. • Between 2001 – 2005 - Expert within the Romanian Parliament and respectively advisor within the Chamber of Deputies – the Commission for Economic Policy, Reform and Privatization. • Between 1997 - 2001 - Head of the General Direction for Indirect Taxation Legislation and Deputy Secretary General of the Department for Tax Policy and Revenue Management, within the Ministry of Finance. • Between 1980 – 1997 - different positions within the Ministry of Public Finance and Romanian Court of Accounts.
Bogdan George Iliescu	4 years	• Currently - Board member, Nomination and Remuneration Committee member, Rating and Audit Committee member, Strategy committee member, SNTGN Transgaz SA, Medias. • Between 2014 – 2016 - Executive Director, Corporate Finance Department, BRD – Group Societe Generale. • Between 2007 – 2014 - Managing Director, BRD Corporate Finance. • From 2005 until 2009 – Board member, SAI INVESTICA ASSET MANAGEMENT SA, Bucharest. • Between 2001 – 2007 - Project Manager, BRD/SG Corporate Finance. • Between 1997 – 2001 - Analyst, BRD – Group Societe Generale.
Gicu Iorga	4 years	• Currently - Secretary General in the Ministry of Energy. • Between 2014 – 2017 - Senior Advisor A.N.A.F. - D.G.V. (General customs direction) Bucharest • Between 2012 – 2014 - Head of customs office - D.G.V. (General customs direction) Bucharest/Ploieşti. • Between 2011 – 2012 - Head of municipal tax information office/ Deputy executive manager – economic - D.G.F.P.M. Bucharest (General Direction of Public Finance of Bucharest Municipality). • Between 2010 – 2011 - Chief of administration - Administration of the consolidated state budget D.G.F.P.M. Bucharest, A.F.P – district 5. • 30 years’ experience in economics, finance-fiscal and public administration.
Arielle Malard de Rothschild	4 years	• Currently - Managing Director of Rothschild & Co (since 2006). • Director, Rothschild and Cie (1999-2006). • From Analyst to Deputy Director at Lazard Frères & Cie as part of the Sovereign Advisory team (1989 – 1998). • 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 Supervisory Board and member of the Risk Committee of Rothschild & Co; member of the Board of Directors of Groupe Lucien Barrière; member of the Board of Directors and member of the Nomination & Remuneration Committee of Imerys (2011 – 2017).
Pedro Mielgo Alvarez	4 years	• Non-executive Chairman, Madrilena Red de Gas, Madrid Spain. • Chairman and Managing Partner of the Fund GP, Nereo Green Capital, 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. • Member of the Steering Committee of EURELECTRIC (1999 – 2004). • Chairman of the Networks Committee of EURELECTRIC (2002 – 2004). • Member of the Directing Committee at ENSO (Predecessor of ENTSO-E), 1999 – 2004. • His experience includes a number of international M&A transactions and international investments.
Willem Jan Antoon Henri Schoeber	4 years	• Independent business consultant (since 2013). • Member of the board of directors of Neste Oyj (Helsinki, Finland) and of the supervisory board of Gasunie NV (Groningen, the Netherlands) since 2013 and member of the audit committees of these boards. • Chair of the Board of Directors of EWE Turkey Holding AŞ (Istanbul, Turkey), Bursagaz (Bursa, Turkey), Kayserigaz (Kayseri, Turkey) (2010 – 2015). • Member of the executive board of EWE AG (Oldenburg, Germany), responsible for power generation and the utility businesses in Turkey and Poland (2010 – 2013). • Chairman of the executive board of swb AG (formerly “Stadtwerke Bremen AG”, the integrated utility company of the city of Bremen, Germany) (2007 – 2011) • 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) (1977 – 2007)

Source: Electrica

During the entire year 2017, Mr. Cristian Busu performed the duties of chairman of the Board of Directors, according to the decisions made by the Board in its meetings on January 13th and November 13th 2017.

The activity of the Board of Directors is supported by three committees established since 2014, respectively the Nomination and Remuneration Committee, the Audit and Risk Committee and the Strategy and Corporate Governance Committee, each of them composed of three Directors and chaired by an independent Director. The majority members of the Nomination and Remuneration Committee and of the Audit and Risk Committee are independent Directors.

The 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 integrant part of the Corporate Governance Code of the Company.
According to the changes registered in the Board of Directors composition, the composition of the committees slightly changed during the year, as it follows:

- **January 13th - October 26th, 2017:**
  - The Nomination and Remuneration Committee
    - → Mr. Bogdan Iliescu - Chair of the committee
    - → Mrs. Arielle Malard de Rothschild
    - → Mrs. Corina Popescu – replaced in May by Mr. Gicu Iorga
  - The Audit and Risk Committee
    - → Mr. Pedro Mielgo Alvarez- Chair of the committee
    - → Mrs. Arielle Malard de Rothschild
    - → Mr. Bogdan Iliescu
  - The Strategy and Corporate Governance Committee
    - → Mr. Willem Schoeber - Chair of the committee
    - → Mrs. Ioana Dragan
    - → Mr. Cristian Busu
- **November 13th – December 31st, 2017:**
  - The Nomination and Remuneration Committee
    - → Mr. Pedro Mielgo Alvarez - Chair of the committee
    - → Mr. Bogdan Iliescu
    - → Mr. Gicu Iorga
  - The Audit and Risk Committee
    - → Mr. Bogdan Iliescu - Chair of the committee
    - → Mrs. Arielle Malard de Rothschild
    - → Mrs. Doina Dascalu
  - The Strategy and Corporate Governance Committee
    - → Mr. Willem Schoeber - Chair of the committee
    - → Mrs. Arielle Malard de Rothschild
    - → Mr. Cristian Busu

According to the available information, 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.

The following table presents the number of Electrica S.A. shares held by all members of the Board of Directors at 1st March 2018:

Name	Number of shares	Stake held (% of the share capital)
Mr. Cristian Busu	-	-
Mrs. Doina Dascalu	-	-
Mr. Bogdan Iliescu	-	-
Mr. Gicu Iorga	-	-
Mrs. Arielle Malard de Rothschild	-	-
Mr. Pedro Mielgo Alvarez	-	-
Mr. Willem Schoeber	-	-

Source : Electrica

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

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

In 2017, the Board of Directors met 28 times. Out of the 28 meetings that took place in 2017, 13 meetings were organized with physical presence of the members, 12 were held by conference call, in accordance with Art. 18 Parag. 20 of the Company's Articles of Association and 3 were held electronically, in accordance with the provisions of art. Art. 18 Parag. 23 of the Articles of Association of the Company.
We present below the situation of Board members' attendance (in person, by conference call or by email) in the meetings of the Board of Directors and its committees in 2017:

Nume	The Board of Directors (no. of meetings -28)	The Audit and Risk Committee (no. of meetings -13)	The Nomination and Remuneration Committee (no. of meetings 17)	The Strategy and Corporate Governance Committee (no. of meetings 13)
Mr. Cristian Busu	28	-	-	13
Mrs. Doina Dascalu	6	2	-	-
Mr. Bogdan Iliescu	28	13	17	-
Mr. Gicu Iorga*	16	-	8	-
Mrs. Arielle Malard de Rothschild**	24	11	13	2
Mr. Pedro Mielgo Alvarez**	27	11	2	-
Mr. Willem Schoeber**	26	-	-	13

Source: Electrica
**Note: Mr. Iorga became an interim Board member starting with 1 May 2017.*
***Note: When the Board members were unable to attend the meetings organized by the three methods specified by the Company's Articles of Association (physical presence, by telephone conference call and electronic), they were represented based on the mandates given to another Board member.*

In accordance with the provisions of the Collective Labour Agreement, when appropriate, invitations to attend the Board of Directors meetings were also addressed to Trade Union representatives.

THE KEY DECISIONS TAKEN BY THE BOARD OF DIRECTORS DURING 2017 REFER TO:

- Election of the Chairman of the Board of Directors and establishing the composition of the consultative committees and election of their chairpersons.
- Revision and endorsement of Electrica income and expenses budgets at standalone and consolidated levels, as well as of the income and expenses budgets of company's subsidiaries for the financial year of 2017.
- Analysis and endorsement of Electrica financial statements at individual and consolidated levels, as well as of the financial statements of the Company's subsidiaries for the financial year of 2016.
- Revision and endorsement of Electrica and of the consolidated investment plan for the financial year of 2017, as well as monthly analysis of its achievement.
- Analysis, coordination and approval of several 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 the affiliate companies in the areas of distribution and supply, supporting and finally endorsing the proposal submitted for the GMS approval in October 2017; discussing and analysing other opportunities in the region, identified and presented by the executive management).
- Continuing the controlled delegation of competences in order to implement a new, more efficient corporate governance at Group's level, the Board of Directors submitted for the General Meeting of Shareholder's approval several new proposals to amend the Company's Articles of Association, respectively reviewing the decisional level regarding the Company's subsidiaries that would allow streamlining processes and faster changes of organizational and business structures.
- Approval of the Reorganization program at Electrica Group level, based on two main pillars:
  - Distribution Area Transformation, aiming to:
    - → implement a new target operating model for the distribution segment, based on redesigned processes (including internalized activities), focusing on the efficiency and quality of customers services, on the achievement of the investments plan and on cost reduction and cost control,
    - → realize the business transfer of some activities performed by Electrica Serv subsidiary: maintenance and investments, design, procurement and logistics
  - Streamlining Electrica Serv activity, by adapting

the number of indirect productive employees with the number of direct productive ones and by developing new business lines and products.

- Analysing different kind of reports presented by the executive management regarding the operational activity, achievement of the budgetary targets for the entire year 2017 and for each quarter/semester, achievement of the KPIs set for 2016 and establishing KPIs for 2017.
- Revision of the Electrica's organization chart and structures and the implementation in stages of the new concept, including the establishment of a KPIs system at Group level.
- Approval of the Policy of Transactions with Related Parties.
- Restructuring the BoD composition in subsidiaries, to assure a consistent approach and support for the subsidiaries development and market positioning, as well as to strengthen governance across the group.
- Reviewing the Delegation of Authority of the Company.
- Observing the implementation of the audit plan for 2017 and approving the audit plan for 2018.
- Follow up of the Risk Management at the Group level, based on the reports submitted by the Management, and of the status of implementation of the corrective measures pertaining to non-compliances of higher risk identified and on the recommendations of the Audit & Risk Committee.
- Decisions on nominations of Executives, based on the recommendations of the Nomination and Remuneration Committee.
- Enhancing the application of variable pay in the Electrica group by approving new remuneration concepts.

BOARD OF DIRECTORS EVALUATION

The Board of Directors has decided, in line with good corporate governance practice, to carry out an annual evaluation of its functioning. In December 2016, a self-evaluation was carried out, based on a questionnaire defined and thoroughly discussed by the Board members. The results of this analysis have been reported in the annual report for 2016.

At the end of 2017, the functioning of the Board has been evaluated with the support of an external consultant, specialized in assessing management teams and boards of directors. In addition, the Board has evaluated its achievements regarding 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. It also included an evaluation of the Chair.

The evaluation of the consultant suggested the following aspects of the functioning of the Board as being positive:

- Alignment within the Board with the corporate culture, the mission and vision that Electrica should have.
- Identification of the industry developments and their impact on Electrica.
- Establishment of a new executive management team, which had been declared a priority for 2017.
- Effective and efficient cooperation and interaction with the CEO and the new executive Management.
- Definition of adequate policies and procedures within Electrica.
- Living and monitoring of a "good corporate governance" as recommended by the London and Bucharest Stock Exchanges.
- Engagement with the significant shareholders.
- The Board's team spirit and its challenging attitude.

Areas of improvement have been suggested as follows:

- Establishing/updating and communicating of an explicit corporate culture, the mission and the vision of Electrica within the company.
- Updating of the corporate governance model in order to stress the paradigm: „one group/one team".
- Enhancing the team spirit of the newly formed management team.
- Monitoring and management of risk.
- Improving the quality and accuracy of the Board documents and their timely submission
- Communication to stakeholders and the public.

Regarding the main objectives defined by the General Meeting of Shareholders for the Board, major steps have been made in 2017. A highlight was the transaction with Fondul Proprietatea (FP) on November the 1st, of 2017, where Electrica SA purchased FP's share of 22% in the three distribution subsidiaries and in the supply subsidiary of Electrica. By this action, Electrica has (directly or indirectly) become the 100% shareholder of all of its subsidiaries. This is and will allow an improvement in corporate governance, alignment and streamlining between the various subsidiaries and represents an attractive investment for the main part of the funds that have become available from the privatization process. The remainder of these funds will now be available to finance mainly further investments in distribution, but also to take advantage of new opportunities on the market.

The investments achieved by the distribution subsidiaries reached a level of 93% of the budget approved by the regulator for 2017 (ANRE). Although this is still somewhat below target, the actual increase of the investments from 2016 to 2017 by an average of 32% can be considered as a real achievement. The target for 2018 is proposed at another 33% above the actuals of 2017. These developments are supported by business process redesign in the distribution companies and insourcing of activities from Electrica Serv.

In the area of risk management, further work is still ongoing with specialized consultants to bring the company to an international standard in this area.

The Board continues to have serious concerns about the safety performance of the company and cannot be satisfied with this situation. In 2017, four casualties were registered among Group's employees. The Board will spend more time and effort in 2018 to support management in improving the safety culture of the company and serious measures have been already taken.

THE NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee consists of three non-executive Board of Directors members, two 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 regarding 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, 2017 – March 1st, 2018 (out of which 17 meetings in 2017). During these meetings, the following topics were discussed and referred to the Board of Directors for approval/endorsement the following key topics:

- recommendation regarding the appointment of a new/interim BoD member for the vacant position.
- appointing executive directors - CDO, CSO, Chief IT&T Officer, CHRO, CMO, CFO of Electrica SA and their performance criteria.
- revising the executive management KPIs achievement for 2016 and setting the ones for 2017 – at Electrica and Group level.
- Management Key Position (MKP) concept. Enhancing the application of variable pay in the Electrica group by approving new remuneration concepts.
- reviewing the BoD composition in subsidiaries for strengthening the governance across the group. Implementing new mandate contracts for the executive management positions in Electrica

and subsidiaries.

- revising the structure and the remuneration of the subsidiaries Board members.
- revising the Remuneration Policy of the Board members and of their mandate contracts, as well as the general limits of remuneration of the executive managers, according to the changes of the tax regulation.
- recommendation regarding the alignment of the mandate contracts for all the executive managers.

THE AUDIT AND RISK COMMITTEE

The Committee is made up of three non-executive Board of Directors members, two of them being independent members, while the chairman of the committee is an independent director. The Committee's composition 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 16 times during January 1st, 2017 – March 1st, 2018 (out of which 13 meetings in 2017). During these meetings, the following topics were addressed and referred to the Board of Directors for approval/ endorsement the following key topics:

- The financial statements of Electrica at standalone and consolidated levels for the financial year of 2016, as well as financial statements of Company's subsidiaries for the financial year of 2016.
- The financial auditor report and recommendations, issued during the auditing process.
- Electrica's budget execution, the consolidated budget execution and the financial results registered quarterly.
- The financial analysis regarding the evaluation of the acquisition of the minority stakes within distribution and supply operators.
- The audit plan for 2018 and the revision of the 2017 plan and achievements.
- The action plan for the internal control system evaluation.
- Electrica BRP Credit Risk Policy.
- Risk Management Policy.
- Policy of Transactions with Related Parties.
- Credit Cards Policy.
- Various reports submitted by the internal auditor on missions carried out within Electrica SA and its subsidiaries and as whistle blower reports:
  - → Report on the assessment of conflicts of interest in connection with transactions of the company and its subsidiaries with related parties (affiliates) during 2016.
  - → Report on internal control system.
  - → Analysing the Risk Management findings at the Group level, based on the reports submitted by the Management, and of the status of implementation of the corrective measures pertaining to non-compliances of higher risk identified and on the recommendations of the Audit & Risk Committee.

