



## **SOCIETATEA ENERGETICA ELECTRICA S.A.**

Condensed Consolidated Interim Financial Statements

as at and for the three month period ended

**31 March 2018**

prepared in accordance with

**International Accounting Standard 34 – “Interim Financial Reporting”**, as  
adopted by the European Union

**SOCIETATEA ENERGETICA ELECTRICA S.A.**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS AT AND FOR THE THREE MONTH**  
**PERIOD ENDED 31 MARCH 2018**  
PREPARED IN ACCORDANCE WITH IAS 34 "INTERIM FINANCIAL REPORTING" AS ADOPTED BY THE EUROPEAN  
UNION

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**SOCIETATEA ENERGETICA ELECTRICA S.A.**  
**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

AS AT 31 MARCH 2018

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

	Note	31 March 2018 (unaudited and unreviewed)	31 December 2017 (audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets related to concession arrangements		4,358,184	4,330,909
Other intangible assets		12,923	14,053
Property, plant and equipment		680,088	701,510
Restricted cash	12	320,000	320,000
Deferred tax assets		32,768	41,100
Other non-current assets		1,028	1,305
<b>Total non-current assets</b>		<b>5,404,991</b>	<b>5,408,877</b>
<b>Current assets</b>			
Trade receivables	11	751,214	804,361
Other receivables		25,566	55,534
Cash and cash equivalents	12	550,182	562,493
Deposits, treasury bills and government bonds	13	556,056	746,981
Inventories		33,043	21,620
Prepayments		10,177	3,692
Green certificates		981	12,643
Income tax receivable		1,134	1,134
<b>Total current assets</b>		<b>1,928,353</b>	<b>2,208,458</b>
<b>Total assets</b>		<b>7,333,344</b>	<b>7,617,335</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		3,814,242	3,814,242
Share premium		103,049	103,049
Treasury shares reserve		(75,372)	(75,372)
Pre-paid capital contributions in kind from shareholders		5,144	5,144
Revaluation reserve		117,741	123,748
Legal reserves		326,779	326,779
Retained earnings		1,423,229	1,357,966
<b>Total equity attributable to the owners of the Company</b>		<b>5,714,812</b>	<b>5,655,556</b>
<b>Total equity</b>		<b>5,714,812</b>	<b>5,655,556</b>

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**SOCIETATEA ENERGETICA ELECTRICA S.A.**  
**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

AS AT 31 MARCH 2018

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

	Note	31 March 2018 (unaudited and unreviewed)	31 December 2017 (audited)
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Financing for network construction related to concession agreements		6,705	11,122
Deferred tax liabilities		209,181	200,504
Employee benefits		165,448	165,448
Other payables	14	40,305	40,440
Long-term bank borrowings	15	320,000	320,000
<b>Total non-current liabilities</b>		<b>741,639</b>	<b>737,514</b>
<b>Current liabilities</b>			
Financing for network construction related to concession agreements		27,972	32,709
Bank overdrafts		111,875	247,904
Trade payables		507,409	689,405
Other payables	14	135,263	134,226
Deferred revenue		5,994	7,364
Employee benefits		54,089	78,918
Provisions		25,996	29,889
Current income tax liability		8,295	3,850
<b>Total current liabilities</b>		<b>876,893</b>	<b>1,224,265</b>
<b>Total liabilities</b>		<b>1,618,532</b>	<b>1,961,779</b>
<b>Total equity and liabilities</b>		<b>7,333,344</b>	<b>7,617,335</b>

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

**Chief Executive Officer**

Dan Catalin Stancu

**Chief Financial Officer**

Mihai Darie

**SOCIETATEA ENERGETICA ELECTRICA S.A.**  
**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
 FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018  
 (All amounts are in THOUSAND RON, except per share data)

	Note	Three month period ended	
		31 March 2018 (unaudited and unreviewed)	31 March 2017 (unaudited and unreviewed)
Revenues	6	1,349,760	1,388,932
Other income	7	39,667	54,798
Electricity purchased	8	(742,468)	(952,269)
Green certificates		(65,255)	(90,586)
Construction costs related to concession agreements		(120,846)	(90,369)
Employee benefits		(142,324)	(149,340)
Repairs, maintenance and materials		(17,743)	(13,953)
Depreciation and amortization		(110,282)	(97,394)
Reversal of impairment of property, plant and equipment, net		175	746
Impairment of trade and other receivables, net		(1,543)	(286)
Change in provisions, net		3,626	572
Other operating expenses		(112,077)	(97,753)
<b>Operating profit/(loss)</b>		<b>80,690</b>	<b>(46,902)</b>
Finance income		2,287	7,993
Finance costs		(880)	(2,119)
<b>Net finance income</b>		<b>1,407</b>	<b>5,874</b>
<b>Profit/(Loss) before tax</b>		<b>82,097</b>	<b>(41,028)</b>
Income tax expense	10	(22,841)	(10,189)
<b>Profit/(Loss) for the period</b>		<b>59,256</b>	<b>(51,217)</b>
<b>Profit/(Loss) for the period attributable to:</b>			
- owners of the Company		59,256	(41,328)
- non-controlling interests		-	(9,889)
<b>Profit/(Loss) for the period</b>		<b>59,256</b>	<b>(51,217)</b>
<b>Earnings per share</b>			
Basic and diluted earnings per share (RON)	9	<b>0.17</b>	<b>(0.12)</b>

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

**Chief Executive Officer**  
 Dan Catalin Stancu

**Chief Financial Officer**  
 Mihai Darie

**SOCIETATEA ENERGETICA ELECTRICA S.A.**  
**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
 FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018  
*(All amounts are in THOUSAND RON, if not otherwise stated)*

	<b>Three month period ended</b>	
	<b>31 March 2018 (unaudited and unreviewed)</b>	<b>31 March 2017 (unaudited and unreviewed)</b>
<b>Profit/(Loss) for the period</b>	<b>59,256</b>	<b>(51,217)</b>
<b>Other comprehensive income</b>	-	-
<b>Total comprehensive income/(loss)</b>	<b>59,256</b>	<b>(51,217)</b>
<b>Total comprehensive income/(loss) attributable to:</b>		
- owners of the Company	59,256	(41,328)
- non-controlling interests	-	(9,889)
<b>Total comprehensive income/(loss)</b>	<b>59,256</b>	<b>(51,217)</b>

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

**Chief Executive Officer**  
 Dan Catalin Stancu

**Chief Financial Officer**  
 Mihai Darie

**SOCIETATEA ENERGETICA ELECTRICA S.A.**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018  
*(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 reserve	Pre-paid capital contributions in kind from shareholders	Revaluation reserve	Legal reserves	Retained earnings	Total		
<b>Balance at 1 January 2018 (audited)</b>	<b>3,814,242</b>	<b>103,049</b>	<b>(75,372)</b>	<b>5,144</b>	<b>123,748</b>	<b>326,779</b>	<b>1,357,966</b>	<b>5,655,556</b>	<b>-</b>	<b>5,655,556</b>
<b>Comprehensive income</b>										
Profit for the period (unaudited and unreviewed)	-	-	-	-	-	-	59,256	59,256	-	<b>59,256</b>
<b>Total comprehensive income</b>	-	-	-	-	-	-	<b>59,256</b>	<b>59,256</b>	-	<b>59,256</b>
<b>Other changes in equity (unaudited and unreviewed)</b>										
Transfer of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment	-	-	-	-	(6,007)	-	6,007	-	-	-
<b>Balance at 31 March 2018 (unaudited and unreviewed)</b>	<b>3,814,242</b>	<b>103,049</b>	<b>(75,372)</b>	<b>5,144</b>	<b>117,741</b>	<b>326,779</b>	<b>1,423,229</b>	<b>5,714,812</b>	<b>-</b>	<b>5,714,812</b>

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**SOCIETATEA ENERGETICA ELECTRICA S.A.**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018  
*(All amounts are in THOUSAND RON, if not otherwise stated)*

Note	Attributable to the owners of the Company							Total	Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares reserve	Pre-paid capital contributions in kind from shareholders	Revaluation reserve	Legal reserves	Retained earnings			
<b>Balance at 1 January 2017 (audited)</b>	<b>3,814,242</b>	<b>103,049</b>	<b>(75,372)</b>	<b>5,144</b>	<b>104,681</b>	<b>302,236</b>	<b>1,429,908</b>	<b>5,683,888</b>	<b>836,599</b>	<b>6,520,487</b>
<b>Comprehensive income</b>										
Loss for the period (unaudited and unreviewed)	-	-	-	-	-	-	(41,328)	(41,328)	(9,889)	(51,217)
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(41,328)</b>	<b>(41,328)</b>	<b>(9,889)</b>	<b>(51,217)</b>
<b>Other changes in equity (unaudited and unreviewed)</b>										
Transfer of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment	-	-	-	-	(1,705)	-	1,705	-	-	-
<b>Balance at 31 March 2017 (unaudited and unreviewed)</b>	<b>3,814,242</b>	<b>103,049</b>	<b>(75,372)</b>	<b>5,144</b>	<b>102,976</b>	<b>302,236</b>	<b>1,390,285</b>	<b>5,642,560</b>	<b>826,710</b>	<b>6,469,270</b>

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



**SOCIETATEA ENERGETICA ELECTRICA S.A.**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018  
*(All amounts are in THOUSAND RON, if not otherwise stated)*

		Three month period ended	
	Note	31 March 2018 (unaudited and unreviewed)	31 March 2017 (unaudited and unreviewed)
<b>Cash flows from operating activities</b>			
Profit /(Loss) for the period		59,256	(51,217)
<b>Adjustments for:</b>			
Depreciation		10,350	11,945
Amortisation		99,932	85,449
Reversal of impairment of property, plant and equipment, net		(175)	(746)
Loss on disposal of property, plant and equipment		31	-
Impairment of trade and other receivables, net		1,543	286
Change in provisions, net		(3,626)	(572)
Net finance income		(1,407)	(5,874)
Income tax expense	10	22,841	10,189
		<b>188,745</b>	<b>49,460</b>
<b>Changes in:</b>			
Trade receivables		12,275	16,789
Other receivables		38,577	6,969
Deposits, treasury bills and government bonds		531	6,022
Prepayments		(6,484)	(8,933)
Green certificates		11,662	-
Restricted cash		-	(154,834)
Inventories		(11,424)	(3,501)
Trade payables		(140,035)	(180,837)
Other payables		(1,606)	(34,611)
Employee benefits		(25,096)	(21,888)
Deferred revenue		(1,370)	235
<b>Cash generated from/(used in) operating activities</b>		<b>65,775</b>	<b>(325,129)</b>
Interest paid		(795)	(525)
Income tax paid		(2,732)	(12,088)
<b>Net cash from/(used in) operating activities</b>		<b>62,248</b>	<b>(337,742)</b>

*(Continued on page 8)*

**SOCIETATEA ENERGETICA ELECTRICA S.A.**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
 FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018  
*(All amounts are in THOUSAND RON, if not otherwise stated)*

		Three month period ended	
	Note	31 March 2018 (unaudited and unreviewed)	31 March 2017 (unaudited and unreviewed)
<b>Cash flows from investing activities</b>			
Payments for purchases of property, plant and equipment		(3,608)	(439)
Payments for network construction related to concession agreements		(127,207)	(134,579)
Payments for purchases of intangible assets		(135)	-
Proceeds from sale of property, plant and equipment		10,280	415
Purchase of treasury bills and government bonds	13	(26,524)	(295,550)
Proceeds from maturity of treasury bills and government bonds	13	422,091	267,895
Increase in deposits with maturity of 3 months or longer		(206,090)	(20,000)
Proceeds from deposits with maturity of 3 months or longer		-	104,700
Interest received		1,712	6,377
<b>Net cash from/(used in) investing activities</b>		<b>70,519</b>	<b>(71,181)</b>
<b>Cash flows from financing activities</b>			
Proceeds from long term bank loans		-	144,157
Proceeds from short term bank loans		-	10,000
Repayment of short term bank borrowings		-	(3,000)
Repayment of financing for network construction related to concession agreements		(9,049)	(26,137)
<b>Net cash (used in)/from financing activities</b>		<b>(9,049)</b>	<b>125,020</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>123,718</b>	<b>(283,903)</b>
Cash and cash equivalents at 1 January		314,589	746,215
<b>Cash and cash equivalents at 31 March</b>	12	<b>438,307</b>	<b>462,312</b>

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

The non-cash transactions are disclosed in Note 12.