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, 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 assuming responsibilities on strategy matters which may be delegated from time to time to the Committee 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.

During January 1st, 2017 – March 1st, 2018, the Committee met 15 times (out of which 13 meetings in 2017) and discussed and referred to the Board of Directors for approval/endorsement the following key topics:

- The 2017 and 2018 budgets (Electrica, subsidiaries, consolidated).
- Investment Plan for 2017 and 2018. CAPEX and Commissioning Plan achievement, monthly reviews.
- Development and preparation of decisions regarding to the overall Electrica strategy and strategies in various areas of activity. Annual

review in a "strategy day".
- Changes in ELSA's organizational chart.
- Changes in ELSA's policies.
- ELSA Group Dividends Policy.
- Review of Electrica's Comply or Explain Statement and review of Directors' Report structure for 2016.
- Amendments in Electrica's and subsidiaries Articles of Association.
- Initiative of ELSA Headquarters Relocation.
- The analysis of the Balance Responsible Party activity.
- Electrica's Forecast Policy.
- Analysis of M&A projects and investment opportunities.
- DSO's transformation project, analysed in several meetings.
- Delegation of Authority (DoA) Revision in stages.

4.5 Executive Management

In accordance with art. 19 letter A, item 1, paragraphs (f) and (k) of the Articles of Association of the Company (approved by the GMS on 27 April 2017), 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.

Mr. Dan Catalin Stancu is the CEO of Electrica SA with a mandate of four years starting with 24 October 2016.

Following the appointments during 2017 by the Board of Directors of the CFO, Chief Distribution Officer, Chief IT & Telecom Officer, Chief Strategy Officer, Chief Market Officer and Executive Manager of Human Resources Division, at the end of 2017 the executive managers are:
- Mr. Dan Catalin Stancu – CEO with a mandate of four years starting with 24 October 2016;
- Mr. Mihai Darie – CFO, appointed on 15 December 2017, with a mandate of four years starting with 3 January 2018;
- Mrs. Alexandra Romana Augusta Popescu Borislavschi – Executive Manager of Corporate Governance and M&A Division, with a mandate of four years starting with 4 August 2015;
- Mrs. Livioara Sujdea - Chief Distribution Officer, with a mandate of four years starting with 1 February 2017;
- Mr. Dan Crisfalusi - IT & Telecom Officer, with a mandate of four years starting with 6 March 2017;
- Mrs. Anamaria Dana Acristini-Georgescu – Chief Strategy Officer, with a mandate of four years starting with 1 May 2017;
- Mrs. Dana Alexandra Dragan - Executive Manager of Human Resources Division, with a mandate of one year starting with 15 August 2017, with the possibility of extending the contract up to four years;
- Mrs. Catalina Popa - Chief Market Officer, with a mandate of four years starting with 12 December 2017.

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

4.6 The Corporate Governance Code

Electrica adhered to and has been wilfully applying the provisions of the Corporate Governance Code since 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.

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 April 2017 the company's Articles of Association was updated, following the approval of the General Meeting of Shareholders held on 27 April 2017.

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 4 January 2016. The provisions of this Code are being carefully examined and Company's compliance therewith is being thoroughly assessed and periodically reported to the market as new developments are observed.

The "Comply or Explain" Statement presents the compliance level of the Company with the provisions of BSE's CGC code. Electrica S.A. has been and continues to be in compliance with most of these requirements.

Regarding the aspects in which the company is not in full compliance, we mention that concrete actions shall be taken in order to improve the degree of compliance in the shortest time (more details can be found in Appendix 1). Further consideration shall 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 whistle-blower policy. The main purpose of the whistle-blower policy is to protect the Company from ethical deviations, frauds and any other aspects of non-compliance that 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 through Global Depository Receipts 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

	2017	2016
Management remuneration	4,623,768	1,039,030

Source: Electrica

At the beginning of 2017, Electrica SA`s management consisted of four managers remunerated based on the mandate agreement. For one of them, the mandate agreement ended in January 2017 and for another one, in December 2017.

During 2017 six new executive managers were appointed based on mandate agreement, in February, March, May, August and December. As of December 31st 2017 the Company had seven managers in place with mandate agreement and the latter one starting January 2018, effectively.

The remuneration granted to the Board of Directors members were, as follows:

	2017	2016
Board of Directors members	2,207,003	2,136,888

Source: Electrica

Electrica SA's Board of Directors comprises 7 members. 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.

During 2017 and 2016 there were no loans granted to managers and directors by the Company.

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, procedures and policies adopted by ELSA management and their implementation by the employees, regarding the organizational structure, applied procedures, methods, techniques and instruments, for the purpose of implementation of company strategy and objectives. The internal control includes all control forms performed at company level such as preventive financial control, internal and managerial control, compliance.

The internal control and the risk management systems have the following main goals:
- protecting organizational resources against losses due to waste, negligence, abuses, fraud etc.;
- compliance with the applicable legislation and the internal regulations;
- the reliability of financial reporting (accuracy, completeness and correctness of the information);
- ensuring an environment based on identifying, understanding and controlling risks, environment which will contribute to achieving the organizational goals;
- efficient and effective business operations and use of resources;
- applying the BoD and executive management resolutions and follow-up.

The achievement of these goals is performed as follows:
- recruitment of personnel with an adequate level of competency, in accordance with the

company's needs, accompanied by training and development of personnel skills and knowledge, supplemented with any external consultants, whenever necessary;

- clear definition and split 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 reports, including financial statements, annual and interim reports, budget etc) and their appropriate verification and approval by the Board of Directors, for the purpose of endorsing and release for publication.

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, anti-fraud and anti-money-laundering, avoidance and fighting against conflicts of interest, policy for gifts and protocol expenses as well as forbidding facilitating payments, transparency and the involvement of stakeholders), as well as organizational measures (policies on the delegation of authority and responsibilities);
- **Evaluation of risks** – Generally, all processes are within the scope of the internal control system. An identification process is carried out 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 manner, so that all employees may carry out their duties. Internal communication is performed by means of disseminating information to all 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 management, for the purpose of issuing the 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 assumed strategy and objectives 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 consistently applied for the same business situations, for the preparation of annual and interim financial statements of the Group on a standalone and consolidated basis. This guide is subject to review based on the changes made to the International Financial Reporting Standards as adopted by EU.

The Group has appropriate systems in place for the collection, storage, protection and processing of data in order to generate financial and managerial reports for both internal and external use, as well as proper systems and procedures for meeting the statutory, stock exchange or other legal requirements concerning financial reports in a timely manner and subject to control review.

5 FINANCIAL REPORTING

The individual financial statements have been prepared in accordance with the Minister of Public Finance Order no. 2844/2016 for the approval of the Accounting Regulations in accordance with International Financial Reporting Standards ("IFRS"), thereafter named „IFRS-EU". According to OMPF 2844/2016, the International Financial Reporting Standards represent the 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 Statement of Financial Position (amounts in thousands RON)

	December 31, 2017	December 31, 2016	Variation	Variation (%)
ASSETS				
Non-current assets				
Property, plant and equipment	270,667	275,008	(4,341)	-2%
Intangible assets	558	1,837	(1,279)	-70%
Investments in subsidiaries	2,183,951	1,430,819	753,132	53%
Restricted cash	320,000	134,492	185,508	138%
Loans granted to subsidiaries	246,563	-	246,563	-
Total non-current assets	**3,021,739**	**1,842,156**	**1,179,583**	**64%**
Current assets				
Cash and cash equivalents	125,983	197,644	(71,661)	-36%
Deposits, treasury bills and government bonds	746,980	1,867,115	(1,120,135)	-60%
Trade receivables	79,301	64,075	15,226	24%
Other receivables	54,940	12,598	42,342	336%
Inventories	175	161	14	9%
Prepayments	83	49	34	69%
Income tax receivables	-	2,384	(2,384)	-
Total current assets	**1,007,461**	**2,144,027**	**(1,136,566)**	**-53%**
Total assets	**4,029,200**	**3,986,183**	**43,017**	**1%**
EQUITY AND LIABILITIES				
Equity				
Share capital	3,459,399	3,459,399	-	0%
Share premium	103,049	103,049	-	0%
Treasury shares	(75,372)	(75,372)	-	0%
Pre-paid capital contributions in kind from shareholders	5,144	5,144	-	0%
Revaluation reserves	16,295	710	15,585	2,195%
Legal reserves	169,304	156,545	12,759	8%
Retained earnings	246,339	252,240	(5,901)	-2%
Total equity	**3,924,158**	**3,901,715**	**22,443**	**1%**
Non-current liabilities				
Employee benefits	1,589	1,581	8	1%
Total non-current liabilities	1,589	1,581	8	1%
Current liabilities				
Trade payables	72,395	67,591	4,804	7%
Other payables	12,936	11,717	1,219	10%
Deferred revenue	772	541	231	43%
Employee benefits	5,058	3,038	2,020	66%
Provisions	12,293	-	12,293	-
Total current liabilities	103,454	82,887	20,567	25%
Total liabilities	**105,043**	**84,467**	**20,576**	**24%**
Total equity and liabilities	**4,029,200**	**3,986,183**	**43,017**	**1%**

Source: Electrica

NON-CURRENT ASSETS

On December 31st, 2017 as compared to December 31st, 2016, fixed assets increased by RON 1,179,583 thousand or 64%, to RON 3,021,739 thousands from RON 1,842,156 thousands. Land and buildings were revalued as of December 31st, 2017 in accordance with the revaluation model used by the Company based on the accounting policies. As a result, the net book value of fixed assets as of December 31st, 2017 was influenced also by the net increase in the revaluation reserve. The results of the revaluation being a net increase of the revaluation reserve in amount of RON 18,624 thousands and a net impact of RON 1,907 thousands in the profit and loss account.

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 2017, the net capitalized amount regarding the AMR system is RON 155,1834 thousands (2016: RON 176,160 thousands), out of which a part is recognized as tangible asset in progress amounting to RON 21,943 thousands as at 31 December 2017 (2016: RON 21,943 thousands). During 2017, an evaluation of the entire AMR system was performed by a third party independent evaluator in order for the distribution subsidiaries to take over the AMR system. As a result of ANRE refusal to endorse the transfer of AMR system from Electrica SA to distribution subsidiaries with the subsequent recognition into Regulated Assets Base, the transfer could not be implemented.

In connection with the AMR system, the Company had service agreements with the distribution subsidiaries in 2017 until March 2017. The main services provided refer 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. Currently, Electrica SA and each distribution subsidiary in the Group are negotiating the conclusion of new agreements for services to be provided through AMR system.

TRADE RECEIVABLES

On December 31st, 2017, the Company's receivables increased by RON 15,226 thousands or 24%, to RON 79,301 thousands, from RON 64,075 thousands on December 31st, 2016.

RESTRICTED CASH AND SHORT-TERM INVESTMENTS

On December 31st, 2017, the category including cash and cash equivalents, restricted cash and deposits, treasury bills and government bonds decreased by RON 1,006,288 thousands or 46%, to RON 1,192,963 thousands, from RON 2,199,251 thousands on December 31st, 2016. The decrease is mostly on account of the use of treasury for the acquisition of FP's minority stakes in the Group's subsidiaries as well as intra-group loans.

Deposits, treasury bills and government bonds (amounts in thousands RON)

	31 December 2017	31 December 2016
Deposits, treasury bills and RON government bonds with a maturity greater than three months	462,738	1,757,746
Deposits with a maturity greater than three months	284,242	109,369
Restricted cash	320,000	134,492
Total deposits, treasury bills and government bonds	**1,066,980**	**2,001,607**

Source: Electrica

Deposits, treasury bills and government bonds with an initial maturity over three months have an average interest rate (average yield to maturity) of 0.78% from the following financial institutions: Citibank Europe PLC Dublin, Raiffeisen Bank, BRD, Marfin Bank, ING Bank. Treasury bills and government bonds are presented as investments held until maturity.

LOANS GRANTED TO SUBSIDIARIES (THOUSANDS RON)

Subsidiaries	31 December 2017	31 December 2016
Societatea de Distributie a Energiei Electrice Transilvania Nord	94,367	-
Societatea de Distributie a Energiei Electrice Muntenia Nord	94,000	-
Societatea de Distributie a Energiei Electrice Transilvania Sud	49,287	-
Servicii Energetice Muntenia SA	8,909	-
Total loans granted to subsidiaries	**246,563**	**-**

In 2017, the Company has entered into loan agreements as lender with the Group's distribution subsidiaries, as follows:

- Intragroup loan agreement with Societatea de Distributie a Energiei Electrice Muntenia Nord SA executed in November 2017. Main provisions are: maximum loan amount: RON 150,000,000, Purpose of the loan: to finance the investment program of 2017, Interest rate: 0.85% per annum, Maturity: 84 months, Period allowed for disbursements: 12 months, Bullet repayment at maturity, Repayment in advance allowed. As of 31 December 2017, loan balance is RON 94,000,000;
- Intragroup loan agreement with Societatea de Distributie a Energiei Electrice Transilvania Nord SA executed in November 2017. Main provisions are: maximum loan amount: RON 200,000,000, Purpose of the loan: to finance the investment program of 2017, Interest rate: 0.85% per annum, Maturity: 84 months, Period allowed for disbursements: 12 months. As of 31 December 2017, loan balance is RON 94,367,250 ;
- Intragroup loan agreement with Societatea de Distributie a Energiei Electrice + Transilvania Sud SA executed in November 2017. Main provisions are: maximum loan amount: RON 160,000,000, Purpose of the loan: to finance the investment program of 2017, Interest rate: 0.85% per annum, Maturity: 84 months, Period allowed for disbursements: 12 months. As of 31 December 2017, loan balance is RON 49,287,241.

In August of 2017, the Company has entered into an assignment agreement with FISE Electrica Serv SA, having as purpose the takeover of Electrica Serv SA receivable against Servicii Energetice Muntenia SA for a total value of RON 9,542,336. In October 2017, the Company has entered into an agreement with Servicii Energetice Muntenia SA having as object the conditions for payment of the amount of RON 9,542,336 due by Servicii Energetice Muntenia SA to the Company as well as for the set up of a mortgage over land and buildings located in Bucharest, property of the debtor in favour of the Company; the mortgage was set up in October 2017. The payment schedule agreed was as follows: RON 8,049,389 until 25 November 2017 and RON 1,492,947 until 25 August 2018. As of 31 December 2017, the outstanding balance of Electrica SA's receivable against Servicii Energetice Muntenia SA is RON 8,908,739 (out of which RON 7,415,791 is overdue); in January 2018, the overdue amount according to the schedule was cashed in.

The amounts provided by Electrica SA to group subsidiaries as loans and the amount owed by Servicii Energetice Muntenia SA as a result of the above mentioned transaction are presented together as "Loans granted to related parties", which as of 31 December 2017 is RON 246,563,320 (31 December 2016: RON 0).

PROVISIONS (THOUSANDS RON)

	Provisions for risks and litigations
Balance at 1 January 2017	**-**
Provisions made	24,493
Provisions used	-
Provisions reversed	(12,200)
Balance at 31 December 2017	**12,293**

Source: Electrica

In May 2017, after the revision of the Company's tax record, the tax authorities issued an enforcement order for additional interest and penalties of RON 39,248 thousands as a result of certain tax record allocations for prior periods. The Company filed a complaint with the tax authorities against the enforcement order and also opened a legal action to suspend the enforced payment by the resolution of the above mentioned complaint. These additional interest and penalties are related to the prior enforcement orders received by the Company in the prior years of RON 73,460 thousands and which were settled by enforced payments in 2016. Since there were uncertainties regarding the outcome of these legal actions, the Company recognized a provision of RON 12,200 thousands which was the management best estimate as of the end of the first semester 2017.

In February 2018, the Company has obtained a favourable Supreme Court ruling in one of the litigations with tax authorities, which essentially maintains into force a prior Court of Appeal decisions, which is favourable for the Company, in management's view. Based on this Court ruling and in conjunction with all other litigations with NAFA on the same historical taxes, including penalties and interest, as well as based on analysis with internal and external lawyers, the management best estimate as of 31 December 2017 is that the Company shall be able to obtain favourable Court rulings with the end result of no future cash outflows in these litigations with tax authorities. As a result, the previous recognized provision of RON 12,200 thousands has been reversed in full as of 31 December 2017 and there is no provision recognized as of 31 December 2017 related to NAFA litigations.

COMPETITION COUNCIL

On 4 January 2018, the Company received the Competition Council's decision on the investigation commenced in 2017, whereby it was found the breach of the provisions of art. 5 par. (1) of the Competition Law no. 21/1996 and art. 101 par. (1) TFEU by several companies which have sold meters and related measuring equipment for electricity in Romania, by the procedures for the award of supply contracts in the period from 27 November 2008 to 30 September 2015 and by Electrica, as a facilitator, in the period from 24 November 2010 to 30 September 2015.

The sanction applied to Electrica consists in a fine amounting to RON 10,801 thousands representing 2.98% of the revenues of Electrica SA in the financial year 2016. In determining the amount of the fine, it was taken into account that (i) Electrica cooperated fully and effectively with the Competition Council during the investigation procedure, outside the scope of the leniency policy and beyond the legal duty to cooperate, and (ii) it is for the very first time when the authority retains the role of facilitator for a company organizing public procurement procedures. As of 31 December 2017, the amount of RON 10,801 thousands was recognized as provision for the Competition Council fine.

SHARE CAPITAL

The subscribed share capital in nominal terms consists of 345,939,929 ordinary shares on December 31st, 2017 (345,939,929 ordinary shares on December 31st, 2016) with a nominal value of RON 10/share. Holders of ordinary shares are entitled to dividends, have the right to one vote per share in the General Meetings of Shareholders of the Company and 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 share price.

The Company recognizes the changes in share capital only after the approval in the General Meeting of Shareholders and the registration with the Trade Register.

During 2017 there were no changes to share capital.
At December 31st, 2017 the Company met the requirements of share capital as per the applicable legislation.

DIVIDENDS

The Company can distribute dividends from the statutory profit according to the individual audited statutory financial statements prepared in accordance with IFRS-EU.

Dividends distributed by the Company in past 3 years (from previous year's statutory profits) were as follows (amounts in thousands RON):

	2017	2016	2015
Distributed dividends	251,405	291,582	244,692

Source: Electrica

Dividends related to the year ended 31 December 2016, amounting to RON 251,405 thousands were declared based on the standalone annual audited statutory financial statements of the Company.

The distribution of dividends was approved in the gross amount of RON 0.7415 RON/share, related to 2016 financial year, under the Decision of the Ordinary General Meeting of Shareholders of April 27, 2017 and the dividend payment started on June 22, 2017.

At 31 December 2017 the Company has dividends liabilities to its shareholders amounting to RON 1,173 thousands representing the dividends uncollected by the shareholders until 31 December 2017, as follows:

- the dividends uncollected for the year 2014 in the amount of RON 296 thousands;
- the dividends uncollected for the year 2015 in the amount of RON 416 thousands;
- the dividends uncollected for the year 2016 in the amount of RON 461 thousands.

5.2 Operational Results

Financial information selected from the Statement of Profit and Loss of the Company (thousands RON)

	31 December 2017	31 December 2016	Var.	Var.
Revenues	**481,915**	**362,388**	**119,527**	**33%**
Other income	5,454	1,710	3,744	219%
Electricity purchased	(469,698)	(347,593)	(122,105)	35%
Employee benefits	(25,848)	(20,504)	(5,344)	26%
Depreciation and amortization	(23,532)	(23,507)	(25)	0%
Impairment of property, plant and equipment	(1,907)	-	(1,907)	-
Impairment of trade and other receivables, net	(15,120)	(38,392)	23,272	-61%
Other operating expenses	(48,129)	(81,037)	32,908	-41%
Change in provisions, net	(12,293)	31,251	(43,544)	-139%
Operating loss	**(109,157)**	**(115,684)**	**6,527**	**-6%**
Finance income	364,795	389,683	(24,888)	-6%
Finance expenses	(470)	(1,739)	1,269	-73%
Net finance income	**364,325**	**387,944**	**(23,619)**	**-6%**
Profit before tax	**255,168**	**272,260**	**(17,092)**	**-6%**
Income tax expense	2,996	(7,234)	10,230	-
Profit for the year	**258,164**	**265,026**	**(6,862)**	**-3%**
Earnings per share				
Basic and diluted earnings per share	**0.76**	**0.78**	**0.02**	**-2.56%**
Other comprehensive income				
Items that will never be reclassified to profit or loss				
Revaluation of property, plant and equipment	18,624	-	18,624	-
Tax related to revaluation of property, plant and equipment	(2,980)	-	(2,980)	-
Re-measurements of the defined benefit liability	55	100	(45)	-45%
Tax related to re-measurements of the defined benefit liability	(16)	(16)	-	0%
Other comprehensive income, net of tax	**15,683**	**84**	**15,599**	**18570%**
Total comprehensive income	**273,847**	**265,110**	**8,737**	**3%**

Source: Electrica

REVENUES

In the year 2017, Electrica reported revenues of RON 481,236 thousands as compared to RON 362,388 thousands reported in the year 2016. The variation is mainly caused by the favourable evolution of the activity carried out by Electrica SA as being balancing responsible party on the energy market, reporting an increase of RON 122,223 thousands, respectively 34%.

The breakdown structure of the revenues is as follows (amounts in thousands RON):

	Amount 2017	% 2017	Amount 2016	% 2016	Amount 2015	% 2015
Energy supply on balancing energy market and day ahead market	480,607	99.73%	356,982	98.50%	379,039	98.78%
Management and consultancy services	-	-	-	-	-	-
Electricity sale - Trading	-	-	723	0.20%	-	-
Revenue from services related to AMR system	1,308	0.27%	4,683	1.30%	4,669	1.22%
Total	**481,915**	**100%**	**362,388**	**100%**	**383,708**	**100%**

Source: Electrica

Other income
Other income mainly include income from rent and penalties applied to clients for late 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 469,490 thousands in 2017 significantly higher than RON 347,593 thousands in 2016, due to the increased BRP activity during the energy market turmoil in 2017.

Depreciation and amortisation of tangible and intangible assets
The depreciation and amortisation expense is in amount of RON 23.532 relatively unchanged as compared to RON 23,507 reported in 2016.

Salaries and other employee benefits
In the year 2017, the expenses related to salaries and employee benefits increased by RON 5,344 thousands, reaching RON 25,848 thousands from RON 20,504 thousands in 2016. The increase comes from the termination benefits represent compensation payments in case of employees' voluntary departure as well as management compensation in case of mandate contracts termination.

Adjustments on impairment of trade receivables and other receivables
In the year 2017 due to the fact that some clients were subject to insolvency procedures, the Company recognized adjustments on impairment of trade receivable and other receivables in the amount of RON 15,120 thousands.
The adjustments recognized during 2017 comprise the amount of RON 11,218 thousands referring to receivables from Fidelis Energy, RON 2,094 thousands from Electra Management Supply and an additional impairment in amount of RON 5,367 thousands from Transenergo Com S.A, companies that have entered into insolvency in the context of unfavourable developments in the energy market.
The adjustment of RON 4,450 thousands was reversed due to the collection of receivable from CEZ Romania.

Operating Loss
As a result of the above mentioned factors for the year 2017, the Company reported a loss resulting from the operating activity in amount of RON 109,157 thousands, lower as compared with RON 115,684 thousands in 2016.

Finance income
Finance income consists mainly of the dividends distributed by Electrica's subsidiaries.
The income from the dividends distributed by subsidiaries in the year 2017 are in amount of RON 347,341 thousands compared to RON 374,839 thousands in the year 2016, as follows (amounts in thousands RON):

RON	2017	2016
Societatea de Distributie a Energiei Electrice Muntenia Nord SA	68,558	95,358
Societatea de Distributie a Energiei Electrice Transilvania Nord SA	78,410	99,130
Societatea de Distributie a Energiei Electrice Transilvania Sud SA	76,965	93,405
Societatea de furnizare a energiei electrice Electrica Furnizare SA	123,408	86,946
TOTAL	**347,341**	**374,839**

Source: Electrica

Another category of finance income is represented by interest income, which increased to RON 17,033 thousands in 2017 compared to the amount of RON 14,784 thousands in 2016.

The average interest rate for deposits, treasury bills and government bonds with original maturity of three months increased from 0.63% in 2016 to 0.78% in 2017.

Profit before tax
In 2017, the profit before tax decreased by RON 17,092 thousands or 6%, to RON 255,168 thousands, from RON 272,260 thousands in 2016.

Income tax expense
In the year 2016, the Company reversed the deferred tax expense in the amount of RON 7,234 thousands because in the future it is not expected to obtain a taxable profit to offset this tax and in 2017 no tax on profit was recorded.

Net Profit for the year
Due to the above mentioned factors, the net profit for the year 2017 increased by 3% against the year 2016, to RON 273,847 thousands from RON 265,026 thousands.

For the period to which the statutory audit relates, in addition to the audit, KPMG has provided the following services to the Company and its controlled entities:

- Assurance services other than statutory audit: EUR 59,900;
- Advisory services: EUR 189,765;
- Tax services: EUR 78,275.

6 OTHER INFORMATION

6.1 Personnel

The average number of employees increased in 2017 as compared to 2016 by seven employees, to 137 employees from 130 employees, while the effective number of employees as of December 31st was 155 in 2017, respectively 142 in 2016, as a result of Company's reorganization and restructuring program as well as the starting of recruitment process of a competitive top & middle management team.

On 31 December 2017, approximately 95% of the Company's employees were Union members and their employment conditions were governed by the Collective Labour Contract which expired at the end of the year. Starting with 1st of January 2018 a new Collective Labour Contract was negotiated for a 12 months period and submitted to the Territorial Labour Inspectorate of Bucharest for registration. 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 evaluates that the relations with the employees are good.

In 2017 the voluntary leave program with compensatory payments has been continued till the end of the year.
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 termination of employment dispositions.

The Company focuses on training programs aimed at continuous employees' improvement as well as specialization whenever applicable.

6.2 The predictable development of the Company

The Company estimates that for 2018 the income from dividends received from the subsidiaries will be lower than in 2017. The Company expects that the 2018 profit will be lower than in 2017 based on the proposed 2018 budget.

The Company estimates a reduction of revenues and expenses from the electricity transactions on the balancing market, correlated with the downsizing of Balancing Responsible Party activity in 2018 as compared to 2017, as a result of an intended business transfer to EFSA starting with April 1st 2018.

6.3 Main risk and uncertainties

- Romania's electricity market and demand is influenced by various factors beyond the control of the subsidiaries, such as economic, political and climate-changing factors;
- The supply segment may be exposed to increasing competition due to the liberalization of the electricity market;
- Group's supply segment might lose its status of supplier of last resort. Starting January 1st 2018, the electricity market is fully liberalized, including on household segment; thus, consumers can choose their supplier. By eliminating in full the regulated prices according to the liberalization calendar, there might be an increase in the number of consumers seeking to exercise their eligibility right. As a result, the client base of the supply segment might be negatively affected.

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 taken into consideration:

- 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.

In 2017, the Board of Directors of Electrica S.A. has approved Risk Assessment Criteria, Risks Management Policy and Principles of Credit Risk Policy for BRE (Balancing Responsible Party) activity. Thus, the Risks Management Policy was adopted by the companies within the Electrica Group.

In the 4th quarter of 2017, Electrica S.A. started an extensive process of improvement and development of the risk management system in accordance with the provisions of the international standard SR ISO 31000:2010 "Risk Management - Principles and Guidelines", having as main objective the redesign of the risk management system, its adaptation to new market conditions and also its integration across the Group.

For 2018, Electrica S.A. intends to continue and complete the process of redesigning the risk management system.

In 2017, the Group carried out the process of reassessing the main risks and proposed appropriate control measures with the aim of avoiding or diminishing the identified risks in the future.

Some of the identified risks for Electrica Group's activity and sector are listed below:

- Supply activity could face with the risk of increased competition due to electricity market liberalization and could lose the status of supplier of last resort;
- Supply segment could confront with increased market volatility, both from volume and price standpoint;
- The financial performance may be negatively influenced by recognized tariffs on the segment of last resort suppliers well as by the electricity prices for all other market segments;
- Romania's electricity demand is influenced by various factors beyond control of the subsidiaries, such as economic, political and climate-changing factors;
- The Group has to comply with regulatory requirements and to maintain active the regulatory licences and , being exposed to significant liabilities in case of non-compliance;
- Components of the distribution subsidiaries' network are subject to deterioration over time and increased maintenance costs;
- The assets or Group activity may be negatively impacted by natural disasters or unauthorized human interventions;
- The groups' IT systems are not integrated and need updates;
- 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;
- EFSA 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 from a competition standpoint;
- 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 exceeding assumed costs as well asactual revenues being lower than estimated;
- Reputation, future prospects or results of operations may be materially adversely affected by claims or litigations;
- Failure to execute public procurement legislation by the Group members obliged to apply this legislation may lead to fines, voided contracts and delayed procurement procedures;
- 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 taxes due for previous periods in case the tax authorities disagree on the tax treatment applied by the company for prior periods;
- The Romanian taxation system is subject to frequent change and raises the riskof inconsistent interpretations;
- After the IPO, the Romanian state through the Ministry of Energy continues to have significant influence over the Company;
- The existence of companies involved in the electricity distribution and network construction in the area where the Group's distribution subsidiaries are carrying out their activity;
- Regulation risk generated by frequent changes and without appropriate consulting sessions with the electricity distribution operators negatively influence the budget planning and anticipation capabilities;
- The risk generated by regulation in the area of activity related to balancing responsible party on energy market.

FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks arising from financial instruments: credit risk, liquidity risk, market risk. These risks are further explained and detailed.

(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 has implemented policies and procedures aimed at enhancing the credit risk management.

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

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

Impairment

The ageing of trade receivables was as follows (amounts in thousands RON):

	December 31, 2017		December 31, 2016	
	Gross value	Bad debt allowance	Gross value	Bad debt allowance
Neither past due nor impaired	75,609	-	50,863	-
Past due 1-90 days	42	-	42,817	(32,097)
Past due 90-180 days	11,956	(8,306)	1,940	(1,543)
Past due 180-360 days	36,604	(36,604)	507	(507)
Past due 1 – 2 years	9,284	(9,284)	7,624	(5,530)
Past due 2 – 3 years	987	(987)	299	(299)
Past due more than 3 years	670,302	(670,302)	670,504	(670,504)
Total	**804,784**	**(725,484)**	**774,555**	**(710,481)**

Source: Electrica

Allowances for impairment are referring mainly to Oltchim SA (RON 658,779,545), Transenergo Com S.A. (RON 37,235,400) and to Fidelis Energy (RON 11,218,320).