**Chief Executive Officer**

Dan Catalin Stancu

**Chief Financial Officer**

Mihai Darie

**SOCIETATEA ENERGETICA ELECTRICA S.A.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
AS AT AND FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018  
*(All amounts are in THOUSAND RON, if not otherwise stated)*

**1 Reporting entity and general information**

These financial statements are the condensed consolidated interim financial statements of Societatea Energetica Electrica S.A. ("the Company" or "Electrica SA") and its subsidiaries (together "the Group") as at and for the three month period ended 31 March 2018.

The registered office of the Company is no. 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 28 March 2018 and 31 December 2017 the main shareholder of Societatea Energetica Electrica S.A. is the Romanian State, represented by the Ministry of Energy (48.78%) and the second largest shareholder is the European Bank for Reconstruction and Development ("EBRD") with 6.9247%.

The Company's subsidiaries are the following:

<b>Subsidiary</b>	<b>Activity</b>	<b>Sole registration code</b>	<b>Head Office</b>	<b>% shareholding as at 31 March 2018</b>	<b>% shareholding as at 31 Dec 2017</b>
Societatea de Distributie a Energiei Electrice Muntenia Nord S.A.	Electricity distribution in geographical area of Muntenia Nord	14506181	Ploiesti	99,9999696922382%	99,9999696922382%
Societatea de Distributie a Energiei Electrice Transilvania Nord S.A.	Electricity distribution in geographical area of Transilvania Nord	14476722	Cluj-Napoca	99,9999829770757%	99,9999829770757%
Societatea de Distributie a Energiei Electrice Transilvania Sud S.A.	Electricity distribution in geographical area of Transilvania Sud	14493260	Brasov	99,999976413243%	99,999976413243%
Electrica Furnizare S.A.	Electricity Supply	28909028	Bucuresti	99,9998390431663%	99,9998390431663%
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%

The main activities of the Group include operation and construction of electricity distribution networks and 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 of 0.4 kV to 110 kV power lines.

**SOCIETATEA ENERGETICA ELECTRICA S.A.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
AS AT AND FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018  
*(All amounts are in THOUSAND RON, if not otherwise stated)*

The electricity distribution tariffs approved by National Authority for Energy Regulation ("ANRE") are as follows (RON/MWh, presented cumulatively for medium and low voltage levels):

	<b>Order 115,114,116/12.12.2017</b>			<b>Order 113,114,112/14.12.2016</b>		
	<b>1 January-31 December 2018</b>			<b>1 January-31 December 2017</b>		
	High voltage	Medium voltage	Low voltage	High voltage	Medium voltage	Low voltage
Transilvania Nord	18.73	60.11	157.35	19.05	60.98	157.71
Transilvania Sud	20.29	60.38	160.80	20.63	61.64	165.37
Muntenia Nord	14.79	46.33	155.71	14.79	48.46	157.81

## **2 Basis of accounting**

These condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union. They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("IFRS-EU") and these should be read together with the Annual Consolidated Financial Statements as at and for the year ended 31 December 2017. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2017. These interim financial statements are not audited nor reviewed by an independent auditor.

These condensed consolidated interim financial statements have been prepared for submission to the Bucharest Stock Exchange. These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on 15 May 2018.

The Company also issues an original version of these condensed consolidated interim financial statements prepared in Romanian language.

## ***Judgements and estimates***

In preparing these interim financial statements, management makes judgements, estimates and assumptions that affect the application of Group's accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2017.

## **3 Basis of measurement**

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

## **4 Significant accounting policies**

The accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2017, except for the adoption of new standards effective as of January 1<sup>st</sup> 2018.

Starting with January 1<sup>st</sup> 2018, the Group has applied for the first time the two new standards, IFRS 9 „Financial

**SOCIETATEA ENERGETICA ELECTRICA S.A.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
AS AT AND FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018  
*(All amounts are in THOUSAND RON, if not otherwise stated)*

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*instruments” and IFRS 15 „Revenues from contracts with customers”.*

A number of amendments and interpretations have been effective starting with January 1<sup>st</sup> 2018, but do not have a significant effect on these condensed consolidated interim financial statements.

**IFRS 15 „Revenues from contracts with customers”**

IFRS 15 „Revenues from contracts with customers” introduces a comprehensive model for revenue recognition and measurement. The standard replaces the existing criteria for revenue recognition, replacing the existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. Under the new standard, revenue is recognised when or as the customer acquires control over the goods or services rendered, at the amount which reflects the price at which the Group is expected to be entitled in exchange of those goods or services.

Being permitted by the standard, the Group adopted IFRS 15 starting with January 1<sup>st</sup> 2018 using the modified retrospective method, with cumulated adjustments from the initial application recognised in equity as of January 1<sup>st</sup> 2018 and without restating the figures of the comparative period. The initial application has no impact on the Group’s Retained Earnings.

In applying IFRS 15, the Group has identified that it acts in the capacity of an agent in case of transactions as Balancing Responsible Party („BRP”). Thus, in its quality as an agent, the Group recognizes revenue for the commission earned in exchange for facilitating the transfer of goods or services. According to the new standard, the valuation is made by considering whether the Group holds control over the specific goods or services before transferring them to the customer, rather than taking into account whether it has exposure to significant risks and rewards associated with the sale of the respective goods or services.

Any holder of a production/supply/distribution license must be established as a Balancing Responsible Party or must delegate this responsibility to a Balancing Responsible Party. By delegating this responsibility to a BRP, there is the benefit of imbalance aggregation in the meaning of Balancing Market cost reduction by comparison with the case where the producer/supply/distributor would form itself as a Balancing Responsible Party.

Electrica S.A., and subsequently starting with April 1<sup>st</sup> 2018 Electrica Furnizare S.A. acts as BRP for a large number of participants, electricity producers (hydro, thermo, wind, photovoltaic, biogas, biomass) as well as electricity suppliers and distribution operators. For the settlement of imbalances, BRP Electrica is using the „method of internal redistribution of payments”, ensuring benefits of imbalance aggregation for all the participants included in the BRP. BRP Electrica provides the transmission of physical notifications to CNTEE Transelectrica SA and its role is to balance the differences between the electricity contracted and the electricity measured at the level of the entire BRP.

Without the adoption of the new standard IFRS 15, the „Revenues” and „Electricity purchased” captions of the consolidated simplified statement of profit or loss for the three month period ended 31 March 2018 would have been higher with RON 31,497 thousands, having no impact on the margin.

**IFRS 9 „Financial instruments”**

IFRS 9 introduces changes regarding the recognition and measurement of financial assets and results in an earlier recognition of bad debt allowances for receivables.

Being permitted by the standard, the Group adopted IFRS 9 starting with January 1<sup>st</sup> 2018 using the modified retrospective method, with cumulated adjustments from the initial application recognised in equity as of January 1<sup>st</sup> 2018 and without restating the figures of the comparative period. For the categories of the Group’s financial assets, there are no significant differences between the initial evaluation method according to IAS 39 and the new evaluation criteria under IFRS 9.

**SOCIETATEA ENERGETICA ELECTRICA S.A.**
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

AS AT AND FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018

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

**5 Operating segments**
**(a) Information about reportable segments**

Three month period ended 31 March 2018 (unaudited and unreviewed)	Electricity supply	Electricity distribution	External electricity network maintenance	Headquarter	Total for reportable segments	Consolidation eliminations and adjustments	Consolidated total
External revenues	1,030,187	309,363	10,210	-	1,349,760	-	<b>1,349,760</b>
Inter-segment revenue	2,173	307,268	-	-	309,441	(309,441)	-
<b>Segment revenue</b>	<b>1,032,360</b>	<b>616,631</b>	<b>10,210</b>	<b>-</b>	<b>1,659,201</b>	<b>(309,441)</b>	<b>1,349,760</b>
<b>Segment profit/(loss) before tax</b>	<b>46,960</b>	<b>47,934</b>	<b>(2,302)</b>	<b>(10,495)</b>	<b>82,097</b>	<b>-</b>	<b>82,097</b>
Net finance income/(cost)	485	(168)	112	978	<b>1,407</b>	-	<b>1,407</b>
Depreciation, amortization and impairment, net	(2,785)	(105,558)	(472)	(1,292)	<b>(110,107)</b>	-	<b>(110,107)</b>
EBITDA*	49,260	153,660	(1,942)	(10,181)	<b>190,797</b>	-	<b>190,797</b>
Segment net profit/(loss)	38,644	33,409	(2,302)	(10,495)	<b>59,256</b>	-	<b>59,256</b>
Employee benefits	(17,798)	(112,151)	(6,408)	(5,967)	<b>(142,324)</b>	-	<b>(142,324)</b>
Capital expenditure	1,762	123,263	10	90	<b>125,125</b>	-	<b>125,125</b>
<b>Three month period ended 31 March 2017 (unaudited and unreviewed)</b>							
External revenues	1,131,143	251,052	6,737	-	1,388,932	-	<b>1,388,932</b>
Inter-segment revenue	65,964	331,845	-	-	397,809	(397,809)	-
<b>Segment revenue</b>	<b>1,197,107</b>	<b>582,897</b>	<b>6,737</b>	<b>-</b>	<b>1,786,741</b>	<b>(397,809)</b>	<b>1,388,932</b>
<b>Segment profit/(loss) before tax</b>	<b>(53,563)</b>	<b>6,795</b>	<b>2,047</b>	<b>3,693</b>	<b>(41,028)</b>	<b>-</b>	<b>(41,028)</b>
Net finance income/(cost)	331	(1,682)	1	7,224	<b>5,874</b>	-	<b>5,874</b>
Depreciation, amortization and impairment, net	(3,204)	(92,756)	(227)	(461)	<b>(96,648)</b>	-	<b>(96,648)</b>
EBITDA*	(50,690)	101,233	2,273	(3,070)	<b>49,746</b>	-	<b>49,746</b>
Segment net profit/(loss)	(53,616)	(3,341)	2,047	3,693	<b>(51,217)</b>	-	<b>(51,217)</b>
Employee benefits	(18,903)	(120,192)	(5,648)	(4,597)	<b>(149,340)</b>	-	<b>(149,340)</b>
Capital expenditure	728	90,450	-	-	<b>91,178</b>	-	<b>91,178</b>