	Net trade receivables	
	December 31, 2017	December 31, 2016
Neither past due nor impaired	75,609	50,863
Past due 1-90 days	42	10,720
Past due 90-180 days	3,650	397
Past due 180-360 days	-	-
Past due 1 – 2 years	-	2,093
Total	**79,301**	**64,075**

Source: Electrica

(II) LIQUIDITY RISK

Liquidity risk is the risk that the Company might 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 distressed 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 presented in thousands RON, gross and undiscounted, and include estimated interest accrued.

Financial liabilities	Carrying value	Contractual cash flows Total	less than 1 year
December 31, 2017			
Trade payables	72,395	72,395	72,395
Total	**72,395**	**72,395**	**72,395**
December 31, 2016			
Trade payables	67,591	67,591	67,591
Total	**67,591**	**67,591**	**67,591**

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 (amounts in thousands RON):

	December 31, 2017 USD	December 31, 2017 EUR	December 31, 2016 USD	December 31, 2016 EUR
Cash and cash equivalents	56	1,236	4,669	2,533
Deposits, treasury bills and government bonds	4,242	-	-	-
Net statement of financial position exposure	**4,297**	**1,236**	**4,669**	**2,533**

Source: Electrica

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

RON	Average rate 2017	Average rate 2016	Year-end spot rate 2017	Year-end spot rate 2016
EUR/RON	4.5681	4.4908	4.6597	4.5411
USD/RON	4.0525	4.0569	3.8915	4.3033

Source: Electrica

Sensitivity analysis
A reasonably possible appreciation (depreciation) of the EUR against the 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 forecasted sales and purchases. Amounts in thousands RON.

	Profit before tax Apreciation	Profit before tax Depreciation
December 31, 2017		
EUR (5% movement)	62	(62)
USD (5% movement)	215	(215)
December 31, 2016		
EUR (5% movement)	127	(127)
USD (5% movement)	233	(233)

Source: Electrica

A reasonably possible appreciation (depreciation) 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 forecasted sales and purchases.

Interest rate risk
The Company has no long-term bank loans.

Exposure to interest rate risk
The interest rate profile of the Company's interest-bearing financial instruments is as follows (amounts in thousands RON):

	December 31, 2017	December 31, 2016
Fixed-rate instruments		
Financial assets		
Bank deposits (cash and cash equivalent)	122,530	193,788
Deposits, treasury bills and government bonds	746,980	1,867,115
Restricted cash	320,000	134,492
Total	**1,189,510**	**2,195,395**

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 in the area of environmental pollution, prevention and responsible waste management.

In 2017, an identification and evaluation process for all environmental aspects associated processes developed in normal and emergency conditions that have an environmental impact was performed. The procedures were elaborated in accordance with the specific legislation and requirements from the reference standard ISO 14001. Periodic evaluation of compliance was achieved through audits and 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, in partnership with OMV-Petrom implemented E-mobility pilot project, "Green Highway" installing the first fast charging station with a capacity of 50 kW, which is in commercial operation starting with January 2017.

Following the evaluation of pilot project results and market evolution, it is foreseen further implementation of new E-mobility projects, together with strategic business partners and public local authorities.

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 integrating a high level of distributed generation sources.

By participating in these research, development and innovation projects with financing / co-financing 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 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 enhancing Company's image;
- creating new opportunities for future financing of Electrica's projects through EU funds.

Another important endeavour of Electrica in promoting technological innovation is to disseminate the solutions for updating its electric grid using a smart grid concept in the international conferences/symposia Electrica is organizing every year in November and which propose as an alternative topic the smart grids and smart metering solutions.

We emphasize the participation in the WEC conferences with presentations concerning technological innovation and promotion of new technologies that improve operational efficiency.

6.7 Legal acts reported

The legal acts reported in 2017 according to Art. 82 of Law No. 24/2017 (previous art. 225 of Law 297/2004) are the following:

- Filiala de Intretinere si Servicii Energetice „Electrica Serv" SA – C241/28.12.2016 - valid until 30.06.2017 - Complex road transportation services - value: RON 780 thousand; the legal document was concluded at the end of the year 2016 and was reported on 4 January 2017;
- Filiala de Intretinere si Servicii Energetice „Electrica Serv" SA – 164/10.07.2017 - valid until 31.12.2017 - Road transportation services- value: RON 690 thousand;
- Filiala de Intretinere si Servicii Energetice „Electrica Serv" SA – 344/29.12.2017 - valid until 30.06.2018 - Road transportion services- value: RON 447 thousand; the legal document was concluded at the end of the year 2017 and was reported on 3 January 2018.

6.8 Subsequent events

During the period between the 2017 financial year closing and the date of the present report, the following relevant events took place at Electrica SA level:

- On 3 January 2018, the Company informed its shareholders and investors about the conclusion in the second semester of 2017 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. On 30 January 2018, the auditor report of factual findings according to art. 82 of Law no. 24/2017 regarding the transactions reported in the second semester of 2017 was published;
- On January 4, 2018, the Company was informed of the deliberation of the Plenum of the Competition Council in the investigation initiated on the basis of Order no. 577 / 23.09.2015 of the President of the Competition Council, extended in respect of Electrica on 28.08.2017, whereby it has determined the violation of the provisions of art. 5 par. (1) of the Competition Law no. 21/1996 and of art. 101 par. (1) TFEU by several companies which have sold meters and related measuring equipment for electricity in Romania in the procedures for the award of supply contracts between 27 November 2008 and 30 September 2015 and by Electrica as facilitator, between 24 November 2010 and 30 September 2015. The sanction applied to Electrica is a fine of RON 10,800,984.04, representing 2.98% of the total turnover achieved in the financial year 2016, the company following to contest in court the Decision of the Competition Council;
- In January 2018, ELSA has received from the Bucharest Court of Law, the petition initiated by Mr. Gabriel Dumitrascu, shareholder of the company, which is the subject of the file no. 44217/3/2017, by which is requested the absolute nullity of the Decision no. 2 of the Ordinary General Meeting of the Shareholders of Electrica S.A. dated 26th of October 2017, regarding the election of the members of the Board of Directors by the application of the cumulative vote (item 1 of the agenda), based on the provisions of art. 132 of Law 31/1990, having as a direct consequence the cancellation of all legal documents concluded by the new Board of Electrica S.A. The file is being sued, Electrica is going to file the appropriate defense in the case.
- Concerning the effects of the OGMS decision no. 2 of 26 October 2017:
  - On 16 January 2018 the shareholders were informed that the Bucharest Court rejected the application for suspension of these effects through an emergency injunction (File No. 42484/3/2017), filled by Mr. Stanciu Razvan, as groundless;
  - On 18 January 2018, the Company informed the shareholders that Mr. Gabriel Dumitraşcu, as a shareholder of the Company, filed a petition for the declaration of absolute nullity of the decision on the election of the members of the Board of Directors by the application of the cumulative vote (item 1 of the agenda) according to art. 132 of Law 31/1990, having as direct consequence the cancellation of all legal acts concluded by the new Board of Directors of Electrica S.A.
- On 9 February 2018, the Ordinary General Meeting of Shareholders of Electrica took place, during which Electrica's shareholders approved the Remuneration Policy of the members of the Board of Directors of the Company and the remuneration limits for he executive managers, both revised. The approach to submit the remuneration policy of the members of the Board of Directors of the Company and the limits of the remuneration limits of the Company's executive managers for the approval to the Ordinary General Meeting of Shareholders was made in order to neutralize the negative effects on the net remunerations of the directors and executive managers, resulting from changes in fiscal legislation.
- On 19 February 2018, the following documents were published: the updated version of the Dividend Policy, the updated Policy of Transactions with Related Parties as well as Electrica S.A.'s Forecast Policy.

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

6.9 Key factors, important market directions and trends influencing Electrica's operational results

The company's management makes a distinction between the controllable and non-controllable key factors, significant market trends and directions (although the controllable factors are only controllable to a limited extent).

Key factors, directions and significant market trends that the management cannot control include:

- General regulatory and legal framework in which the Group operates, including policies of ANRE;
- Distribution and supply tariffs regulated by ANRE;
- Cost of purchased electricity;
- Macroeconomic trends in the Romanian economy and
- Demand for electricity.

Key factors and directions that the management can control at least partially, include the capital investments and operating expenses of the Group.

The company's management considers that the Group's performance will be influenced in particular by:

- Increase of competition on electricity supply segment, due to the effect of complete market liberalization which might affect the market share held by the Group, but at the same time create opportunities to focus on those client segments the most profitable;
- The future changes in regulatory targets for the calculation of electricity distribution tariff, including in particular any changes to the allowed rate of return or any changes in efficiency targets, such as network losses, other operating expenses and any changes in approved capital investment plans.

The anticipated economic growth of the Romanian economy on medium and long term might attract also the increase of electricity consumption, which in turn could have a positive effect on the Group's activities, both in supply and distribution segment. A stagnation, reduction or slowdown of economic growth might have the adverse effect.

An important part of company's management business strategy, includes the implementation of an investment plan, mainly in the distribution segment. Electrica's operations from the distribution segment require significant capital investments. Any significant delays in the implementation of the investment plans assumed might have material effects on the Group's operations and profitability. The capital expenditure from the distribution segment will have the anticipated positive effect on the operational results, to the extent these are recognized by ANRE into the RAB and considering also the regulatory rate of return approved by ANRE.

ANNEX 1

CURRENT REPORT - STATUS OF COMPLIANCE WITH THE NEW BUCHAREST STOCK EXCHANGE CORPORATE GOVERNANCE CODE AS OF 6 MARCH 2018

No.	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 recommendations retained in the Board activity evaluation report of the previous year. The last version of ELSA CGC was published on company's website on 27 April 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 and Professional Conduct, 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 by it, 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, in the context of the OGMS held on 26.10.2017, whereby a new Board of Directors was elected by the cumulative voting method, 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 re-elected or appointed in October 2017 are published on the ELSA website in the Investors> GMS 2017> GMS section of October 26, 2017.
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 established the General Secretariat Department, 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 starting with 2015 - the Board has carried out an annual review process of its activity - alternative with the support of an external consultant (in 2015 and 2017), or by using a self-assessment questionnaire (in 2016). For 2017, the BoD evaluation report was drafted with the support of an external consultant and was presented in the meeting from February 14th, 2018. Also, 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 Report for 2015-2017 - chapters 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 Report for 2015-2017 - chapters 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, and this is specified in the Annual Reports for 2015-2017 - chapters 6.1 and 6.2.
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 Articles of Association and ELSA's CGC highlight the existence of this committee (Nomination and Remuneration Committee - NRC), its structure and responsibilities. The NRC composition is reviewed annually, according to the provisions of the NRC Charter and at the beginning of every new mandate of the Board of Directors. Its composition, approved by the Board of Directors on November 13th, 2017 is: Mr. Pedro Mielgo Alvarez (Chair), Mr. Bogdan Iliescu and Mr. Gicu Iorga. 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 Articles of Association and ELSA's CGC highlight the existence of this committee (Audit and Risk Committee - ARC), its structure and responsibilities. The ARC composition is reviewed annually, according to ARC Charter and at the beginning of each new mandate of the Board of Directors. Its composition approved by the Board of Directors on November 13th, 2017 is: Mr. Bogdan Iliescu (Chair), Mrs. Arielle Malard de Rothschild and Mrs. Doina Dascalu. Two members are independent.

B.2.	The audit committee should be chaired by an independent non-executive member.	YES		The Chair of the Audit and Risk Committee is Mr. Bogdan Iliescu, independent non-executive board member.
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 responsibilities 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 2017 provided by the CGC was prepared and discussed by ARC in its meeting of March 2018.
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 2017 provided by the CGC was prepared and discussed by ARC in its meeting of February 14th, 2018.
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 2017 was prepared and discussed by ARC in its meeting of February 14th, 2018.
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 and the Policy on Transactions with Affiliated Parties
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		The Audit and Risk Committee and the Board reviewed and adopted the Policy on Transactions with Affiliated Parties in their meetings of 17th and 18th of October 2017 and, respectively, 13 and 14 of February 2018.
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 fulfilment 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 for the General Manger and the other mandate managers were approved by the General Meeting of Shareholders (GMS) on July 9th 2015. In March 2016 the GMS approved the new Directors Remuneration Policy. Taking into account the tax changes introduced during 2017, the Board has analysed their impact and submitted for the GMS approval proposals regarding the revision of the Remuneration Policy of the members of the Board of Directors and of the remuneration limits for the executive managers. On February 9th, 2018 the GMS approved the Remuneration Policy of the members of the Board of Directors of the Company and the remuneration limits for he executive managers, both revised. Following the GMS approval dated February 9th, 2018, in the next period the revised version of the Remuneration Policy for Directors and Executive Managers will be subject to approval by the Board of Directors and published on the Company's website.
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 and revised it in its meeting of February 14th, 2018. It is published also on the company's website, under Investors section > Corporate Governance > Corporate Policies.

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.	YES		The Board analysed the Forecast Policy in December 2017 and adopted the final version in its meeting of February 14th, 2018.
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		External auditors attend each OGMS for approving the annual reports.
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, publishes the presentations and the audio recording of the webcasts on the company's website, under Investors section > Results and Reports > Analyst Presentations.
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 analysed 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. Annually, based on the Corporate Social Responsibility Policy, the CSR Plan is approved. Electrica's Sustainability Report for 2016 includes information regarding all the supported Projects and activities during the reporting year.

ANNEX 2: INTERNAL AUDIT REPORT FOR 2017

The Annual Audit plan prepared for 2017, endorsed by the Audit & Risk Committee and approved by the Board of Directors through BoD, provided a total of seven missions planned for 2017 on the following auditable areas: marketing, legal, technical, procurement, transport, investments, financial-accounting activity. This plan was developed with the aim to determine the effectiveness of the internal controls within the company.

In 2017, at the request of the Board of Directors/CEO, three ad-hoc audit missions were carried out on the following specific subjects:

1. The assessment of the procurement of goods, services and works within Electrica and its distribution subsidiaries (SDTN, SDMN, SDTS) approved by the Chairman of the Audit and Risk Committee.
2. Analysis of the performance indicators established for the general managers of the distribution subsidiaries, at the CEO request;
3. Method of settlement of the treatment and rest tickets within Electrica and its subsidiaries (SDTN, SDMN, SDTS, EFSA and FISE), at the CEO request;

Conclusions
In the first semester of 2017, 3 internal audit missions were carried out in different organizational structures, according to the Annual Internal Audit Plan, 11 audit reports being drafted that have included a total of 160 recommendations, 22 of which had a high degree of risk in case of non-implementation. The missions carried out in the first semester are:

- Assessment of the Marketing activity in the electricity supply business within Electrica and EFSA
- Coordination and monitoring of investments within the distribution subsidiaries (SDTN, SDMN, SDTS)
- Assessment of the IT activity within Electrica Group companies.
- Assessment of the performance indicators established for the distribution subsidiaries' CEOs (SDTN, SDMN, SDTS), at the request of the CEO.

In the second semester of 2017, 4 audit missions were carried out included both in the annual plan as well as ad-hoc missions carried out at the request of the company's management, as follows:

- 1 audit mission, according to the annual internal audit plan, on the topic of Analysis of the services provided by third parties and procurement of electricity, being elaborated an Audit Report that comprised 6 recommendations.
- 3 ad-hoc audit missions during which 11 audit reports were issued, which included a total of 58 recommendations.

All the missions were conducted by teams of two internal auditors, in some cases with the co-optation of specialists from the Control Department, supervised by the internal audit mission coordinator.

The internal audit reports that were based on the Mission mandate approved by the Chairman of the Audit and Risk Committee, were endorsed by the executives of the audited entities, endorsed by the Audit Committee of Electrica S.A, and the implementation of the recommendations has been and is continuously monitored through their tracking sheets. Following the completion of the audit missions and the acceptance of the recommendations by those concerned, the audited structures prepare their own action plans in order to comply with the recommendations.

During 2017, the Manual of Policies and Procedures was updated, based on the model presented by Romanian Chamber of Financial Auditors ("CAFR"), an organization that has fully mastered the International Standards for the Professional Practice of the Internal Auditor. The assessment system of the implementation priority of recommendations based on the generated risk and on the probability of occurrence thereof was implemented. The Audit Procedures Manual was endorsed by the Audit Committee and approved by the Company's Board of Directors through BoD.

SOCIETATEA ENERGETICA ELECTRICA S.A.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

FREE TRANSLATION FROM ROMANIAN, WHICH IS THE OFFICIAL AND BINDING VERSION

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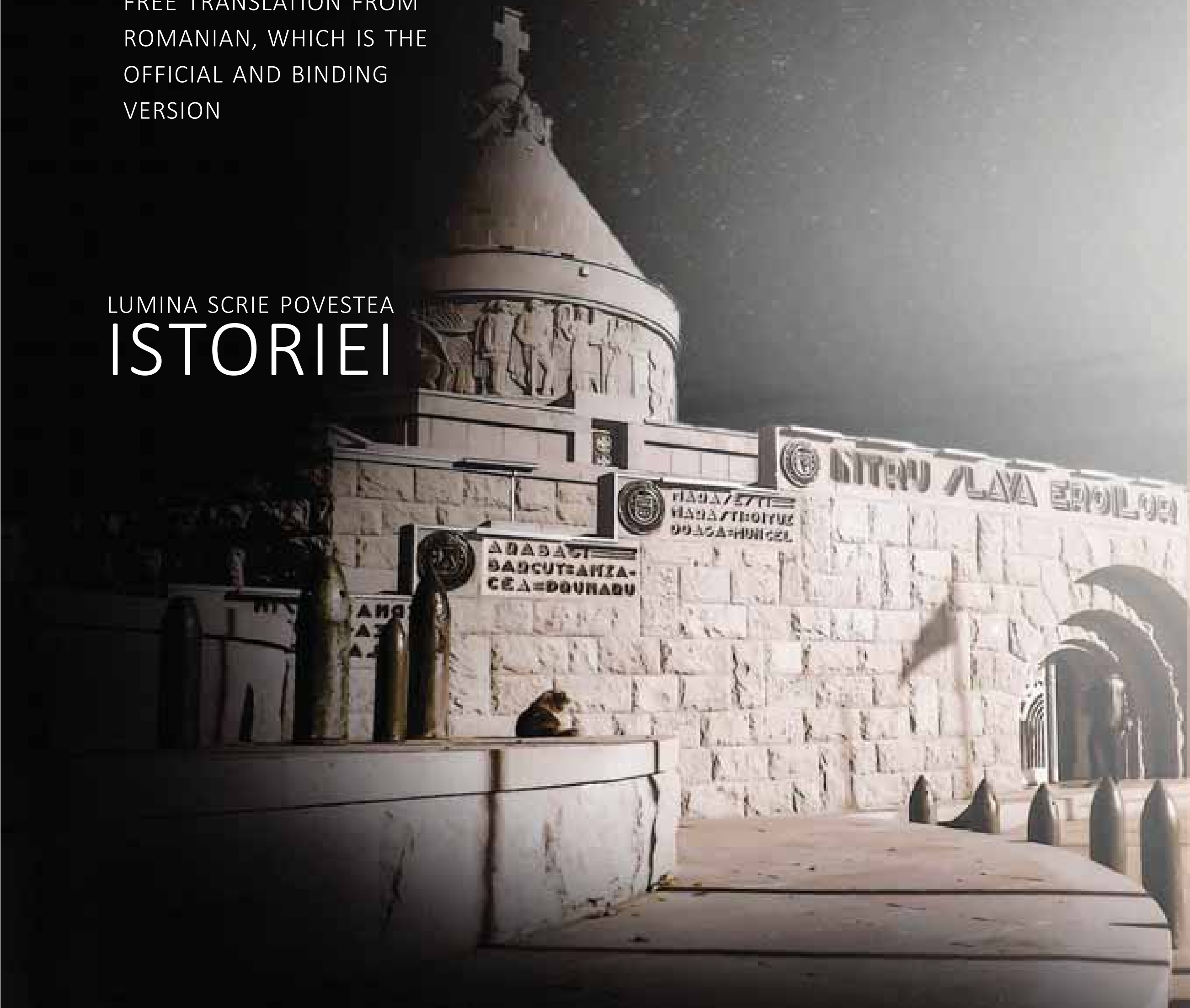

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SOCIETATEA ENERGETICA ELECTRICA SA
SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017
(All amounts are in RON)

	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	20	270,667,304	275,008,415
Other intangible assets	21	557,958	1,836,710
Investments in subsidiaries	22	2,183,950,669	1,430,819,457
Restricted cash	19	320,000,000	134,491,752
Loans granted to subsidiaries	22	246,563,230	-
Total non-current assets		**3,021,739,161**	**1,842,156,334**
Current assets			
Cash and cash equivalents	19	125,982,921	197,644,018
Deposits, treasury bills and government bonds	17	746,980,117	1,867,115,360
Trade receivables	16	79,300,866	64,074,773
Other receivables	18	54,939,696	12,597,869
Inventories		174,592	161,205
Prepayments		83,135	48,926
Income tax receivable	15	-	2,384,366
Total current assets		**1,007,461,328**	**2,144,026,517**
Total assets		**4,029,200,489**	**3,986,182,851**
EQUITY AND LIABILITIES			
Equity			
Share capital	23	3,459,399,290	3,459,399,290
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	5,144,025
Revaluation reserves	23	16,295,016	709,974
Legal reserves	23	169,303,590	156,545,204
Retained earnings		246,338,855	252,240,158
Total equity		**3,924,157,518**	**3,901,715,393**
Liabilities			
Non-current liabilities			
Employee benefits	13	1,588,567	1,580,589
Total non-current liabilities		**1,588,567**	**1,580,589**
Current liabilities			
Trade payables	24	72,395,483	67,591,033
Other payables	25	12,936,476	11,716,925
Deferred revenue		771,914	540,944
Employee benefits	12,13	5,057,651	3,037,967
Provisions	26	12,292,880	-
Total current liabilities		**103,454,404**	**82,886,869**
Total liabilities		**105,042,971**	**84,467,458**
Total equity and liabilities		**4,029,200,489**	**3,986,182,851**

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

Chief Executive Officer Dan Catalin Stancu

Chief Financial Officer Mihai Darie

SOCIETATEA ENERGETICA ELECTRICA SA
SEPARATE STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts are in RON)

	Note	2017	2016
Revenues	8	481,914,976	362,388,192
Other income	9	5,454,469	1,709,529
Electricity purchased	9	(469,697,651)	(347,592,754)
Employee benefits	14	(25,848,474)	(20,503,839)
Depreciation and amortization	20,21	(23,531,857)	(23,506,827)
Impairment of trade and other receivables, net	16,18	(15,120,206)	(38,391,976)
Impairment of property, plant and equipment	20	(1,906,585)	-
Change in provisions, net	26	(12,292,881)	31,250,650
Other operating expenses	9	(48,128,627)	(81,037,171)
Operating profit		**(109,156,836)**	**(115,684,196)**
Finance income	10	364,794,976	389,682,646
Finance costs	10	(470,420)	(1,738,725)
Net finance income		**364,324,556**	**387,943,921**
Profit before tax		**255,167,720**	**272,259,725**
Income tax	15	2,996,195	(7,233,616)
Profit for the year		**258,163,915**	**265,026,109**
Earnings per share			
Basic and diluted earnings per share (RON)	**11**	**0.76**	**0.78**

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

Chief Executive Officer Dan Catalin Stancu

Chief Financial Officer Mihai Darie

SOCIETATEA ENERGETICA ELECTRICA SA
SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts are in RON, if not otherwise stated)

	Note	2017	2016
Profit for the year		**258,163,915**	**265,026,109**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Revaluation of property, plant and equipment		18,624,202	-
Tax related to revaluation of property, plant and equipment		(2,979,872)	-
Re-measurements of the defined benefit liability	13	55,286	100,114
Tax related to re-measurements of the defined benefit liability	15	(16,323)	(16,018)
Other comprehensive income, net of tax		**15,683,293**	**84,096**
Total comprehensive income		**273,847,208**	**265,110,205**

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

Chief Executive Officer Dan Catalin Stancu

Chief Financial Officer Mihai Darie

SOCIETATEA ENERGETICA ELECTRICA SA
SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts are in RON)

	Note	Subscribed and paid in share capital	Share premium	Treasury shares	Capital contributions in kind from shareholders	Revaluation reserves	Legal reserves	Retained earnings	Total equity
Balance at 1 January 2017		**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**
Comprehensive income									
Revaluation of property, plant and equipment						15,644,330			15,644,330
Profit for the year		-	-	-	-	-	-	258,163,915	258,163,915
Other comprehensive income		-	-	-	-	-	-	38,963	38,963
Total comprehensive income		**-**	**-**	**-**	**-**	**15,644,330**	**-**	**258,202,878**	**273,847,208**
Transactions with owners of the Company									
Contributions and distributions									
Land for which ownership rights were obtained	23	-	-	-	-	-	-	-	-
Dividends to the owners of the Company	23	-	-	-	-	-	-	(251,405,083)	(251,405,083)
Total transactions with owners of the Company		**-**	**-**	**-**	**-**	**-**	**-**	**(251,405,083)**	**(251,405,083)**
Other changes in equity									
Set up of legal reserves		-	-	-	-	-	12,758,386	(12,758,386)	-
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 2017		**3,459,399,290**	**103,049,177**	**(75,372,435)**	**5,144,025**	**16,295,016**	**169,303,590**	**246,338,855**	**3,924,157,518**
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**
Comprehensive income									
Profit for the year		-	-	-	-	-	-	265,026,109	265,026,109
Other comprehensive income		-	-	-	-	-	-	84,096	84,096
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**	**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
Dividends to the owners of the Company	23	-	-	-	-	-	-	(291,582,429)	(291,582,429)
Total transactions with owners of the Company		**-**	**-**	**-**	**2,282,500**	**-**	**-**	**(291,582,429)**	**(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**

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 2017
(All amounts are in RON)

	Note	2017	2016
Cash flows from operating activities			
Profit for the year		**258,163,915**	**265,026,109**
Adjustments for:			
Depreciation	20	22,049,734	23,087,773
Amortisation	21	1,482,123	419,054
Impairment of property, plant and equipment		1,906,585	-
Impairment of trade and other receivables, net	16,18	15,120,206	38,391,976
Net finance income	10	(364,324,556)	(387,943,921)
Changes in provisions, net	26	12,292,880	(31,250,650)
Income tax expense/(benefit)	15	(2,996,195)	7,233,616
		(56,305,308)	**(85,036,043)**
Changes in:			
Trade receivables		(53,294,164)	(57,437,525)
Other receivables		(3,913,798)	18,856,898
Trade payables		27,764,080	49,579,305
Other payables		165,715	3,745,961
Employee benefits		2,027,662	22,363
Cash used in operating activities		**(83,555,813)**	**(70,269,041)**
Interest paid		-	(1,677)
Net cash used in operating activities		**(83,555,813)**	**(70,270,718)**
Cash flows from investing activities			
Payments for purchases of property, plant and equipment		(994,728)	(16,909,651)
Payments for purchase of intangible assets		(203,371)	(757,101)
Payments for purchase of additional shares in subsidiaries		(752,029,916)	-
Restricted cash		(185,508,248)	(134,491,752)
Payments for purchase of treasury bills and government bonds		(543,114,032)	(2,437,538,086)
Proceeds from maturity of treasury bills and government bonds		1,838,554,275	2,436,403,791
Increase in deposits with maturity of 3 months or longer		(995,625,000)	(109,087,392)
Proceeds from deposits with maturity of 3 months or longer		820,320,000	148,443,585
Interest received		17,033,022	14,844,919
Dividends received	10	302,341,425	374,838,510
Loans granted to related parties		(237,654,490)	-
Net cash from investing activities		**263,118,937**	**275,746,823**
Cash flows from financing activities			
Dividends paid	23	(251,224,221)	(291,198,118)
Net cash used in financing activities		**(251,224,221)**	**(291,198,118)**
Net decrease in cash and cash equivalents		**(71,661,097)**	**(85,722,013)**
Cash and cash equivalents at 1 January	19	197,644,018	283,366,031
Cash and cash equivalents at 31 December	**19**	**125,982,921**	**197,644,018**

The accompanying notes are an integral part of these separate financial statements

Non-monetary transactions are presented in Note 19.

Chief Executive Officer **Chief Financial Officer**
Dan Catalin Stancu Mihai Darie

SOCIETATEA ENERGETICA ELECTRICA SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts are in RON, if not otherwise stated)

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

As at 31 December 2017 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 a stake of 6.9247% (2016: 8.66%).

As at 31 December 2017 and 2016, Electrica SA has the following investments in subsidiaries:

Subsidiary	Activity	Tax code	Head Office	% shareholding as at 31 Dec 2017	% shareholding as at 31 Dec 2016
Societatea de Distributie a Energiei Electrice Muntenia Nord SA	Electricity distribution in geographical area of Muntenia Nord	14506181	Ploiesti	99,9999696922382%	78.0000021%
Societatea de Distributie a Energiei Electrice Transilvania Nord SA	Electricity distribution in geographical area of Transilvania Nord	14476722	Cluj-Napoca	99,9999829770757%	77.99999%
Societatea de Distributie a Energiei Electrice Transilvania Sud SA	Electricity distribution in geographical area of Transilvania Sud	14493260	Brasov	99,999976413243%	78.0000019%
Electrica Furnizare SA	Electricity Supply	28909028	Bucuresti	99,9998390431663%	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*	Services in the energy sector (maintenance, repairs, construction)	29386768	Bacau	n/a	n/a

**Societatea Energetica Electrica SA lost the control of Servicii Energetice Moldova starting January 2016 when the bankruptcy proceedings of the subsidiary began*

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 Balancing Responsible Party ("BRP") or to transfer his balancing responsibility to another licence holder registered as BRP. The Company operates as Balancing Responsible Party for 110 license holders as of December 31st 2017.

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.

THE ACQUISITION OF FONDUL PROPRIETATEA'S MINORITY HOLDINGS IN ELECTRICA'S SUBSIDIARIES

Societatea Energetica Electrica S.A. and Fondul Proprietatea have executed on 1 November 2017 the Sale and Purchase Agreements for the acquisition of Fondul Proprietatea's holdings in Electrica's subsidiaries (i.e. SDEE Muntenia Nord S.A., SDEE Transilvania Sud S.A., SDEE Transilvania Nord S.A. and Electrica Furnizare S.A.).