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<b>At 31 March 2018 (unaudited and unreviewed)</b>	<b>Electricity supply</b>	<b>Electricity distribution</b>	<b>External electricity network maintenance</b>	<b>Headquarter</b>	<b>Total for reportable segments</b>	<b>Consolidation eliminations and adjustments</b>	<b>Consolidated total</b>
<b>Segment assets</b>	<b>947,972</b>	<b>5,886,966</b>	<b>147,851</b>	<b>1,131,300</b>	<b>8,114,089</b>	<b>(780,745)</b>	<b>7,333,344</b>
Trade and other receivables	571,710	466,858	16,522	53,661	<b>1,108,751</b>	(331,971)	<b>776,780</b>
Cash and cash equivalents	255,844	177,200	8,995	108,143	<b>550,182</b>	-	<b>550,182</b>
Restricted cash	-	-	-	320,000	<b>320,000</b>	-	<b>320,000</b>
Deposits, treasury bills and government bonds	-	-	-	556,056	<b>556,056</b>	-	<b>556,056</b>
Trade and other payables and short term employee benefits	622,176	353,926	52,716	14,154	<b>1,042,972</b>	(305,906)	<b>737,066</b>
Bank overdrafts	-	111,875	-	-	<b>111,875</b>	-	<b>111,875</b>
Financing for network construction related to concession agreements and bank loans	-	354,677	-	-	<b>354,677</b>	-	<b>354,677</b>
<b>At 31 December 2017</b>							
<b>Segment assets</b>	<b>1,067,230</b>	<b>5,769,629</b>	<b>144,458</b>	<b>1,222,115</b>	<b>8,203,432</b>	<b>(586,097)</b>	<b>7,617,335</b>
Trade and other receivables	697,069	447,032	27,909	297	<b>1,172,307</b>	(312,412)	<b>859,895</b>
Cash and cash equivalents	219,306	208,391	8,802	125,994	<b>562,493</b>	-	<b>562,493</b>
Restricted cash	-	-	-	320,000	<b>320,000</b>	-	<b>320,000</b>
Deposits, treasury bills and government bonds	-	-	-	746,981	<b>746,981</b>	-	<b>746,981</b>
Trade and other payables, and short term employee benefits	710,796	482,322	58,397	12,449	<b>1,263,964</b>	(320,975)	<b>942,989</b>
Bank overdrafts	-	247,904	-	-	<b>247,904</b>	-	<b>247,904</b>
Financing for network construction related to concession agreements and bank loans	-	363,831	-	-	<b>363,831</b>	-	<b>363,831</b>

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

<b>Three month period ended 31 March 2018 (unaudited and unreviewed)</b>	<b>Distribution Muntenia Nord</b>	<b>Distribution Transilvania Nord</b>	<b>Distribution Transilvania Sud</b>	<b>Electricity network maintenance</b>	<b>Eliminations</b>	<b>Total Electricity distribution</b>
External revenues	91,684	110,463	97,926	9,290	-	<b>309,363</b>
Inter-segment revenue	106,439	98,125	100,777	32,642	(30,715)	<b>307,268</b>
<b>Segment revenue</b>	<b>198,123</b>	<b>208,588</b>	<b>198,703</b>	<b>41,932</b>	<b>(30,715)</b>	<b>616,631</b>
<b>Segment profit (loss) before tax</b>	<b>454</b>	<b>26,078</b>	<b>15,264</b>	<b>6,138</b>	<b>-</b>	<b>47,934</b>
Net finance income/(cost)	225	(405)	(192)	204	-	<b>(168)</b>
Depreciation, amortization and impairment, net	(32,938)	(35,929)	(34,385)	(2,306)	-	<b>(105,558)</b>
EBITDA*	33,167	62,412	49,841	8,240	-	<b>153,660</b>
Net profit	(869)	17,268	10,705	6,305	-	<b>33,409</b>
Employee benefits	(36,489)	(33,526)	(34,823)	(7,313)	-	<b>(112,151)</b>
Capital expenditure	42,021	49,116	32,126	-	-	<b>123,263</b>
<b>Three month period ended 31 March 2017 (unaudited and unreviewed)</b>						
External revenues	69,376	87,057	88,110	6,509	-	<b>251,052</b>
Inter-segment revenue	112,159	104,670	112,105	58,858	(55,947)	<b>331,845</b>
<b>Segment revenue</b>	<b>181,535</b>	<b>191,727</b>	<b>200,215</b>	<b>65,367</b>	<b>(55,947)</b>	<b>582,897</b>
<b>Segment profit (loss) before tax</b>	<b>(18,437)</b>	<b>14,831</b>	<b>15,673</b>	<b>(5,273)</b>	<b>1</b>	<b>6,795</b>
Net finance income/(cost)	(273)	(288)	(1,075)	(46)	-	<b>(1,682)</b>
Depreciation, amortization and impairment, net	(27,683)	(31,983)	(31,563)	(2,630)	1,103	<b>(92,756)</b>
EBITDA*	9,519	47,102	48,311	(2,597)	(1,102)	<b>101,233</b>
Net profit	(18,790)	11,317	9,405	(5,273)	-	<b>(3,341)</b>
Employee benefits	(33,127)	(28,560)	(27,995)	(32,286)	1,776	<b>(120,192)</b>
Capital expenditure	23,213	34,851	32,305	81	-	<b>90,450</b>



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<b>At 31 March 2018 (unaudited and unreviewed)</b>	<b>Distribution Muntenia Nord</b>	<b>Distribution Transilvania Nord</b>	<b>Distribution Transilvania Sud</b>	<b>Electricity network maintenance</b>	<b>Eliminations</b>	<b>Total Electricity distribution</b>
<b>Segment assets</b>	<b>1,929,222</b>	<b>1,880,905</b>	<b>1,720,170</b>	<b>399,932</b>	<b>(43,263)</b>	<b>5,886,966</b>
Trade and other receivables	134,636	130,192	144,406	100,887	(43,263)	<b>466,858</b>
Cash and cash equivalents	63,059	23,349	42,943	47,849	-	<b>177,200</b>
Trade and other payables and short term employee benefits	91,094	150,865	126,124	29,106	(43,263)	<b>353,926</b>
Bank overdrafts	5,203	70,078	36,594	-	-	<b>111,875</b>
Financing for network construction related to concession agreements and bank loans	93,603	119,631	141,443	-	-	<b>354,677</b>
<b>At 31 December 2017</b>						
<b>Segment assets</b>	<b>1,908,339</b>	<b>1,772,965</b>	<b>1,691,300</b>	<b>469,321</b>	<b>(72,296)</b>	<b>5,769,629</b>
Trade and other receivables	138,621	129,961	150,196	100,550	(72,296)	<b>447,032</b>
Cash and cash equivalents	96,140	23,972	59,367	28,912	-	<b>208,391</b>
Deposits, treasury bills and government bonds	-	-	-	-	-	<b>-</b>
Trade and other payables, and short term employee benefits	155,541	185,121	159,883	54,073	(72,296)	<b>482,322</b>
Bank overdrafts	21,185	128,511	98,208	-	-	<b>247,904</b>
Financing for network construction related to concession agreements and bank loans	99,139	121,127	143,565	-	-	<b>363,831</b>

*\*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 and ii) net finance 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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**(b) Reconciliation of information on reportable segments to IFRS measures**

	<b>31 March 2018 (unaudited and unreviewed)</b>	<b>31 December 2017 (audited)</b>
<b>Total assets</b>		
Total assets for reportable segments	8,114,089	8,203,432
Elimination of inter-segment assets	(813,513)	(627,197)
Unallocated amounts	32,768	41,100
<b>Consolidated total assets</b>	<b>7,333,344</b>	<b>7,617,335</b>
<b>Trade and other receivables</b>		
Trade and other receivables for reportable segments	1,108,751	1,172,307
Elimination of inter-segment trade and other receivables	(331,971)	(312,412)
Unallocated amounts	-	-
<b>Consolidated trade and other receivables</b>	<b>776,780</b>	<b>859,895</b>
<b>Trade and other payables and short term employee benefits</b>		
Trade and other payable and short term employee benefits for reportable segments	1,042,972	1,263,964
Elimination of inter-segment trade and other payables and short term employee benefits	(305,906)	(320,975)
Unallocated amounts	-	-
<b>Consolidated trade and other payables and short term employee benefits</b>	<b>737,066</b>	<b>942,989</b>

**6 Revenue**

	<b>Three month period ended</b>	
	<b>31 March 2018 (unaudited and unreviewed)</b>	<b>31 March 2017 (unaudited and unreviewed)</b>
Electricity distribution and supply	1,200,145	1,277,235
Construction revenue related to concession agreements	123,263	92,111
Repairs and maintenance and other services rendered	21,447	13,813
Re-connection fees	1,856	2,121
Sales of merchandise	3,049	3,652
<b>Total</b>	<b>1,349,760</b>	<b>1,388,932</b>

Starting with January 1<sup>st</sup> 2018, with the adoption of the new IFRS 15 „Revenues from contracts with customers“, the Group identified that it acts in the capacity of an agent in case of transactions as Balancing Responsible Party. Without the adoption of the new standard IFRS 15, Revenues from supply and distribution of electricity for the three month period ended 31 March 2018 would have been higher with RON 31,497 thousands.

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**7 Other income**

	<b>Three month period ended</b>	
	<b>31 March 2018 (unaudited and unreviewed)</b>	<b>31 March 2017 (unaudited and unreviewed)</b>
Rental income	28,333	22,232
Revenues from notices	3,997	5,538
Late payment penalties from customers	1,843	6,085
Commissions for the collection of radio and TV taxes	-	2,153
Other	5,494	18,790
<b>Total</b>	<b>39,667</b>	<b>54,798</b>

**8 Electricity purchased**

The cost of the electricity purchased decreased during the three month period ended 31 March 2018, as a result of the stabilization and reduced volatility of electricity market prices as compared to the same period of the previous year, when historically high prices were reached.

Starting with January 1<sup>st</sup> 2018, with the adoption of the new IFRS 15 „*Revenues from contracts with customers*“, the Group identified that it acts in the capacity of an agent in case of transactions as Balancing Responsible Party. Without the adoption of the new standard IFRS 15, Electricity purchased for the three month period ended 31 March 2018 would have been higher with RON 31,497 thousands.

**9 Earnings per share**

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

*Profit or loss attributable to ordinary shareholders*

	<b>Three month period ended</b>	
	<b>31 March 2018 (unaudited and unreviewed)</b>	<b>31 March 2017 (unaudited and unreviewed)</b>
Profit/(Loss) for the period attributable to the owners of the Company	59,256	(41,328)
<b>Profit/(Loss) attributable to ordinary shareholders</b>	<b>59,256</b>	<b>(41,328)</b>

*Weighted-average number of outstanding ordinary shares (in number of shares)*

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

The weighted average number of outstanding ordinary shares (unaudited and unreviewed) as at 31 March 2018 is of 339,049,336 (31 March 2017: 339,049,336).

**Earnings per share**

	<b>Three month period ended</b>	
	<b>31 March 2018 (unaudited and unreviewed)</b>	<b>31 March 2017 (unaudited and unreviewed)</b>
Basic and diluted earnings per share (RON per share)	<b>0.17</b>	<b>(0.12)</b>

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**10 Income taxes**

	<b>Three month period ended</b>	
	<b>31 March 2018 (unaudited and unreviewed)</b>	<b>31 March 2017 (unaudited and unreviewed)</b>
Current period tax expense	7,177	7,270
Deferred tax expense	15,664	2,919
<b>Total income tax expense</b>	<b>22,841</b>	<b>10,189</b>

**11 Trade receivables**

	<b>31 March 2018 (unaudited and unreviewed)</b>	<b>31 December 2017 (audited)</b>
Trade receivables, gross	1,809,826	1,863,868
Bad debt allowance	(1,058,612)	(1,059,507)
<b>Total trade receivables, net</b>	<b>751,214</b>	<b>804,361</b>

Receivables from related parties are disclosed in Note 17.

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

Starting with January 1<sup>st</sup> 2018, the Group has applied for the first time the new standard IFRS 9 „Financial instruments“. Being permitted by the standard, the Group adopted IFRS 9 starting with January 1<sup>st</sup> 2018 using the modified retrospective method, with cumulated adjustments from the initial application recognised in equity as of January 1<sup>st</sup> 2018 and without restating the figures of the comparative period. For the Group's trade receivables, there are no significant differences between the initial evaluation method according to IAS 39 and the new evaluation criteria under IFRS 9.

**12 Cash and cash equivalents**

	<b>31 March 2018 (unaudited and unreviewed)</b>	<b>31 March 2017 (unaudited and unreviewed)</b>
<b>Total cash and cash equivalents in the condensed consolidated statement of financial position</b>	<b>550,182</b>	<b>635,839</b>
Overdrafts used for cash management purposes	(111,875)	(173,527)
<b>Total cash and cash equivalents in the condensed consolidated statement of cash flows</b>	<b>438,307</b>	<b>462,312</b>

As at 31 March 2018, 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 March 2018 is RON 320,000 thousands (31 December 2017: RON 320,000 thousands) presented in the statement of financial position as long-term restricted cash. Refer also to Note 15.

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

- set-off between trade receivables and trade payables of RON 39 million during the three month period ended 31 March 2018 (three month period ended 31 March 2017: RON 34 million).

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During the three month period ending 31 March 2018, the Group made payments related to property, plant and equipment acquired in the prior periods, in amount of RON 131 million (three month period ended 31 March 2017: RON 135 million).

**13 Deposits, treasury bills and government bonds**

	<b>31 March 2018 (unaudited and unreviewed)</b>	<b>31 December 2017 (audited)</b>
Treasury bills and government bonds denominated in RON with original maturity of more than three months	66,938	462,739
Deposits with maturity of more than three months	489,118	284,242
<b>Total deposits, treasury bills and government bonds</b>	<b>556,056</b>	<b>746,981</b>

Treasury bills and government bonds with original maturity of more than three months have an average interest rate (yield) of 1.13%. Treasury bills and government bonds were classified as held to maturity investments.

**14 Other payables**

	<b>31 March 2018 (unaudited and unreviewed)</b>		<b>31 December 2017 (audited)</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
VAT payable	110,238	-	85,832	-
Liabilities towards the State	14,186	-	21,003	-
Liabilities related to green certificates acquisition obligation	-	-	6,665	-
Other liabilities	10,839	40,305	20,726	40,440
<b>Total</b>	<b>135,263</b>	<b>40,305</b>	<b>134,226</b>	<b>40,440</b>

Other liabilities include mainly guarantees, sundry creditors, connection fees, habitat tax and cogeneration contribution. Other non-current liabilities refer to guarantees from customers related to electricity supply.

**15 Bank borrowings**

	<b>31 March 2018 (unaudited and unreviewed)</b>	<b>31 December 2017 (audited)</b>
Long-term bank borrowings	320,000	320,000
<b>Total</b>	<b>320,000</b>	<b>320,000</b>

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 2021).

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

<b>Lender</b>	<b>Facility type</b>	<b>Maturity</b>	<b>Loan amount</b>	<b>Balance at 31 March 2018 (unaudited and unreviewed)</b>	<b>Balance at 31 December 2017 (audited)</b>
BRD	term loan, non-revolving facility, financing the treasury deficit generated by the investment activity	until 16 October 2021	80,000	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	114,000
BRD	term loan, non-revolving facility, financing the treasury deficit generated by the investment activity	until 16 October 2021	126,000	126,000	126,000
<b>Total</b>			<b>320,000</b>	<b>320,000</b>	<b>320,000</b>

**16 Financial instruments – fair values**

**(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.

<b>31 March 2018 (unaudited and unreviewed)</b>	<b>Carrying amount</b>				<b>Fair value</b>			
	<b>Loans and receivables</b>	<b>Held to maturity financial assets</b>	<b>Other financial liabilities</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets not measured at fair value</b>								
Trade receivables	751,214	-	-	<b>751,214</b>	-	-	-	-
Deposits, treasury bills and government bonds	-	556,056	-	<b>556,056</b>	-	-	-	-
Cash and cash equivalents	550,182	-	-	<b>550,182</b>	-	-	-	-
Restricted cash	320,000	-	-	<b>320,000</b>	-	-	-	-
<b>Total</b>	<b>1,621,396</b>	<b>556,056</b>	-	<b>2,177,452</b>	-	-	-	-
<b>Financial liabilities not measured at fair value</b>								
Bank overdrafts	-	-	111,875	<b>111,875</b>	-	-	-	-
Financing for network construction related to concession agreements	-	-	34,677	<b>34,677</b>	-	36,350	-	<b>36,350</b>
Long-term bank borrowings	-	-	320,000	<b>320,000</b>	-	-	-	-
Trade payables	-	-	507,409	<b>507,409</b>	-	-	-	-
<b>Total</b>	-	-	<b>973,961</b>	<b>973,961</b>	-	<b>36,350</b>	-	<b>36,350</b>

**SOCIETATEA ENERGETICA ELECTRICA S.A.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

AS AT AND FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018

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

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

**(b) Measurement of fair values***Fair value hierarchy*

The fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: unobservable inputs for the asset or liability

The following table describes the valuation techniques used in measuring Level 2 fair values.

*Financial instruments not measured at fair value*

Type	Valuation technique
Other financial liabilities	<i>Discounted cash flows (DCF) method</i>
	The discount rates used are the average 12 M ROBID-ROBOR interest rates of 2.28 % as at 31 March 2018 (31 December 2017: 2.07%).

**SOCIETATEA ENERGETICA ELECTRICA S.A.**  
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*(All amounts are in THOUSAND RON, if not otherwise stated)*

**17 Related parties**

**(a) Main shareholders**

As at 28 March 2018 and 31 December 2017 the main shareholder of Societatea Energetica Electrica S.A. is the Romanian State, represented by the Ministry of Energy (48.78%) and the second largest shareholder is the European Bank for Reconstruction and Development ("EBRD") with 6.9247%.

**(b) Management and administrators' compensation**

	<b>Three month period ended</b>	
	<b>31 March 2018 (unaudited and unreviewed)</b>	<b>31 March 2017 (unaudited and unreviewed)</b>
<b>Executive Management compensation</b>	2,683	1,264

Executive management compensation refers to the managers with mandate contract, from both the subsidiaries and Electrica S.A.

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

	<b>Three month period ended</b>	
	<b>31 March 2018 (unaudited and unreviewed)</b>	<b>31 March 2017 (unaudited and unreviewed)</b>
<b>Members of Board of Directors</b>	572	782

**(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 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:

<b>Supplier</b>	<b>Purchases (excluding VAT)</b>		<b>Balance (including VAT)</b>	
	<b>Three month period ended 31 March 2018 (unaudited and unreviewed)</b>	<b>Three month period ended 31 March 2017 (unaudited and unreviewed)</b>	<b>31 March 2018 (unaudited and unreviewed)</b>	<b>31 December 2017 (audited)</b>
Complexul Energetic Oltenia	132,022	1,632	41,994	42,700
OPCOM	123,219	238,206	1,662	4,298
Transelectrica	102,002	357,683	72,358	94,150
Nuclearelectrica	61,320	113,896	17,070	22,176
Hidroelectrica	57,773	80,538	9,683	16,840
E-Distributie Muntenia	2,597	-	1,963	1,997
E-Distributie Dobrogea	959	-	729	743
E-Distributie Banat	705	-	559	514
CN Posta Romana SA	107	114	20	22
Others	9,320	10,223	4,703	4,119
<b>Total</b>	<b>490,024</b>	<b>802,292</b>	<b>150,741</b>	<b>187,559</b>



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

The Group also makes sales to companies in which the State has control or significant influence representing electricity supplied, of which the significant transactions are the following:

	<b>Sales (excluding VAT)</b>	<b>Balance, gross (including VAT)</b>	<b>Allowance</b>	<b>Balance, net</b>
<b>Client</b>	<b>Three month period ended 31 March 2018 (unaudited and unreviewed)</b>	<b>31 March 2018 (unaudited and unreviewed)</b>		
E.ON Energie Romania	12,233	9,399	-	9,399
Enel Energie Muntenia SA	7,645	5,501	-	5,501
Cupru Min S.A. Abrud	7,580	5,874	-	5,874
Enel Energie SA	6,928	4,276	-	4,276
SNGN Romgaz	3,639	1,264	-	1,264
OPCOM	3,088	1,425	-	1,425
Transelectrica	2,715	1,387	-	1,387
CN Romarm	2,772	356	-	356
CFR Electrificare	1,723	342	-	342
Baita SA	277	550	(550)	-
CN Remin SA	114	71,194	(71,147)	47
C.N.C.A.F. MINVEST S.A.	-	29,903	(29,903)	-
Oltchim	-	715,259	(715,259)	-
Others	10,842	15,934	(6,834)	9,099
<b>Total</b>	<b>59,556</b>	<b>862,664</b>	<b>(823,693)</b>	<b>38,970</b>

	<b>Sales (excluding VAT)</b>	<b>Balance, gross (including VAT)</b>	<b>Allowance</b>	<b>Balance, net</b>
<b>Client</b>	<b>Three month period ended 31 March 2017 (unaudited and unreviewed)</b>	<b>31 December 2017 (audited)</b>		
Cupru Min S.A. Abrud	9,549	6,635	-	6,635
OPCOM	6,257	3,662	-	3,662
E-Distributie Muntenia	5,937	-	-	-
SNGN Romgaz	3,306	1,279	-	1,279
CN Romarm	3,025	286	-	286
Transelectrica	2,543	1,841	-	1,841
CFR Electrificare	1,822	944	-	944
CFR Telecomunicatii	874	1	-	1
Baita SA	264	822	(726)	96
CN Remin SA	115	71,219	(71,148)	71
C.N.C.A.F. MINVEST S.A.	-	29,903	(29,903)	-
Oltchim	-	715,259	(715,259)	-
E.ON Energie Romania	-	11,351	-	11,351
Enel Energie Muntenia SA	-	6,187	-	6,187
Enel Energie SA	-	5,651	-	5,651
Others	9,768	15,546	(6,817)	8,729
<b>Total</b>	<b>43,460</b>	<b>870,586</b>	<b>(823,853)</b>	<b>46,733</b>

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

**18 Subsidiaries in financial distress**

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 procedures 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 March 2018 and at 31 December 2017, the carrying amount of the assets and liabilities of these companies included in the consolidated financial information are as follows:

<b>31 March 2018 (unaudited and unreviewed)</b>	<b>Servicii Energetice Muntenia</b>	<b>Servicii Energetice Oltenia</b>	<b>Total</b>
Property, plant and equipment	98,781	23,164	<b>121,945</b>
Trade receivables	5,190	7,581	<b>12,771</b>
Cash and cash equivalents	6,290	2,705	<b>8,995</b>
<b>Total assets</b>	<b>110,261</b>	<b>33,450</b>	<b>143,711</b>
Trade payables	(7,287)	(3,210)	<b>(10,497)</b>
Payables to the State budget	(353)	(8,580)	<b>(8,933)</b>
Social security and other salary taxes	(528)	(5,196)	<b>(5,724)</b>
Provisions, employee benefits and deferred taxes	(24,187)	(12,547)	<b>(36,734)</b>
<b>Total liabilities</b>	<b>(32,355)</b>	<b>(29,533)</b>	<b>(61,888)</b>

<b>31 December 2017 (audited)</b>	<b>Servicii Energetice Muntenia</b>	<b>Servicii Energetice Oltenia</b>	<b>Total</b>
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
<b>Total assets</b>	<b>106,110</b>	<b>31,501</b>	<b>137,611</b>
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)
<b>Total liabilities</b>	<b>(35,642)</b>	<b>(22,515)</b>	<b>(58,157)</b>

The Group has not classified the assets and liabilities of these subsidiaries as held for sale as at 31 March 2018, 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 three month period ended 31 March 2018.