The Aggregated Purchase Price of the transaction was RON 752,031,841, reflecting the following four transactions: a total price of RON 209,744,928 for 21.9999979% of the share capital of Societatea de Distribuție a Energiei Electrice Muntenia Nord S.A.; RON 201,702,667 for 22.00001% of the share capital of Societatea de Distribuție a Energiei Electrice Transilvania Nord S.A.; RON 173,504,365 for 21.9999981% of the share capital of Societatea de Distribuție a Energiei Electrice Transilvania Sud S.A.; RON 167,079,881 for 22.000027% of the share capital of Electrica Furnizare S.A.

Out of the total number of shares held by Fondul Proprietatea in each subsidiary, ten shares of each of the subsidiaries were transferred to other group companies, as follows: 10 shares, representing 0.0000282195174818077% of the share capital, held in SDEE Muntenia Nord S.A. to SDEE Transilvania Sud S.A. for a total price of RON 269.04; 10 shares, representing 0.0000269350068519964% of the share capital, held in SDEE Transilvania Nord S.A. to SDEE Muntenia Nord S.A. for a total price of RON 246.95; 10 shares, representing 0.0000235867191675586% of the share capital, held in SDEE Transilvania Sud S.A. to SDEE Transilvania Nord S.A. for a total price of RON 186.02; 10 shares held in Electrica Furnizare S.A. to Societatea Filiala de Intretinere si Servicii Energetice Electrica Serv S.A. for a total price of RON 1,222.76.

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" or "IFRS-EU"). 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 6 March 2018. The financial statements will be submitted for shareholders' approval in the general meeting scheduled on 27 April 2018.

3 Functional and presentation currency

These separate financial statements are presented in Romanian 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, the 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, in which case 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	40-60 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) Amortization

Amortization 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, investments held to maturity 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 recognizes loans and receivables on the date when they are originated. Financial liabilities are initially recognized on the trade date, which is the date the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes 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 derecognized financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company derecognizes 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 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.

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

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 transaction 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 no 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 recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized 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 recognized as a deduction from equity.

Repurchase and reissue of ordinary shares (treasury shares)

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized 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 recognized, then the previously recognized 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 recognized.

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 recognized in profit or loss to the extent that it reverses an impairment loss on the same asset that was previously recognized 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 recognized as revaluation reserve included in equity.

If an asset's carrying amount is increased as a result of a revaluation, the increase is recognized and accumulated in equity under the heading of revaluation reserve. However, the increase is recognized 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 recognized as a liability to the extent it is unpaid at the reporting date. Dividends are disclosed in the notes to financial statements when their distribution is proposed after the reporting date and before the date of the issuance of the financial statements.

(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;
   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 separate 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 the reporting date (adjusting events) are reflected in the separate financial statements. Events occurring after the reporting date that provide information on events that occurred after the reporting date (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

A number of standards were adopted by the EU but are not yet mandatorily effective for the year ending 31 December 2017 and have not been applied in preparing these separate 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 Company started to apply IFRS 9 on 1 January 2018. The Company concluded that the new requirements, if applied at 31 December 2017, would not had a material impact on its financial statements.
- IFRS 15 "Revenues 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 Company started to apply IFRS 15 on 1 January 2018.

RENDERING OF SERVICES

The Company concluded that no significant differences occurred in the timing of revenue recognition or the net impact on the result for the year.

TRANSITION

The company adopted IFRS 15 at 1 January 2018, using the retrospective approach. As a result, the company will apply all of the requirements of IFRS 15 to each comparative period presented.

- IFRS 16 "Leases". IFRS 16 is effective for annual periods beginning on or after 1 January 2019. IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. 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 Company is currently performing the detailed assessment of the impact resulting from the application of IFRS 16.
- A number of interpretations were not yet adopted by the EU. Relevant to the company is IFRIC 23 "Uncertainty over Income Tax Treatments". IFRIC 23 applies for annual periods beginning on or after 1 January 2019. Earlier adoption is permitted. IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. It is sometimes unclear how tax law applies to a particular transaction or circumstance, which may cast uncertainty about a tax treatment adopted in the tax return. Under IFRIC 23, the key test is whether it's probable that the tax authority will accept the company's chosen tax treatment. Tax obligations recognized in the financial statements may be equal to the related tax return or not, depending on the probability that the tax treatment applied by the entity will be accepted by the tax authorities. The uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty – either the most likely amount or the expected value. The Interpretation also requires companies to reassess the judgements and estimates applied if facts and circumstances change - i.e. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires. IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about: judgements made, assumptions and other estimates used and the potential impact of uncertainties that are not reflected.

8 Revenue

	2017	2016
Supply energy in balancing market and day-ahead-market	480,606,931	357,705,156
Revenues from services contracts with the subsidiaries related to the Automatic Meter Reading System (Note 20)	1,308,045	4,683,036
Total	**481,914,976**	**362,388,192**

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

	2017	2016
Rent	70,157	17,088
Repair and maintenance expenses	1,388,559	1,466,533
IT services	913,077	494,340
Postage and telecommunication	3,401,871	3,354,655
Penalties for late payment and other payments to the State	3,118,568	62,417,320
Commercial penalties	25,809,035	-
Other taxes and duties	589,123	626,058
Legal and consultancy fees	4,413,232	3,818,706
Bank commissions	54,818	254,051
Other	8,370,186	8,588,420
Total	**48,128,627**	**81,037,171**

"Penalties for late payment and other payment to the State" in 2016 includes an amount of RON 58,126,604 in connection with disputes with the National Agency for Fiscal Administration "NAFA", for several claims related to a prior fiscal inspection reports.

In 2010, the Company was sued by Termoelectrica S.A., claiming the payment of 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, but the court definitively admits the case and forces Electrica to the payment of the amount of RON 25,047,458 and to the payment of the court charges amounting RON 761,577. Therefore the amount of RON 25,809,035 „Commercial penalties" in 2017 refers only to penalties and court charges related to Termoelectrica dispute. These amounts are presented in "Commercial penalties" in the table above.

10 Net finance income

	2017	2016
Interest income	17,033,022	14,784,494
Dividends income	347,341,425	374,838,510
Other finance income	420,529	59,642
Total finance income	**364,794,976**	**389,682,646**
Interest expense	-	(1,677)
Interest cost for employee benefits (Note 13)	(61,655)	(56,739)
Foreign exchange losses	(408,765)	(1,680,309)
Total finance costs	**(470,420)**	**(1,738,725)**
Net finance income	**364,324,556**	**387,943,921**

In 2017, the Company received a total amount of RON 302,341,438 out of the total revenue of RON 347,341,425 as dividends from its subsidiaries (2016: RON 374,838,510).

The average interest rate for deposits, treasury bills and government bonds with original maturity of three months increased from 0.63% in 2016 to 0.78% in 2017.

11 Earnings per share

The calculation of basic and diluted earnings per share is based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding:

Profit attributable to ordinary shareholders

	2017	2016
Profit for the year attributable to the owners of the Company	258,163,915	265,026,109
Profit attributable to ordinary shareholders	**258,163,915**	**265,026,109**

Weighted-average number of ordinary shares (in number of shares)

	2017	2016
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	**2017**	**2016**
Basic and diluted earnings per share (RON)	**0.76**	**0.78**

12 Short-term employee benefits

	31 December 2017	31 December 2016
Personnel payables	3,072,740	1,891,629
Current portion of defined benefit liability and other long-term employee benefits	166,862	178,350
Social security charges	1,344,025	680,514
Tax on salaries	474,024	287,474
Total	**5,057,651**	**3,037,967**

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 state 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 of charge electricity to retired employees of the Company.
The Company also provides cash benefits to employees depending on seniority and years of service at retirement.
The post-employment and other long-term employee benefits are stipulated also in the Collective Labor Contract.
In 2017 and 2016, 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 2017	31 December 2016
Defined benefit liability	898,884	976,762
Other long-term employee benefits	856,545	782,177
Total	**1,755,429**	**1,758,939**
- Current portion*	166,862	178,350
- Non-current portion	1,588,567	1,580,589

**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	2017	2016
Balance at 1 January	**976,762**	**1,043,453**
Included in profit or loss		
Current service cost	28,971	32,481
Interest (income) / cost	34,933	30,491
	63,904	**62,972**
Included in other comprehensive income		
Re-measurements loss (gain)		
- Actuarial loss / (gain)	(55,286)	(100,114)
Other		
Benefits paid	(86,496)	(29,549)
Balance at 31 December	**898,884**	**976,762**

Other long-term employee benefits	2017	2016
Balance at 1 January	**782,177**	**1,096,717**
Included in profit or loss		
Current service cost	32,895	33,852
Actuarial gain/ (loss)	111,081	(279,897)
Interest cost	26,722	26,248
Benefits paid	(96,330)	(94,743)
Balance at 31 December	**856,545**	**782,177**

(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 National Forecast Commission:

Year	Valuation date 31 December 2017	Valuation date 31 December 2016
2017	-	2.3%
2018	2.6%	2.3%
2019	2.2%	2.3%
2020	2%	2.2%
2021+	1.8%	2%

- the discount rate used was the yield for Romanian government bonds maturing in 10 years at the reporting date, 4.5% for the year 2017 (2016: 3.63%);
- the electricity price per KWh used in the actuarial computation is 0.4372 RON at 31 December 2017 (2016: 0.4576 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, but also considering the foreseen changes starting January 1st, 2018.

(b) Company specific assumptions:

- Gross salaries' growth rate for 2018 is 19.9%. Starting January 1st 2018, as a result of Government Emergency Ordinance No. 79 updating the Fiscal Code, some social security contributions were transferred from the employer to the employee; the Company has adopted measures aimed at preserving the net salaries of the employees, which required increases of 19,9% of the gross salaries, as an effect of contributions transfer For the years 2019 and 2020, the assumed salary increases correspond to the inflation forecast by the National Forecasting Commission. Starting 2021, salaries' growth is forecast at 1.8% per year;
- Employees' turnover: turnover rate for 2018 was estimated at 18.75% and for the following years the historical rate for 2013-2017, with an average value of 6.78%, was considered;
- Jubilee and retirement bonuses granted based on seniority as per the collective labour contract, as follows:

Jubilee bonuses based on years of service:

Seniority	No. of gross monthly base salaries 31 December 2017	No. of gross monthly base salaries 31 December 2016
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 2017	No. of gross monthly base salaries 31 December 2016
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 of charge 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 or dies.

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	3
3 - 5 years	6
5 - 10 years	7
10 - 20 years	11
More than 20 years	16

The above-mentioned stipulations do not apply to employees with individual labour contract concluded for a determined period. The above provisions 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 Group 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 is no 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

	2017	2016
Average number of employees	137	130
Number of employees at 31 December	155	142
Wages and salaries	20,128,179	16,631,440
Social security contributions	2,456,832	3,605,695
Meal tickets	347,992	266,704
Termination benefit including social security contributions	2,915,471	-
Total	**25,848,474**	**20,503,839**

The termination benefits represent compensation payments in case of employees' voluntary departure (see Note 13 c) as well as management compensation in case of mandate contracts termination.
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

	2017	2016
Deferred tax expense/(benefit)	(2,996,195)	7,233,616
Total expense/(benefit) related to income tax	**(2,996,195)**	**7,233,616**

(ii) Amounts recognised in other comprehensive income

	2017			2016		
	Before Tax	Fiscal benefit (expense)	Net of tax	Before tax	Fiscal benefit (expense)	Net of tax
Revaluation of property, plant and equipment	18,624,202	(2,979,872)	15,644,330	-	-	-
Re-measurement of defined benefit liability	55,286	(16,323)	38,963	100,114	(16,018)	84,096
Total	**18,679,488**	**(2,996,195)**	**15,683,293**	**100,114**	**(16,018)**	**84,096**

(iii) Reconciliation of effective tax rate

		2017		2016
Profit before tax		**255,167,720**		**272,259,725**
Tax using Company's domestic tax rate	**16%**	**40,826,835**	**16%**	**43,561,556**
Non-deductible expenses	2%	6,084,115	3%	8,639,798
Non-taxable income	-19%	(56,128,328)	-20%	(59,974,162)
Current-year tax losses for which no deferred tax asset is recognised	3%	9,188,882	3%	7,718,132
Deferred tax asset derecognised	0%	-	2%	7,229,222
Other tax effects	0%	(15,011)	0%	59,070
Recognition of tax effect of previously unrecognised tax losses	-1%	(2,952,687)	0%	-
Income tax – expense/(income)	**-1%**	**(2,996,195)**	**2%**	**7,233,616**

Non-taxable income represents dividend income in amount of RON 347,341,425 (2015: RON 374,838,510).

(iv) Movement in deferred tax balances

2017	Net balance at 1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income	Balance at 31 December 2017: Deferred tax assets, net	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	2,743,234	(37,225)	2,979,872	5,685,881	-	5,685,881
Employee benefits	(200,185)	(6,283)	16,323	(190,145)	(190,145)	-
Tax loss carried forward	(2,543,049)	(2,952,687)	-	(5,495,736)	(5,495,736)	-
Tax liabilities (assets) before set-off					**(5,685,881)**	**5,685,881**

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	**-**	**-**	**-**	**-**	**(2,743,234)**	**2,743,234**

(v) Unrecognised deferred tax assets

The Company had not recognized deferred tax assets in respect of the 2017 and 2016 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:	**2017**	**2016**
2017 (expiring in 2024)	57,430,509	-
2016 (expiring in 2023)	43,737,200	48,238,325
2015 (expiring in 2022)	-	13,953,169
Total	**101,167,709**	**62,191,494**

16 Trade receivables

	31 December 2017	31 December 2016
Trade receivables, gross	804,784,418	774,555,334
Bad debt allowance	(725,483,552)	(710,480,561)
Total trade receivables, net	**79,300,866**	**64,074,773**

Receivables from related parties are presented in Note 28. Trade receivables, gross, comprise:

	31 December 2017	31 December 2016
Electricity supply on the balancing market	78,981,527	80,757,358
Electricity receivables from clients in litigation, insolvency and bankruptcy (mainly Oltchim SA, Transenergo)	633,141,146	601,372,888
Late payment penalties from clients in litigation, insolvency and bankruptcy (Oltchim SA)	88,968,313	88,968,313
Other	3,693,432	3,456,775
Total trade receivables, gross	**804,784,418**	**774,555,334**

The reconciliation between the opening balances and the closing balances of the impairment for trade receivables is as follows:

Bad debt allowance	**2017**	**2016**
Balance as at 1 January	**710,480,561**	**667,736,915**
Impairment recognized	19,583,229	42,847,186
Impairment used	(129,989)	-
Impairment reversed	(4,450,249)	(103,540)
Balance as at 31 December	**725,483,552**	**710,480,561**

The aging 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' table.

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 electricity. Electrica SA has initiated the procedure of enforcement against Transenergo Com S.A. due to non-collection of receivables starting from September 2016. On 1 February 2017, the procedure of insolvency of Transenergo Com S.A. has been initiated. The outstanding balance of the receivables at the gross value from Transenergo Com S.A. as 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 recognized.

The adjustments recognized during 2017 comprise the amount of RON 11,218,320 referring to receivables from Fidelis Energy, RON 2,093,785 RON from Electra Management Supply and an additional impairment in amount of RON 5,367,044 RON from Transenergo Com S.A, companies that have entered into insolvency in the context of unfavourable developments in the energy market.

The adjustment of RON 4,450,249 was reversed due to the collection of receivable from CEZ Romania.