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

**SOCIETATEA ENERGETICA ELECTRICA S.A.**  
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**19 Subsequent events**

In order to support the continuation of the activity of the subsidiary Servicii Energetice Muntenia, on April 26th 2018, the Board of Directors of Electrica SA approved granting an intra-group loan by the Company in favor of its subsidiary Servicii Energetice Muntenia, in a maximum amount of RON 5,500 thousand, as a bridge loan for financing the last payment due to the creditors enlisted at the Creditors Table of the subsidiary, according to the Reorganization Plan, as well as for the financing of the working capital needs.

**Chief Executive Officer**

Dan Catalin Stancu

**Chief Financial Officer**

Mihai Darie



## **2018 FIRST QUARTER REPORT (Q1 2018)**

**(based on the condensed consolidated interim unaudited financial statements prepared in accordance with IAS 34)**

**REGARDING THE ECONOMIC AND FINANCIAL ACTIVITY OF SOCIETATEA ENERGETICA ELECTRICA S.A.**

**in compliance with art. 61 of the Law no. 24/2017 on issuers of financial instruments and market operations and to annex no. 31 to CNVM Regulation no. 1/2006, and the Bucharest Stock Exchange Code**

**for the three month period ended 31 March 2018**

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## 1. Identification Details Of The Issuer

**Report date:** 15 May 2018

**Company name:** Societatea Energetica Electrica S.A.

**Headquarters:** 9 Grigore Alexandrescu Street, 1st District, Bucharest, Romania

**Phone/fax no:** 004-021-2085999/ 004-021-2085998

**Fiscal Code:** RO 13267221

**Trade Registry registration number:** J40/7425/2000

**Subscribed and paid in share capital:** RON 3,459,399,290

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

**Regulated market where the issues securities are traded:** the Company's 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.*

## 2. Highlights

The Group is the leading distributor and supplier of electricity on the regulated market in Romania. The Group's core business segments are the distribution of electricity to users and the supply of electricity to households and non-household consumers.

Electrica's distribution segment operates through its subsidiaries: Societatea de Distribuție a Energiei Electrice Muntenia Nord, Societatea de Distribuție a Energiei Electrice Transilvania Nord, Societatea de Distribuție a Energiei Electrice Transilvania Sud and Electrica Serv, and it is geographically limited to Northern Muntenia, Northern Transylvania and Southern Transylvania. The Group holds exclusive Distribution Licences for these regions which have a remaining term of 10 years and may be extended for another 25 years.

As part of its distribution business, Electrica provides equipment maintenance, repair and other ancillary services to its network and, to a small degree, to third parties.

The electricity supply segment operates through Electrica Furnizare subsidiary and supplies electricity to final customers, both as the last resort supplier (in the geographic regions where the Group's distribution segment operates) and as a competitive supplier, all over Romania. The Group holds two supply licenses covering the entire territory of Romania, valid until 2021 and respectively 2022, with the possibility of extension.

A summary of the main indicators is described below:

- During the first quarter of 2018, EBITDA increased to RON 191 million, with RON 141 million, as compared with the first quarter of 2017;
- The volume of the investments in the distribution network in the first three months of 2018 was of RON 121 million, increasing by RON 30 million, or 34%, from RON 90 million in the first quarter of 2017;
- The operating profit in the first quarter of 2018 was of RON 81 million, reaching a significant increase as compared with the same period of the previous year, when the Group recorded an operational loss of RON 47 million, mainly due to the increased electricity acquisition prices, as a result of the energy crisis from the beginning of prior year;
- The energy acquisition expense decreased by RON 209 million, or 22%, to RON 742 million in the three months period ended March 31, 2018, from RON 952 million recorded in the same period of the previous year, as a result of the significant increase in prices on the Romanian electricity market, in the context of the highest electricity consumption in the last decades, when record prices were recorded at electricity, that have affected the whole market;
- Revenue from the distribution segment increased by RON 34 million, or 5.8%, to RON 617 million, compared to the first quarter of the prior year; the contribution of the electricity distribution segment to the Group's total revenue is of 45.7%;
- In the first quarter of 2018, the revenue from the supply segment decreased by RON 165 million y-o-y, or 13.7%, to RON 1,032 million, mainly from the variation of the revenues from BRP ("Balancing Responsible Party"); the contribution of the electricity supply segment to the Group's total revenue is of 76%;
- During the three month period ended March 31, 2018, the Group distributed 4.52 TWh of electricity to a number of approx. 3.72 million users, representing a quantity decrease of 2.5% y-o-y;
- In this period, the Group supplied to a number of approx. 3.57 million final consumers 2.5 TWh of electricity, representing a decrease of 6.9% y-o-y;



### 3. Organizational Structure

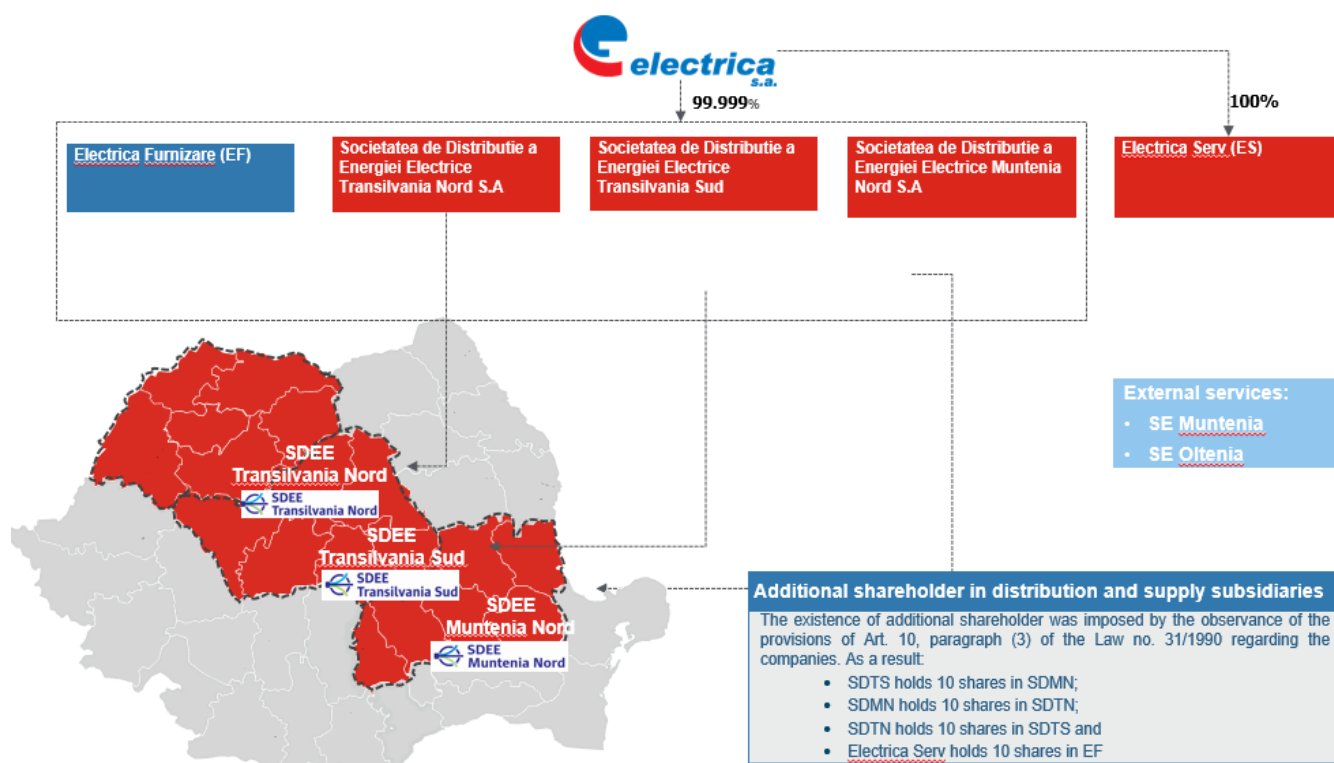
#### 3.1. Group Structure

The Company is a holding company for the Group, which comprises four subsidiaries in its distribution segment: Societatea de Distribuție a Energiei Electrice Transilvania Nord SA ("SDTN"), Societatea de Distribuție a Energiei Electrice Transilvania Sud SA ("SDTS"), Societatea de Distribuție a Energiei Electrice Muntenia Nord SA ("SDMN"), FISE Electrica Serv SA ("Electrica Serv"), and one subsidiary, Electrica Furnizare S.A. ("Electrica Furnizare"), in the supply segment.

The Company also owns all shares of Servicii Energetice Oltenia SA ("SE Oltenia") and Servicii Energetice Muntenia SA ("SE Muntenia"). 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.

As of 28 March 2018, the major shareholder of Electrica SA is the Romanian State, represented by the Ministry of Energy (48.7805%), after the ownership dilution following an initial public offer. The second shareholder based on the share of ownership is European Bank for Reconstruction and Development with 6.925%.

Figure 1: Entities included in the consolidation as of 31 March 2018:



Source: Electrica S.A.

**Presentation of Group subsidiaries**

Subsidiary	Activity	Registration code	Headquarters	% shareholdings as of 31 March 2018
Societatea de Distribuție a Energiei Electrice Muntenia Nord SA ("SDMN")	Electricity distribution in North Muntenia geographical area	14506181	Ploiesti	99,9999696922382%
Societatea de Distribuție a Energiei Electrice Transilvania Nord SA ("SDTN")	Electricity distribution in Northern Transylvania geographical area	14476722	Cluj-Napoca	99,9999829770757%
Societatea de Distribuție a Energiei Electrice Transilvania Sud SA ("SDTS")	Electricity distribution in Southern Transylvania geographical area	14493260	Brasov	99,999976413243%
Electrica Furnizare SA ("EFSA")	Trading of electrical energy	28909028	Bucharest	99,9998390431663%
Electrica Serv SA ("ELSERV")	Services in the energy sector (maintenance, repair, construction)	17329505	Bucharest	100%
Servicii Energetice Muntenia SA (in insolvency) ("SEM")	Services in the energy sector (maintenance, repair, construction)	29384120	Bucharest	100%
Servicii Energetice Oltenia SA (in insolvency) ("SEO")	Services in the energy sector (maintenance, repair, construction)	29389861	Craiova	100%

Source: Electrica S.A.

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, Dambovită, 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 (SDMN, SDTN and SDTS) invoice the electricity distribution service to electricity suppliers (mainly to Electrica Furnizare SA subsidiary, the main electricity supplier in Muntenia North, Transylvania North and Transylvania South areas), which further invoice the electricity consumption to final consumers.

Electrica Furnizare is an electricity supplier in the competitive market and last resort supplier ("LRS", defined as a supplier designated by the regulator to provide the universal electricity supply under regulated conditions) in the Muntenia North, Transylvania North and Transylvania South regions.

According to the regulations issued by the National Regulatory Authority for Energy ("ANRE"), the last resort suppliers are obliged to ensure the supply of electricity to the final customers who have not exercised their eligibility

right (the right to choose the electricity supplier) and to end-customers who are in the situation of not being able to secure electricity from any other source, including customers who have used eligibility.

The supply of electricity to customers in the competitive market is based on negotiated contracts (within the limits of the regulations in force). Electricity consumption is invoiced, according to the contractual terms, at prices negotiated with the final customer.

The provision of electricity in regimes of universal service and in the last resort is performed on the basis of contracts regulated by ANRE Orders. Electricity consumption is billed periodically at CMC (competitive market component) tariffs and LR (last resort) tariffs approved by ANRE.

## 3.2. Key information by segments

### DISTRIBUTION SEGMENT

#### Essential information

- The Regulated Assets Base (RAB estimated) at the end of Q1 2018 was RON 4,757 million
- 197,020 km of electric lines – 7,590 km for High Voltage ("HV"), 45,468 km for Medium Voltage ("MV") and 143,961 km for Low Voltage ("LV")
- Total area covered: 97,196 km<sup>2</sup>, 40.7% of Romania's territory
- 3.72 million users at the end of Q1 2018 for the distribution activity
- 4.52 TWh of electricity distributed in Q1 2018, a decrease of 2.5% as compared to Q1 2017

Figure 2: Romanian electricity distribution map

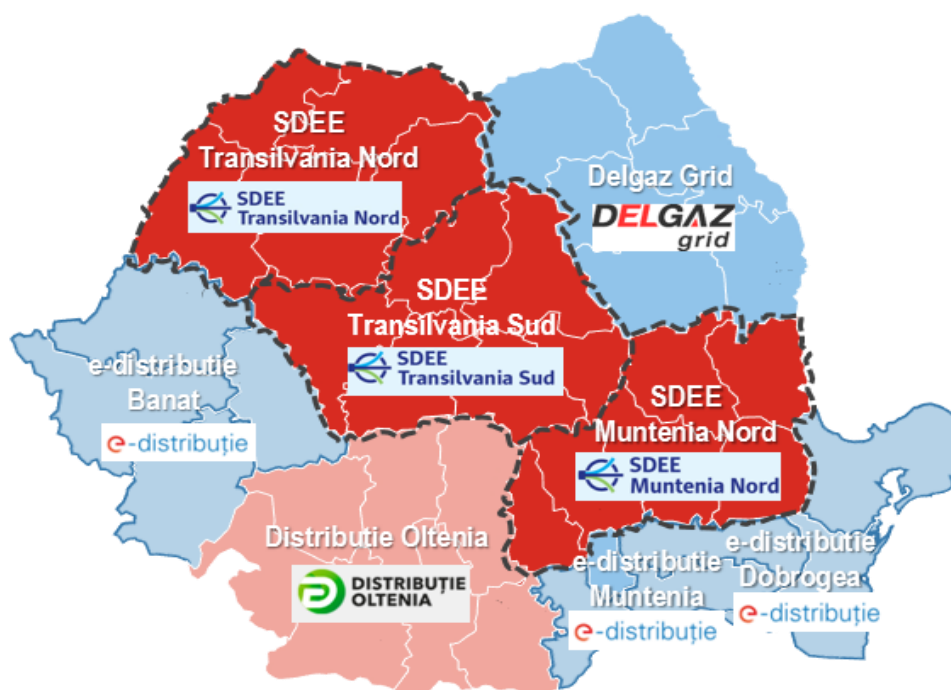
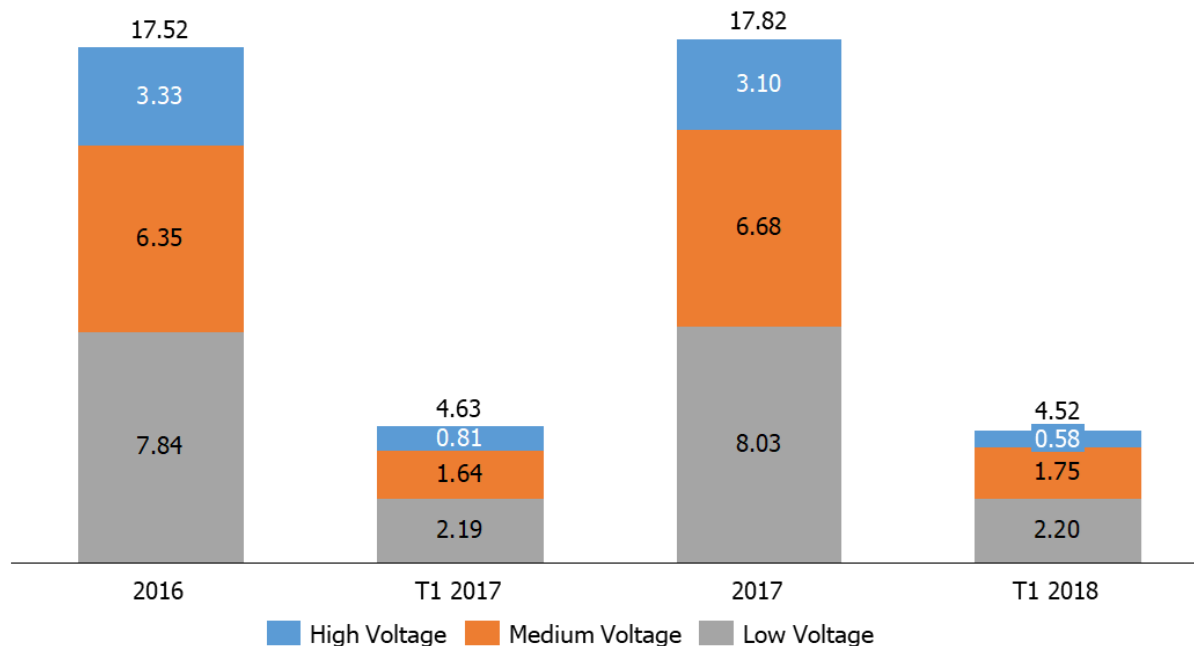


Figure 3: Quantity of electricity distributed on voltage levels (Twh)



## SUPPLY SEGMENT

### Essential market data (according to ANRE Report for December 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 107 suppliers (including those of last resort active in the retail market competitive segment, of which 98 are relatively small - less than 4% market share)
- Electrica Furnizare has a market share of 19.06%. Electrica Furnizare is market leader on the regulated market, with a market share of 40.79%, for the competitive market having a market share of 11.58% (last ANRE report, from December 2017). By comparison, in 2016, Electrica Furnizare had a market share of 38.77% on regulated market and a 15.98% market share on competitive market (ANRE report for December 2016)

## 4. Shareholders' Structure

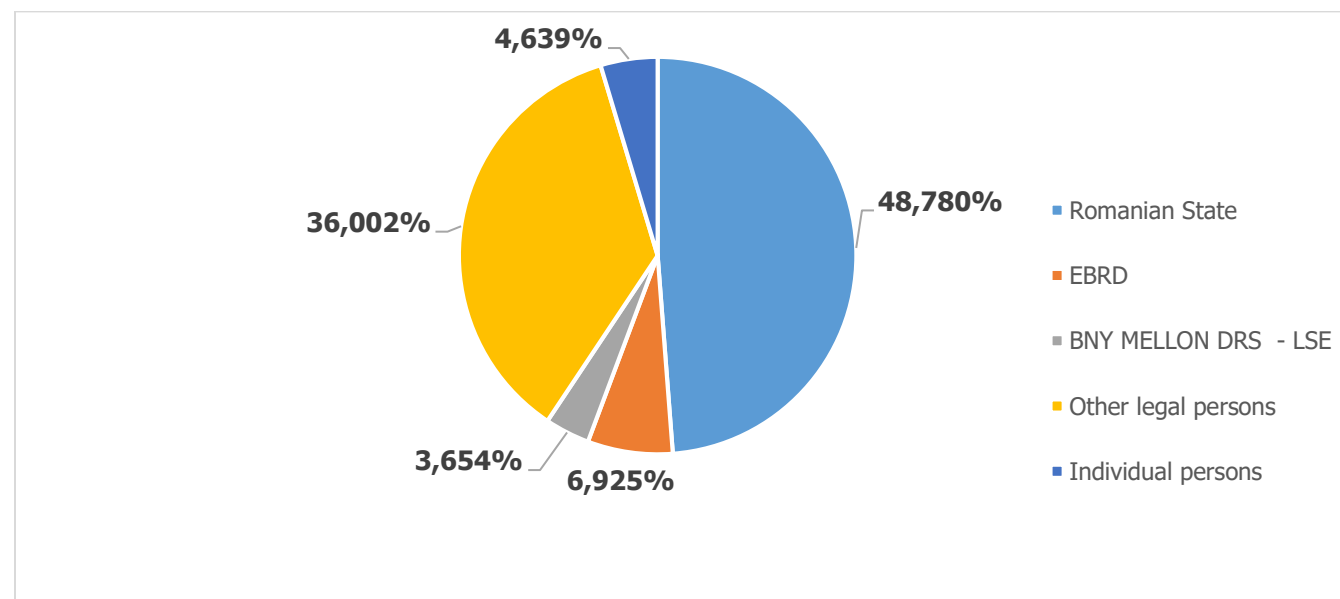
Until July 2014, the Romanian State, acting through the Ministry of Energy was the sole shareholder of Electrica S.A. Starting with 4 July 2014 the Company's shares are listed on Bucharest Stock Exchange, and the GDRs are listed on London Stock Exchange. The latest available information regarding the shareholder structure is from 28 March 2018 and is presented in the table below:

Shareholder	Shares	Percentage of share capital (%)
Ministry of Energy	168,751,185	48.7805
European Bank for Reconstruction And Development, London, UK	23,955,272	6.925
BNY MELLON DRS, New York, USA	12,640,340	3.654
Other legal persons	124,545,618	36.002
Individual persons	16,047,514	4.639
<b>TOTAL</b>	<b>345,939,929</b>	<b>100</b>

Source: Electrica S.A.

Following the stabilization process after the IPO, Electrica SA owns 6,890,593 of its own shares, representing 1.9918% of the total share capital. These shares do not entitle Electrica to voting rights, nor dividends.