17 Deposits, treasury bills and government bonds

	31 December 2017	31 December 2016
Treasury bills and government bonds denominated in RON with original maturity of more than three months	462,738,382	1,757,746,279
Deposits with maturity of more than three months	284,241,735	109,369,081
Total deposits, treasury bills and government bonds	**746,980,117**	**1,867,115,360**

Deposits, treasury bills and government bonds with original maturity of more than three months have an average interest rate (yield) of 0.78% (2016: 0.63%) 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 2017	31 December 2016
Dividends to be cashed	44,999,987	-
Other receivables	19,995,259	22,536,204
Bad debt allowance	(10,055,550)	(9,938,335)
Total other receivables, net	**54,939,696**	**12,597,869**

The reconciliation between the opening balances and the closing balances of the impairment for other receivables is as follows:

Bad debt allowance	**2017**	**2016**
Balance as at 1 January	**9,938,335**	**14,290,005**
Impairment recognized	170,722	-
Impairment used	(53,507)	-
Impairment reversed	-	(4,351,670)
Balance as at 31 December	**10,055,550**	**9,938,335**

19 Cash and cash equivalents

	31 December 2017	31 December 2016
Bank current accounts	3,452,999	3,825,171
Call deposits	122,529,922	193,787,807
Cash in hand	-	31,040
Total cash and cash equivalents in the individual statement of financial position and in the individual statement of cash flow	**125,982,921**	**197,644,018**

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 22,959,630 in 2017 (2016: RON 28,150,567).

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 2017, the Company has guarantees as collateral deposits at BRD – Groupe Societe Generale for the withdrawls 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 2017 is RON 320,000,000 (2016: RON 134,491,752). The company has classified these deposits as restricted cash.

Cash flow restatement for the year 2016

The Company reclassified in the cash flow statement for the year 2016 the changes in restricted cash from operating activities to investing activities, as the restricted cash represents collateral deposits for guaranteeing the long term bank loans contracted by subsidiaries.

20 Property, plant and equipment

The movements in property, plant and equipment in 2017 and 2016 were as follows:

	Land and land improvement	Buildings	Equipment	Vehicles, furniture and office equipment	Construction in progress	Total
Gross carrying amount						
Balance at 1 January 2016	**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
Disposals	-	-	-	-	-	-
Balance at 31 December 2016	**77,539,695**	**16,758,572**	**237,418,406**	**890,203**	**36,869,828**	**369,476,704**
Additions	-	-	705,063	281,231	8,434	994,728
Transfer from construction in progress	-	2,115,609	290,610	-	(2,406,219)	-
Disposals	-	-	(9,302)	-	-	(9,302)
Revaluation recognized in other comprehensive income, net	15,726,574	2,897,628	-	-	-	18,624,202
Revaluation recognized in profit or loss, net	(1,906,585)		-	-	-	(1,906,585)
Gross book value netted off against the accumulated depreciation at revaluation	-	(710,071)	-	-	-	(710,071)
Balance at 31 December 2017	**91,359,684**	**21,061,738**	**238,404,777**	**1,171,434**	**34,472,043**	**386,469,676**
Accumulated depreciation and impairment losses						
Balance at 1 January 2016	**-**	**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**
Depreciation	-	245,137	21,783,985	20,612	-	22,049,734
Accumulated depreciation of disposals	-	-	(5,580)	-	-	(5,580)
Gross book value netted off against the accumulated depreciation at revaluation	-	(710,071)	-	-	-	(710,071)
Balance at 31 December 2017	**-**	**14,115**	**102,585,014**	**737,713**	**12,465,531**	**115,802,372**
Net carrying amounts						
At 1 January 2016	**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**
At 31 December 2017	**91,359,684**	**21,047,623**	**135,819,763**	**433,721**	**22,006,512**	**270,667,303**

On 31 December 2017, 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 20,907,142 (2016: RON 16,134,462) while the related land has a carrying value of RON 13,076,050 as at 31 December 2017 (2016: RON 13,410,443).

Land and buildings were revalued by an independent appraiser as of 31 December 2017, the results being a net increase of the revaluation reserve in amount of RON 18,624,201 and a net impact of RON 1,906,585 in the profit and loss account.

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 2017, the net capitalized amount regarding the AMR system is RON 155,183,940 (2016: RON 176,159,847), out of which

a part is recognized as tangible asset in progress amounting to RON 21,942,902 as at 31 December 2017 (2016: RON 21,942,902). During 2017, an evaluation of the entire AMR system was performed by a third party independent evaluator in order for the distribution subsidiaries to take over the AMR system. As a result of ANRE refusal to endorse the transfer of AMR system from Electrica SA to distribution subsidiaries with the subsequent recognition into Regulated Assets Base, the transfer could not be implemented. In connection with the AMR system, the Company had service agreements with the distribution subsidiaries in 2017 until March 2017. The main services provided refer 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. Currently, Electrica SA and each distribution subsidiary in the Group are negotiating the conclusion of new agreements for services to be provided through AMR system.

The Company assessed whether the arrangement contains a lease and determined that does not contain a lease, as the 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	*Discounted cash-flows (DCF) method* 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% on average) • Costs to be paid by tenants (average 6-7%) • Annual rent per sqm (10 EUR/sqm)	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)

21 Intangible assets

Intangible assets include mainly licenses and costs of implementation of SAP ERP, as follows:

	Software and licenses	Total
Gross carrying amount		
Balance at 1 January 2016	**4,224,821**	**4,224,821**
Additions	757,101	757,101
Balance at 31 December 2016	4,981,922	4,981,922
Additions	**203,371**	**203,371**
Balance at 31 December 2017	5,185,293	5,185,293
Sold la 31 decembrie 2017	**5.185.293**	**5.185.293**
Accumulated depreciation and impairment losses		
Balance at 1 January 2016	**2,726,158**	**2,726,158**
Amortisation	419,054	419,054
Balance at 31 December 2016	**3,145,212**	**3,145,212**
Amortisation	1,482,123	1,482,123
Balance at 31 December 2017	**4,627,335**	**4,627,335**
Net carrying amounts		
At 1 January 2016	**1,498,663**	**1,498,663**
At 31 December 2016	**1,836,710**	**1,836,710**
At 31 December 2017	**557,958**	**557,958**

22 Investments in subsidiaries

The investments in subsidiaries are presented as follows:

	31 December 2017		31 December 2016	
	Gross value	Impairment	Gross value	Impairment
Societatea de Distributie a Energiei Electrice Muntenia Nord	532,781,496	-	322,729,680	-
Societatea de Distributie a Energiei Electrice Transilvania Nord	538,458,599	-	336,460,800	-
Societatea de Distributie a Energiei Electrice Transilvania Sud	557,157,124	-	383,398,860	-
Electrica Furnizare SA	225,019,153	-	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	**2,516,995,514**	**(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 SA and Servicii Energetice Dobrogea SA), 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 2017	31 December 2016
Societatea de Distributie a Energiei Electrice Muntenia Nord	532,781,496	322,729,680
Societatea de Distributie a Energiei Electrice Transilvania Nord	538,458,599	336,460,800
Societatea de Distributie a Energiei Electrice Transilvania Sud	557,157,124	383,398,860
Electrica Furnizare SA	225,019,153	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	**2,183,950,669**	**1,430,819,457**

The Company fully accounted for the impairment of investment in Servicii Energetice Oltenia SA, which is in reorganization process, because it is deemed to be an unrecoverable investment. The Company did not adjusted the carrying amount of the investment 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 regard to Electrica Serv SA, the Company has recognized impairment in prior year, based on a valuation report prepared by an independent valuator and having as purpose the assessment of the recoverable value of the investment in Electrica Serv SA. As part of the reorganization process initiated in 2017, Electrica Serv transferred its core business (electricity distribution network services) to its main customers - the electricity distribution subsidiaries of the Company. Following the transfer, the level of the Electrica Serv's activities was significantly reduced and is currently limited to performing specialized transportation services.

As of 31 December 2017, based on the fact that Electrica Serv SA has gone through reorganization process in line with the Group's strategy for distribution segment, the management has made an assessment of the recoverability of the net book value of investment in Electrica Serv SA. To this end, the management has used a discounted cash flow model combining both the cash flows from existing and projected activities, as well as the potential of assets outside current exploitation, most of them real estate (land and buildings). Based on the findings of the model, the management concluded that neither additional impairment is required, nor there is a basis to reverse in part or in full the prior recognized impairment on Electrica Serv SA participation.

Main assumptions used for the impairment test were:

- A discounted cash flow model was prepared using a 5 years explicit forecast period;
- Main revenues streams assumed were transportation/rent of vechicles and rent of buildings
- Revenues from new business lines to be launched were also assumed in the forecast
- Sale of non-core assets were estimated, including potential sale of some buildings to group companies and thus, the value of non-core assets was added to the total value estimated based on discounted cash flow analysis
- The weighted average cost of capital assumed was 7.7%

Loans granted to subsidiaries

	Loans granted to subsidiaries	
	31 December 2017	31 December 2016
Societatea de Distributie a Energiei Electrice Transilvania Nord	94,367,250	-
Societatea de Distributie a Energiei Electrice Muntenia Nord	94,000,000	-
Societatea de Distributie a Energiei Electrice Transilvania Sud	49,287,241	-
Servicii Energetice Muntenia SA	8,908,739	-
Total loans granted to subsidiaries	**246,563,230**	**-**

In 2017, the Company has entered into loan agreements as lender with the Group's distribution subsidiaries, as follows:

- Intragroup loan agreement with Societatea de Distributie a Energiei Electrice Muntenia Nord SA executed in November 2017. Main provisions are: maximum loan amount: RON 150,000,000, Purpose of the loan: to finance the investment program of 2017, Interest rate: 0.85% per annum, Maturity: 84 months, Period allowed for disbursements: 12 months, Bullet repayment at maturity, Repayment in advance allowed. As of 31 December 2017, loan balance is RON 94,000,000;
- Intragroup loan agreement with Societatea de Distributie a Energiei Electrice Transilvania Nord SA executed in November 2017. Main provisions are: maximum loan amount: RON 200,000,000, Purpose of the loan: to finance the investment program of 2017, Interest rate: 0.85% per annum, Maturity: 84 months, Period allowed for disbursements: 12 months. As of 31 December 2017, loan balance is RON 94,367,250 ;
- Intragroup loan agreement with Societatea de Distributie a Energiei Electrice Transilvania Sud SA executed in November 2017. Main provisions are: maximum loan amount: RON 160,000,000, Purpose of the loan: to finance the investment program of 2017, Interest rate: 0.85% per annum, Maturity: 84 months, Period allowed for disbursements: 12 months. As of 31 December 2017, loan balance is RON 49,287,241.

In August 2017, the Company has entered into an assignment agreement with FISE Electrica Serv SA, having as purpose the takevover of Electrica Serv SA receivable against Servicii Energetice Muntenia SA for a total value of RON 9,542,336. In October 2017, the Company has entered into an agreement with Servicii Energetice Muntenia SA having as object the conditions for payment of the amount of RON 9,542,336 due by Servicii Energetice Muntenia SA to the Company as well as for the set up of a mortgage over land and buildings located in Bucharest, property of the debtor in favour of the Company; the mortgage was set up in October 2017. The payment schedule agreed was as follows: RON 8,049,389 until 25 November 2017 and RON 1,492,947 until 25 August 2018. As of 31 December 2017, the outstanding balance of Electrica SA's receivable against Servicii Energetice Muntenia SA is RON 8,908,739 (out of which RON 7,415,791 is overdue); in January 2018, the overdue amount according to the schedule was cashed in.

The amounts provided by Electrica SA to group subsidiaries as loans and the amount owed by Servicii Energetice Muntenia SA as a result of the above mentioned transaction are presented together as "Loans granted to related parties", which as of 31 December 2017 is RON 246,563,320 (31 December 2016: RON 0).

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 2017 (345,939,929 ordinary shares at 31 December 2016) with a nominal value of RON 10 per share. 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 rank equal and confer equal rights to the net assets of the Company, except for 6,890,593 shares repurchased by the Company.

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" having a value of RON 354,842,710 to cover the accounting loss reported according to OMFP 1286/2012 (predecessor of OMFP 2844/2016).

(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, and thus the total number of treasury shares held by the Company is 6,890,593. 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:

	2017
Balance at 1 January	709,974
Revaluation of property, plant and equipment	18,624,202
Deferred tax related to revaluation	(2,979,872)
Release of revaluation reserve to retained earnings corresponding to depreciation and disposals of property, plant and equipment	(59,287)
Balance at 31 December	**16,295,016**

(d) Legal reserves

The Legal reserves are set aside 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 2017 and 2016 (from the statutory profits of preceding years) were as follows:

	2017	2016
Distributed dividends	251,405,083	291,582,429

In 2017, the dividends per share paid to the shareholders of the Company were: RON 0,7415 per share (2016: RON 0,86 per share). When calculating the dividend per share, the Company's repurchased own shares (6,890,593 shares) were not considered as outstanding shares and are deducted from the total number of issued ordinary shares.

Out of the dividends for 2016 declared by the Company of RON 251,405,083 the dividends paid were RON 250,944,083, the remaining difference represents dividends uncollected by the shareholders as of 31 December 2017.

24 Trade payables

	31 December 2017	31 December 2016
Electricity suppliers	67,299,842	62,675,233
Capital expenditure suppliers	617,899	1,629,999
Other suppliers	4,477,742	3,285,801
Total	**72,395,483**	**67,591,033**

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 2017		31 December 2016	
	Current	Non-current	Current	Non-current
Payables to the State budget	10,202,071	-	9,677,979	-
Other payables	2,734,405	-	2,038,946	-
Total	**12,936,476**	**-**	**11,716,925**	**-**

Other liabilities include mainly guarantees and sundry creditors.

26 Provisions

	Litigations and other risks
Balance at 1 January 2017	**-**
Provisions made	24,492,880
Provisions used	-
Provisions reversed	(12,200,000)
Balance at 31 December 2017	**12,292,880**

In May 2017, after the revision of the Company's tax record, the tax authorities issued an enforcement order for additional interest and penalties of RON 39,248,000 as a result of certain tax record allocations for prior periods. The Company filed a complaint with the tax authorities against the enforcement order and also opened a legal action to suspend the enforced payment by the resolution of the above mentioned complaint. These additional interest and penalties are related to the prior enforcement orders received by the Company in the prior years of RON 73,460,000 and which were settled by enforced payments in 2016. Since there were uncertainties regarding the outcome of these legal actions, the Company recognized a provision of RON 12,200,000 which was the management best estimate as of the end of the first semester 2017.

In February 2018, the Company has obtained a favourable Supreme Court ruling in one of the litigations with tax authorities ("NAFA"), which essentially maintains into force a prior Court of Appeal decisions, which is favourable for the Company, in management's view. Based on this Court ruling and in conjunction with all other litigations with NAFA on the same historical taxes, including penalties and interest, as well as based on analysis with internal and external lawyers, the management best estimate as of 31 December 2017 is that the Company shall be able to obtain favourable Court rulings with the end result of no future cash outflows in these litigations with tax authorities. As a result, the previous recognized provision of RON 12,200,000 has been reversed in full as of 31 December 2017 and there is no provision recognized as of 31 December 2017 related to NAFA litigations.

Competition Council

On 4 January 2018, the Company received the Competition Council's decision on the investigation commenced in 2017, whereby it was found the breach of the provisions of art. 5 par. (1) of the Competition Law no. 21/1996 and art. 101 par. (1) TFEU by several companies which have sold meters and related measuring equipment for electricity in Romania, by the procedures for the award of supply contracts in the period from 27 November 2008 to 30 September 2015 and by Electrica, as a facilitator, in the period from 24 November 2010 to 30 September 2015.