Figure 4: Shareholders' Structure as of 28 March 2018



## 5. Operational Results

Selected financial information from the condensed consolidated statement of profit or loss – in RON th.

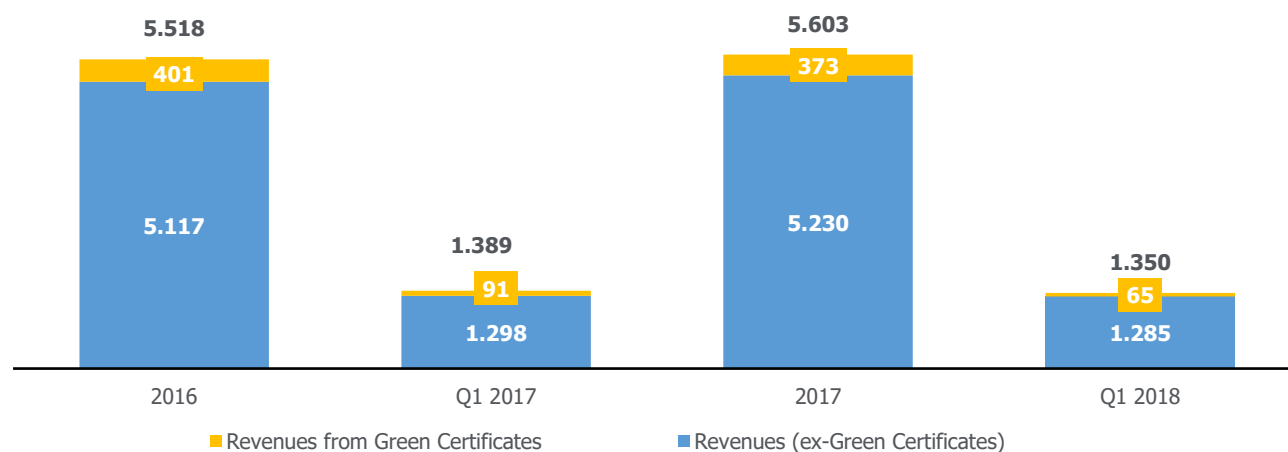
Indicator	31 March 2018 (unaudited)	31 March 2017 (unaudited)	Variation (%)
Revenues	1,349,760	1,388,932	-2.8%
Other income	39,667	54,798	-27.6%
Electricity purchased	(742,468)	(952,269)	-22%
Green certificates	(65,255)	(90,586)	-28%
Construction costs related to concession agreements	(120,846)	(90,369)	33.7%
Employee benefits	(142,324)	(149,340)	-4.7%
Repairs, maintenance and materials	(17,743)	(13,953)	27.2%
Depreciation and amortization	(110,282)	(97,394)	13.2%
Reversal of impairment of property, plant and equipment, net	175	746	-76.5%
Impairment of trade and other receivables, net	(1,543)	(286)	439.5%
Change in provisions, net	3,626	572	533.9%
Other operating expenses	(112,077)	(97,753)	14.7%
<b>Operating profit/ (loss)</b>	<b>80,690</b>	<b>(46,902)</b>	<b>-</b>
Finance income	2,287	7,993	-71,4%
Finance costs	(880)	(2,119)	-58,5%
<b>Net finance income</b>	<b>1,407</b>	<b>5,874</b>	<b>-76,0%</b>
<b>Profit/(Loss) before tax</b>	<b>82,097</b>	<b>(41,028)</b>	<b>-</b>
Income tax expense	(22,841)	(10,189)	<b>124,2%</b>
<b>Profit/ (Loss) for the period</b>	<b>59,256</b>	<b>(51,217)</b>	<b>-</b>
<b>Profit/ (Loss) for the period attributable to:</b>			
- owners of the Company	59,256	(41,328)	-
- non-controlling interests	-	(9,889)	-
<b>Profit/ (Loss) for the period</b>	<b>59,256</b>	<b>(51,217)</b>	<b>-</b>

**Key financial indicators for Q1 2018:**

- **Revenues:** RON 1.35 billion, a 2.8% y-o-y decrease;
- **EBITDA:** RON 191 million, a RON 141 million rise compared to same period last year;
- **EBIT:** RON 81 million, a RON 128 million increase compared to first 3 months 2017;
- **EBT:** RON 82 million, a RON 123 million rise compared to same period last year;
- **Net Profit:** RON 59 million.

**Revenue**

Figure 5: Revenue for Q1 2018 and comparative information (RON mil.)



As of January 1<sup>st</sup>, 2018, the Group applied the treatment of IFRS 15 'Revenue from contracts with customers', and the consequence is that the revenue and expenses from Balancing Responsible Party activity ("BRP") have been eliminated, without affecting the margin. If the standard wouldn't have been adopted, the Revenue and respectively Electricity purchased lines from the consolidated condensed statement of profit or loss for the three months period ended at March 31, 2018 would have been higher by RON 31 million, without any impact on the margin.

The first quarter of 2017 has been significantly affected by the balancing market, when there have been higher imbalances due to the energy crisis. The consolidated revenues presented for Q1 2017 include Balancing Responsible Party activity revenues of approx. RON 167 million, since the Group decided to apply IFRS 15 using the modified retrospective method, without restating the figures of the comparative period.

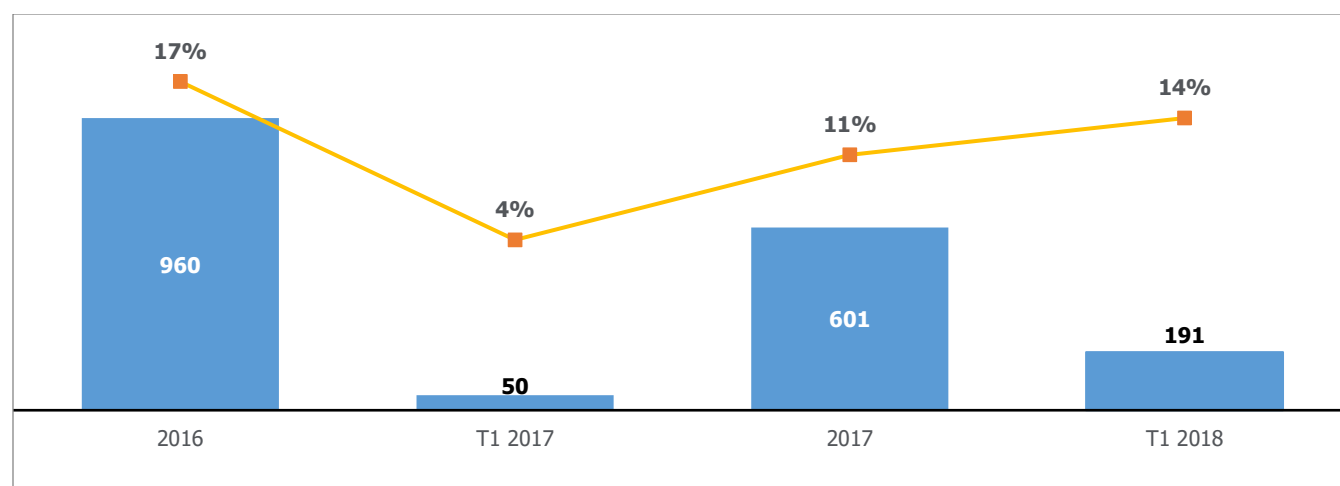
The revenues fell by RON 39 million, or 2,8%, being the cumulative effect of the following main factors:

- external revenue (outside the Group); the electricity sales towards third parties have increased by RON 88 million, having a favorable impact on the consolidated revenue;
- RON 34 million increase in the distribution segment;
- decrease by RON 165 million of the supply segment, out of which RON 31 million are attributable to the change in the financial reporting standards.

The variation of the supply segment is generated by two elements: the electricity supply, which had a positive impact on the segment revenue, mainly due to the increase in the sale prices by 13.2%, which covers the impact of the quantity decrease by 6.9%, while the Balancing Responsible Party activity revenues variation has a negative influence as the 2018 revenues reached normal levels compared to the 2017 high above average values.

## EBITDA and EBITDA margin

Figure 6: EBITDA and EBITDA margin for Q1 2018 and comparative information (RON million and %)



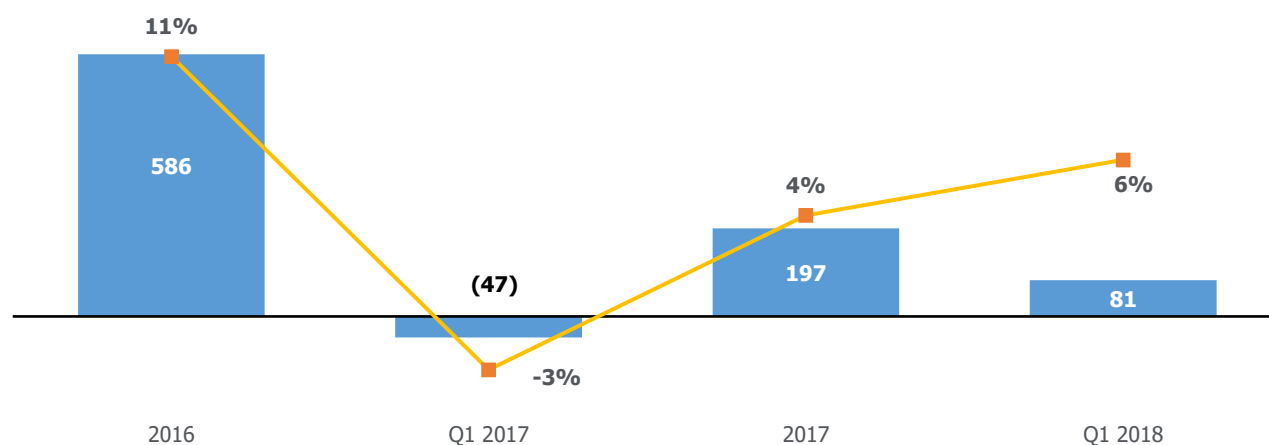
EBITDA increased by RON 141 million y-o-y, mainly as a net effect of:

- decrease of the other revenue, of approx. RON 15 million mainly because in Q1 2017 were recognized revenue from litigations won with customers, having as subject old receivables due, and also from compensations for termination of contracts (on supply segment);
- decrease of the cost of electricity with RON 209 million, or 22%, due to the fact that the first quarter of 2017 was affected by the unfavorable events from the energy market, which generated significantly higher electricity prices; in Q1 2018, the electricity prices had a normalized level and didn't record any significant fluctuations;
- the increase of the operational expenses with RON 14 million, or 14.7% and increase in the maintenance and repair expenses with RON 4 million, or 27%, considering the Group's reorganization of maintenance, investments and design activities to support the ambitious investments plans; at the same time, the expenses with salaries and employee benefits, have decreased by RON 7 million, or 5%, following the activity optimization measures taken by the Group.