The sanction applied to Electrica consists in a fine amounting to RON 10,800,984 representing 2.98% of the revenues of Electrica SA in the financial year 2016. In determining the amount of the fine, it was taken into account that (i) Electrica cooperated fully and effectively with the Competition Council during the investigation procedure, outside the scope of the leniency policy and beyond the legal duty to cooperate, and (ii) it is for the very first time when the authority retains the role of facilitator for a company organizing public procurement procedures. As of 31 December 2017, the amount of RON 10,800,984 was recognized as provision related to the Competition Council fine.

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 isasonable approximation of fair value.

31 December 2017	Note	Carrying amount Loans and receivables	Held-to-maturity investments	Other financial liabilities	Total
Financial assets not measured at fair value					
Trade receivables	16	79,300,866	-		79,300,866
Other receivables	18	9,174,583			9,174,583
Deposits, treasury bills and government bonds	17	-	746,980,117		746,980,117
Cash and cash equivalents	19	125,982,921	-		125,982,921
Restricted cash	19	320,000,000			320,000,000
Loans granted to related parties		246,563,230			246,563,230
Total		**781,021,600**	**746,980,117**		**1,528,001,717**
Financial liabilities not measured at fair value					
Trade payables	24			72,395,483	72,395,483
Total				**72,395,483**	**72,395,483**

31 December 2016	Note	Carrying amount 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**

(B) FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks arising from financial instruments: credit risk, liquidity risk and market risk. These risks are further explained and detailed.

(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). The Company has implemented policies and procedures aimed at enhancing the credit risk management.

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 2017		31 December 2016	
	Gross value	**Bad debt allowance**	**Gross value**	**Bad debt allowance**
Neither past due nor impaired	75,608,748	-	50,863,472	-
Past due 1-90 days	41,737	-	42,817,162	(32,097,026)
Past due 90-180 days	11,956,235	(8,305,854)	1,940,414	(1,543,044)
Past due 180-360 days	36,603,951	(36,603,951)	507,346	(507,346)
Past due 1 – 2 years	9,284,141	(9,284,141)	7,623,813	(5,530,018)
Past due 2 – 3 years	987,107	(987,107)	299,311	(299,311)
Past due more than 3 years	670,302,499	(670,302,499)	670,503,816	(670,503,816)
Total	**804,784,418**	**(725,483,552)**	**774,555,334**	**(710,480,561)**

Allowances for impairment are referring mainly to Oltchim SA (RON 658,779,545), Transenergo Com S.A. (RON 37,235,400) and to Fidelis Energy (RON 11,218,320). Please see Note 16.

	Net trade receivables	
	31 December 2017	31 December 2016
Neither past due nor impaired	75,608,748	50,863,472
Past due 1-90 days	41,737	10,720,136
Past due 90-180 days	3,650,381	397,370
Past due 180-360 days	-	-
Past due 1 – 2 years	-	2,093,795
Total	**79,300,866**	**64,074,773**

(ii) Liquidity risk

Liquidity risk is the risk that the Company might 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 accrued.

Financial liabilities	Carrying amount	Contractual cash flows Total	less than 1 year
31 December 2017			
Trade payables	72,395,483	72,395,483	72,395,483
Total	**72,395,483**	**72,395,483**	**72,395,483**
31 December 2016			
Trade payables	67,591,033	67,591,033	67,591,033
Total	**67,591,033**	**67,591,033**	**67,591,033**

(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:

In RON	31 December 2017 USD	31 December 2017 EUR	31 December 2016 USD	31 December 2016 EUR
Cash and cash equivalents	55,569	1,235,553	4,669,081	2,533,008
Deposits, treasury bills and government bonds	4,241,735	-	-	-
Net statement of financial position exposure	**4,297,304**	**1,235,553**	**4,669,081**	**2,533,008**

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

	Average rate		Year-end spot rate	
RON	2017	2016	2017	2016
EUR	4.5681	4.4908	4.6597	4.5411
USD	4.0525	4.0592	3.8915	4.3033

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 2017		
EUR (5% movement)	61,778	(61,778)
31 December 2016		
EUR (5% movement)	126,650	(126,650)

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	Appreciation	Depreciation
31 December 2017		
USD (5% movement)	214,865	(214,865)
31 December 2016		
USD (5% movement)	233,454	(233,454)

Interest rate risk

The Company has no 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 2017	31 December 2016
Financial assets		
Bank accounts (call deposits)	122,529,922	193,787,807
Deposits, treasury bills and government bonds	746,980,177	1,867,115,360
Restricted cash	320,000,000	134,491,752
Total	**1,189,510,039**	**2,195,394,919**

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
As at 31 December 2017, the Romanian State, represented by the Ministry of Energy holds 48.78% of the Company's share capital. The second largest shareholder is the European Bank for Reconstruction and Development with 6.9247%.

(b) Management and administrators' compensation

	2017	2016
Management compensation	4,623,768	1,039,030

Executive management compensation refers to the managers with mandate contracts concluded with Electrica SA. At the beginning of 2017, Electrica SA`s management consisted in four managers remunerated based on mandate agreement. For one of them, the mandate agreement ended in January 2017 and for another one, in December 2017. During 2017 six new managers were hired based on the same type of contract, in February, March, May, August and December. As of December 31st 2017 the Company had seven managers in place with mandate agreement, the latter one starting January 2018, effectively.

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

	2017	2016
Members of Board of Directors	2,207,003	2,136,888

Electrica SA's Board of Directors comprises 7 members. 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 2017 and 2016.

(c) Transactions with the subsidiaries

(i) Balance of receivables and payables from/ to subsidiaries:

	Receivables from		Payables to	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Electrica Furnizare	9,961,843	6,435,530	1,038,656	2,428,881
Societatea de Distributie a Energiei Electrice Muntenia Nord SA	853,327	8,067,916	2,031,935	439,209
Societatea de Distributie a Energiei Electrice Transilvania Nord SA	1,792,894	5,932,916	552,512	246,823
Societatea de Distributie a Energiei Electrice Transilvania Sud SA	1,523,184	5,864,832	136,963	20,677
Electrica Serv	10,384,591	10,602,735	190,617	261,773
Servicii Energetice Muntenia	6,697,952	-	-	-
Total	**31,213,791**	**36,903,929**	**3,950,683**	**3,397,363**

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 2017	Sales in 2016	Purchases in 2017	Purchases in 2016
Electrica Furnizare	91,643,477	43,903,009	22,313,160	22,793,574
Societatea de Distributie a Energiei Electrice Muntenia Nord SA	33,139,413	37,824,810	12,559,979	4,997,798
Societatea de Distributie a Energiei Electrice Transilvania Nord SA	32,871,562	16,124,831	8,524,096	2,713,149
Societatea de Distributie a Energiei Electrice Transilvania Sud SA	14,852,901	16,380,289	8,026,979	3,116,268
Electrica Serv	334,940	-	1,135,994	1,337,065
Total	**172,842,293**	**114,232,939**	**52,563,208**	**34,957,854**

(d) Transactions with companies in which the state has control or significant influence

In 2017 the Company had sale and purchase transactions mainly with the following companies:

	Net Receivables at 31 December 2017	Payables at 31 December 2017	Sales 2017	Purchases 2017
Transelectrica	1,818,317	21,887,889	18,129,136	346,132,325
CET GRIVITA	10,786	-	205,822	245,811
ANCOM	-	127,613	-	510,452
ICPE	-	-	312,158	86,542
ANRE	-	-	-	286,164
Others	189,606	24,626	4,006,559	2,321,840
TOTAL	**2,018,709**	**22,040,128**	**22,713,546**	**349,583,133**

The transactions with Transelectrica represent electricity imbalances from the balancing market.

In 2016 the Company had sale and purchase transactions mainly with the following companies:

	Net Receivables at 31 December 2016	Payables 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 refer mainly to purchase and sales 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, tax authorities, 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 favourably. 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 was sued by Hidroelectrica S.A. in 2015, which requires 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. The first instance dismissed the action as unfounded. At the date of the financial statements, both parties filed an appeal, the appeal is in course of settlement.

(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 separate 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 2017 the Company has outstanding bank letters of guarantee as follows:

Bank	Beneficiary	Value	Currency	Issue Date	Expiry Date
Unicredit	Transelectrica	27,104,109	RON	05.09.2016	20.08.2018
Unicredit	SDEE Muntenia Nord	120,000	RON	11.12.2017	31.03.2018

The company has a facility for bank letter of guarantee issuance in the amount of RON 200 million contracted from UniCredit, out of which the used amount as of 31 December 2017 is RON 58,844,761. The facility will become due on 31 December 2022.

Contractual commitments

The Company has the following contractual commitments as at 31 December 2017:

	Amount
Purchase of property, plant and equipment and intangible assets	**4,000,000**

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.
9 Grigore Alexandrescu St., Bucharest, Romania
Registration no: 13267221

Report on the Audit of the Separate Financial Statements

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 2017, 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.

The separate financial statements as at and for the year ended 31 December 2017 are identified as follows:

- Net assets/Total equity: RON 3,924,157,518
- Net profit for the year: RON 258,163,915

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2017, and of its unconsolidated financial performance and its unconsolidated 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").

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"), EU Regulation no. 537/2014 of the European Parliament and of the Council ("the Regulation") and Law no. 162/2017 ("the Law"). Our responsibilities under those standards and regulations 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 *International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants* ("IESBA Code") together with the ethical requirements that are relevant to our audit of the separate financial statements in Romania, including the Regulation and the Law, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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.

- Taxation
- Impairment of investment in Electrica Serv

Taxation

Contingent liabilities (RON 39,248,000 – Notes 26 and 29)

Refer to Notes 6(f), 6(p), 6(q) (accounting policy), 26 and 29 (financial disclosures) to the separate financial statements.

The key audit matter	How the matter was addressed in our audit
The Company has been subject to various adjustments related to corporate income tax imposed by tax authorities as a result of their tax audits performed in the prior years. In addition, the Company is involved in litigation or disputes with tax authorities regarding findings of the prior years' tax audits. 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: • assisted by our own tax specialists, assessing the Company's interpretation and application of relevant tax law, and evaluating the reasonableness of key assumptions used and estimates made in relation to uncertain tax positions and the level of related liabilities, provisions, or contingent liabilities, with particular focus on the litigation with tax authorities regarding an enforced order of RON 39,248,000, as discussed in Note 26;

	• 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 in dispute, with particular focus on the litigation with tax authorities regarding an enforced order of RON 39,248,000, as discussed in Note 26; • inspecting the Company's correspondence with tax authorities during the reporting period and subsequently, until the date of our report; • assessing the adequacy of tax related disclosures in the separate financial statements, with particular focus on those in respect of uncertain tax positions and tax-related contingencies.

Impairment of the investment in Electrica Serv

Carrying amount of the investment in Electrica Serv (RON 300,893,867 – Note 22)

Refer to Notes 6(k)(ii) (accounting policy) and 22 (financial disclosures) to the separate financial statements.

The key audit matter	How the matter was addressed in our audit
The Company wholly owns Electrica Serv, an unlisted subsidiary ("the Investee"); the investment in the subsidiary is carried at cost of RON 445,743,000, less impairment losses recognised in the prior years of RON 144,849,133). As discussed in Note 22, as part of the reorganization process initiated in 2017, Electrica Serv transferred its core business (electricity distribution network services) to its main customers - the electricity distribution subsidiaries of the Company. Following the transfer, the level of the Investee's activities was significantly reduced and is currently limited to performing specialized transportation services. Pursuant to the requirements of the relevant financial reporting standards, the above represents an impairment trigger. Consequently, the Company's management assessed whether an additional impairment loss is required in respect of the Investee as at 31 December 2017 by estimating its recoverable amount	Our audit procedures included, among others: • assisted by our own valuation specialists, assessing the impairment testing methodologies used by the Company by reference to the relevant financial reporting standards, including the assessment of the internal consistency, inputs and sources used by the appraisers and of the mathematical accuracy of the relevant discounted cash flow model; • assisted by our own valuation specialists, evaluating and challenging the reasonableness of key assumptions applied by the Company in performing the impairment test. The main assumptions include those related to: o projected future revenues and expenses, by reference to our understanding of the business,

based on a discounted cash flow model. The discounted cash flow model used in the impairment assessment involved a significant degree of management judgement and developing a number of subjective assumptions, including primarily those in respect of future business developments, expected revenues and expenses, proceeds from sale of existing idle property of the Investee, terminal value and discount rate. For the above reasons, we considered this area to be a key audit matter.	management's future plans and existing contracts; o expected proceeds from sale of idle property of the Investee and terminal values by comparing such assumptions to the results of historical transactions published market and industry data and other relevant information; o discount rate applied, by reference to data specific to the Investments' industry; • assisted by our own valuation specialists, evaluating the competence, capabilities and objectivity of the external appraisers engaged by the Investee to perform the valuation of its property, plant and equipment, obtaining an understanding of the scope of their engagement, and assessing the methodology applied and results obtained; • inspecting minutes of the shareholders' and board of directors' meetings of the Company and the Investee for any discussions and/or decisions with respect to the reorganization, and future plans for the Investee's activities; • performing a sensitivity analysis based on the reasonably possible upside or downside changes in the key assumptions; • assessing the adequacy of disclosures assessment in the separate financial statements related to the impairment, with particular focus on significant management assumptions.

Other Information

Administrators are responsible for the preparation and presentation of other information. The Other information comprises the separate Administrators' Report and information included in the Annual Report, but does not include the separate financial statements and our auditors' report thereon.

Our opinion on the separate financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the separate Administrators' Report, we read and report whether the separate Administrators' Report is prepared, in all material respects, in accordance with Order of Minister of Public Finance no. 2844/2016, articles 15 - 19 of the accounting regulations in accordance with International Financial Reporting Standards.

Based solely on the work required to be undertaken in the course of the audit of the separate financial statements, in our opinion:

a) the information given in the separate Administrators' Report for the financial year for which the separate financial statements are prepared is consistent, in all material respects, with the separate financial statements;

b) the separate Administrators' Report has been prepared, in all material respects, in accordance with Order of Minister of Public Finance no. 2844/2016, articles 15 - 19 of the accounting regulations in accordance with International Financial Reporting Standards.

In addition, based on the knowledge and understanding of the Company and its environment obtained in the course of our audit, we are required to report if we have identified material misstatements in the separate Administrators' Report and other information that we have obtained prior to the date of this auditors' report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

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 such internal control as 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, 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 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 Company's financial reporting process.

Auditors' Responsibility 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

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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.

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KPMG

Report on Other Legal and Regulatory Requirements - Public Interest Entities

We were appointed by the General Shareholders' Meeting on 27 April 2016 to audit the separate financial statements of the Company for the year ended 31 December 2017. Our total uninterrupted period of engagement is 16 years, covering the periods ending 31 December 2002 to 31 December 2017.

We confirm that:

- Our audit opinion is consistent with the additional report presented to the Audit Committee of the Company, which we issued on 5 March 2018. We also remained independent of the audited entity in conducting the audit.

- We have not provided to the Company the prohibited non-audit services referred to in article 5(1) of EU Regulation no. 537/2014.

Other matters

This independent auditors' report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for the report on the audit of the separate financial statements and the report on other legal and regulatory requirements, 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,

6 March 2018

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 2017 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
Doina Elena Dascalu
administrator neexecutiv
Bogdan Iliescu
administrator neexecutiv
Gicu Iorga
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, 2017, 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
Doina Elena Dascalu
non-executive director
Bogdan Iliescu
non-executive director
Gicu Iorga
non-executive director
Catalin Stancu
General Manager

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