**EBIT and EBIT margin**

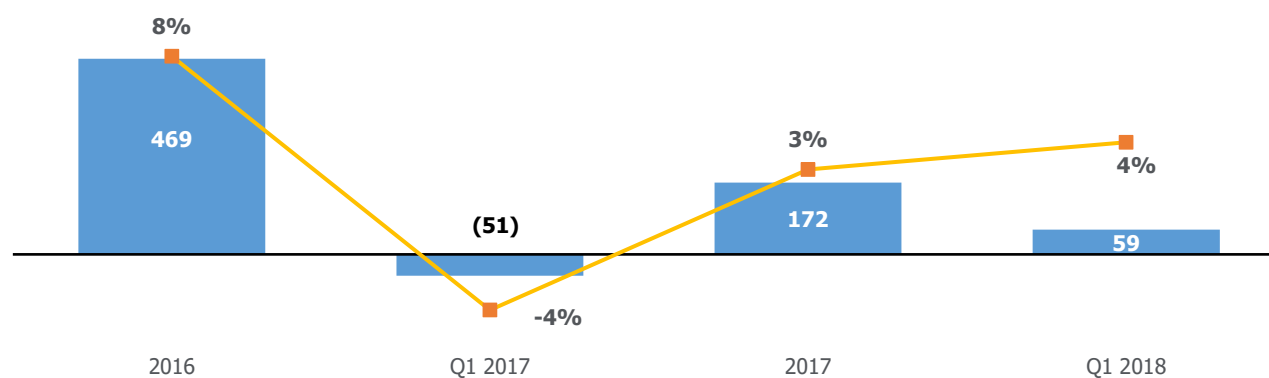
Figure 7: EBIT and EBIT margin for Q1 2018 and comparative information (RON million and %)



The Group EBIT increased by RON 127 million y-o-y, being added to the EBITDA evolution only the impact of the depreciation and amortization, an increase by RON 12.8 million or 13.2%, mainly due to the increase of investments' commissioning, but also as a result of revaluations performed as of December 31, 2017.

**Net Profit and Net Profit Margin**

Figure 8: Net profit and Net profit margin for Q1 2018 and comparative information (RON million and %)



Net profit increased by RON 110 million, led by the overall improved performance, despite the decrease of the net finance income of RON 4 million or by 76%, and the increase of the income tax expense of RON 12.6 million.

## 6. 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 distribution operators - according to the ANRE Order no. 146/2014, starting with 2015 the distribution operators' Regulated Rate of Return (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 Regulated Rate of Return) 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, relevant for the supply segment, refer to:

- Market liberalization has created favorable conditions for the transfer of a larger number of household customers into eligibility. There will be larger migrations of households between vendors, which may affect the customer base in their own portfolio in the coming years;
- The approval of the ANRE Order no. 26/2018 for the approval of the Regulation for Competitive Selection for the designation of the last suppliers and for the change of some regulations in the electricity sector, establishes the mechanism of competitive designation based on the capability and availability of two categories of Last Resort Suppliers, required Last Resort Suppliers and optional Last Resort Suppliers. No significant increase is estimated in the number of suppliers providing electricity to customers receiving the universal service. By ANRE Decision no. 657/2018, Electrica Furnizare was designated the bound supplier of last resort for the period 1 July 2018-30 June 2022 for the Muntenia North, Transilvania North and Transilvania South distribution areas;
- Approval of the ANRE Order no. 27/2018 for approval of the Regulation for the organization and conduct of auctions on the centralized market for universal service has established that Centralized Market for Universal Service („CMUS”) becomes a voluntary market for producers, suppliers of LRS and traders of electricity;
- Approval of the ANRE Order no. 39/2018 for the approval of the Methodology for setting the calculation method and the price endorsement conditions applied by the required last resort suppliers and optional last resort suppliers to final customers, sets a maximum price for the universal service consisting of three components: cost of acquisition, cost of supply (included in the regulated profit), cost of adjustment. The cost of acquisition is limited by the weighted average price of the purchased energy by Last Resort Supplier through all bilateral contracts concluded on the centralized markets (CM), with delivery during the application period and level of coverage of the energy forecast (to Q3 2018, H2 2018 and H1 2019 period). The cost of supply limits the specific costs of the supply activity to a fixed value. The cost of adjustment is related to the previous corrections.

Considering the EU energy policies, the following medium and long term trends are expected to characterize the Romanian electricity market:

- Through the completion of the liberalization calendar, the competition on the electricity supply market segment will increase at national level;
- The beneficiaries of the universal service in accordance with the legal provisions, will 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 efficiency;

- 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 technological development 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 European Union's internal electricity market, will continue to evolve and be in line with future trends and challenges in the energy industry;
- Distributed energy 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 will offer to the consumers complex tariffs 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 participants. 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	<p>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.</p> <p>Electrification of consumption is a major trend in Romania, as, over 2010-2017, there was a significant increase in consumption, as opposed to a decrease of the gas consumption over the same period, mainly due to the curtailment of heavy industry production.</p>	Electricity consumption
Demographic evolution and technology development	<p>The decrease in energy consumption driven by the demographic decline noted at EU and Romanian level (approx. 0.5% yoy) is offset by changes in consumer behaviour (e.g. smart devices are expected to drive a massive increase in connected devices and revenue growth across multiple industries) and increased urbanization.</p>	Electricity consumption

Key driver	Description	Impact on
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 the first draft published by ANRE seems to bring significant changes in the methodology on all tariff elements (Regulated Rate of Return, Regulated Assets Base, Network losses, Operating Expenses, etc).	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 accommodate 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 decentralized electricity production capacities. The significant cost reduction of photovoltaics technologies is a development opportunity for small scale generation projects, mainly in the household area. However, important infrastructure investments and update of the regulatory framework are necessary before prosumers become significant.

Electrica is now in the process of reviewing its strategy for the 2019-2023 horizon, but this process can only be completed as soon as the final methodology for the 4<sup>th</sup> Regulatory Period is published by ANRE. The most important assumptions considered for the strategy review are as follows:

- The Romanian energy mix landscape is changing significantly, being heavily disrupted by the advent of renewables;
- Romanian GDP will have a positive trend in the future; however, divergent trends in the electricity consumption would lead to a stable long-term outlook (increasing trend of the electricity consumption on medium term, but stagnating/ decreasing on longer term);
- 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 and are key drivers for strategic planning;

- In supply, the market liberalization has changed the landscape significantly, requiring repositioning of all market players; in addition, impending challenges to Supplier of Last Resort business model are expected and should be considered;
- 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.

In the distribution area the following ANRE **proposals** for the 4<sup>th</sup> regulatory period are relevant:

- Regulated Rate of Return (RRR) – to be reduced to 5.07 %; lower Regulated Rate of Return with 3% for endowments and regular replacements; additional Regulated Assets Base corrections (rented fixed assets and initial Regulated Assets Base decreased by net book value of fixed assets impaired by distribution operators during 2005-2018)
- Investments – to be annually corrected; ex-post recognition of the depreciation for the prior year;
- Strict limitations regarding types of expenses recognized; at least 70% of controllable OPEX to be repairs and maintenance; limitation regarding minimum required number of employees; benchmark between DSOs; new prudence criteria for recognition. Controllable costs: 25% efficiency profit sharing, not exceeding efficiency factor; explicit possibility of Service Line Agreement expenses recognition.
- Network losses – Price (unique modality of price setting for all distribution operators); Network Losses target 2019/ voltage level < minimum Network Losses realized over 2005-2018; Network Losses target 2020-2023/ voltage level < 2019 Network Losses/ voltage level;
- **Faster returning to customers of efficiency gains**
  - annual corections of Controllable Opex ;
  - annual investments corrections;
  - annual corrections of additional revenues from overdue receivables, rent of poles, assets sold and penalties
- Working capital financing component - elimination from total turnover (tariffs).

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.

The Group intends to analyze the strategic options and implement efficiency measures programs to offset the potential negative effects described above, including voluntary departure or redundancy programs, redesigning business models, introducing a system of intra-group service contracts, or entering new business segments.

## 7. Concluded Contracts reported according to art. 82 of Law 24/2017

In the first part of 2018 (up to date) were issued four current reports with regard to the contracts concluded according to art. 82 of Law 24/2017 (previously art. 225 of Law 297/2004, annuled).

- Current report from January 3<sup>rd</sup>, 2018:
  - Subsequent contract no. 344/29.12.2017 with Filiala de Intretinere si Servicii Energetice "Electrica Serv": Transportation services for Electrica for the period 1 January 2018 – 30 June 2018
- Current report from March 29<sup>th</sup>, 2018:
  - Business transfer contract no. 42/28.03.2018 with Electrica Furnizare: Business and assets transfer of Balancing Responsible Party activity
- Current report from April 5<sup>th</sup>, 2018:
  - Loan contract no. 74/05.04.2018 with Societatea de Distributie a Energiei Electrice „Muntenia Nord”: Granting a loan of max. RON 230 million
  - Loan contract no. 75/05.04.2018 with Societatea de Distributie a Energiei Electrice "Transilvania Nord": Granting a loan of max. RON 160 million
  - Loan contract no. 73/05.04.2018 with Societatea de Distributie a Energiei Electrice „Transilvania Sud”: Granting a loan of max. RON 130 million
- Current report from April 27<sup>th</sup>, 2018:
  - Services contract no. 153/27.04.2018 with Societatea de Distributie a Energiei Electrice „Muntenia Nord”: Rendering of services using AMR system;
  - Services contract no. 155/27.04.2018 with Societatea de Distributie a Energiei Electrice „Transilvania Nord”: Rendering of services using AMR system
  - Services contract no. 154/27.04.2018 with Societatea de Distributie a Energiei Electrice „Transilvania Sud”: Rendering of services using AMR system.

## 8. Capital Expenditures

A core part of Electrica business strategy includes implementing the investment plan. Electrica's operations require significant capital expenditures mostly connected with its operations in the electricity distribution segment. Furthermore, Electrica's assets require periodic maintenance and modernization in order to improve operational efficiency.

Electrica's capital expenditures in the three month period ending 31 March 2018 and 31 March 2017 amounted to RON 125 million and RON 91 million, respectively.

The investments in the distribution network increased by RON 30 million, or 34%, to RON 121 million in the three month period ending 31 March 2018 from RON 90 million in the three month period ending 31 March 2017.

This increase is mainly attributable to the realised investments related to the Regulated Asset Base. The volume of investments had a material impact, and, according to Electrica's expectations, will continue to have an impact on the results of Electrica's operations, Electrica's indebtedness, and future cash flows.

Capital expenditures in the distribution network will only have the anticipated positive impact on Electrica's result of operations to the extent they are recognised in the Regulated Asset Base by ANRE and considering the rate of return approved by the regulatory authority.

## 9. Economic and financial indicators for Electrica Group as of 31 March 2018 according to Annex 30B to CNVM Regulation no. 1/2006

Indicator	Formula	Value
Current liquidity ratio	Current assets/ Current liabilities	<b>2.19</b>
Capital Gearing Ratio	Debt/ Equity * 100	<b>8%</b>
Trade receivables turnover	Average balance trade receivables/ Turnover * 90	<b>50 days</b>
Non-current asset turnover ratio	Turnover/ Non-current assets	<b>0.26</b>

## 10. Statements

We confirm to the best of our knowledge that the unaudited interim condensed consolidated financial statements for the three month period ended March 31, 2018 give a true and fair view of Electrica Group's assets, liabilities, financial position and profit or loss, as required by the applicable accounting standards, and that the Report for the first quarter gives a true and fair view of important events that have occurred during the first three months of the financial year 2018 and their impact on the interim condensed consolidated financial statements, and a description of the principal risks and uncertainties.

**Chair of the Board of Directors,**

**Doina Elena Dascalu**

**CEO,**

**Catalin Stancu**

**CFO,**

**Mihai Darie**

