



SOCIETATEA ENERGETICA ELECTRICA S.A.

Condensed Consolidated Interim Financial Statements

as at and for the nine month period ended

30 September 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 NINE MONTH
PERIOD ENDED 30 SEPTEMBER 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 30 SEPTEMBER 2018

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

	Note	30 September 2018 (unaudited and not reviewed)	31 December 2017 (audited)
ASSETS			
Non-current assets			
Intangible assets related to concession arrangements		4,543,821	4,330,909
Other intangible assets		10,100	14,053
Property, plant and equipment		664,893	701,510
Restricted cash	13	320,000	320,000
Deferred tax assets		23,701	41,100
Other non-current assets		1,849	1,305
Total non-current assets		5,564,364	5,408,877
Current assets			
Trade receivables	12	727,490	804,361
Other receivables		28,750	55,534
Cash and cash equivalents	13	620,476	562,493
Deposits, treasury bills and government bonds	14	405,743	746,981
Inventories		25,230	21,620
Prepayments		5,530	3,692
Green certificates		6,085	12,643
Income tax receivable		-	1,134
Total current assets		1,819,304	2,208,458
Total assets		7,383,668	7,617,335
EQUITY AND LIABILITIES			
Equity			
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		115,040	123,748
Legal reserves		326,779	326,779
Retained earnings		1,436,214	1,357,966
Total equity attributable to the owners of the Company		5,725,096	5,655,556
Total equity		5,725,096	5,655,556

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

AS AT 30 SEPTEMBER 2018

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

	Note	30 September 2018 (unaudited and not reviewed)	31 December 2017 (audited)
Liabilities			
Non-current liabilities			
Financing for network construction related to concession agreements		3,137	11,122
Deferred tax liabilities		211,893	200,504
Employee benefits		165,448	165,448
Other payables	15	41,768	40,440
Long-term bank borrowings	16	320,000	320,000
Total non-current liabilities		742,246	737,514
Current liabilities			
Financing for network construction related to concession agreements		17,093	32,709
Bank overdrafts	13	77,067	247,904
Trade payables		522,327	689,405
Other payables	15	172,276	134,226
Deferred revenue		5,685	7,364
Employee benefits		73,186	78,918
Provisions	17	29,941	29,889
Current income tax liability		18,751	3,850
Total current liabilities		916,326	1,224,265
Total liabilities		1,658,572	1,961,779
Total equity and liabilities		7,383,668	7,617,335

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

Chief Executive Officer

Georgeta Corina Popescu

Chief Financial Officer

Mihai Darie

November 14th 2018

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
 (All amounts are in THOUSAND RON, except per share data)

	Note	Nine month period ended	
		30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Revenue	6	4,009,957	4,034,965
Other income	7	116,332	134,716
Electricity purchased	8	(1,855,561)	(2,201,782)
Green certificates		(257,723)	(277,087)
Construction costs related to concession agreements		(492,517)	(450,197)
Employee benefits		(469,365)	(472,497)
Repairs, maintenance and materials		(64,353)	(55,483)
Depreciation and amortization		(323,033)	(293,343)
Impairment of property, plant and equipment, net		1,422	758
Impairment of trade and other receivables, net		(2,805)	(11,005)
Change in provisions, net		(52)	(2,354)
Other operating expenses		(278,347)	(291,057)
Operating profit		383,955	115,634
Finance income		10,126	14,232
Finance costs		(4,094)	(3,402)
Net finance income		6,032	10,830
Profit before tax		389,987	126,464
Income tax expense	11	(75,077)	(31,145)
Profit for the period		314,910	95,319
Profit for the period attributable to:			
- owners of the Company		314,910	64,066
- non-controlling interests		-	31,253
Profit for the period		314,910	95,319
Earnings per share			
Basic and diluted earnings per share (RON)	9	0.93	0.19

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

Chief Executive Officer
Georgeta Corina Popescu

Chief Financial Officer
Mihai Darie

November 14th 2018

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
 (All amounts are in THOUSAND RON, except per share data)

	Note	Three month period ended	
		30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Revenue	6	1,356,408	1,359,575
Other income	7	41,453	44,593
Electricity purchased	8	(586,833)	(670,319)
Green certificates		(103,053)	(94,176)
Construction costs related to concession agreements		(203,008)	(191,057)
Employee benefits		(171,992)	(155,269)
Repairs, maintenance and materials		(22,027)	(25,680)
Depreciation and amortization		(106,997)	(96,457)
Impairment of property, plant and equipment, net		1,235	12
Impairment of trade and other receivables, net		(334)	6,055
Change in provisions, net		(131)	2,751
Other operating expenses		(82,148)	(82,090)
Operating profit		122,573	97,938
Finance income		4,216	2,730
Finance costs		(683)	(788)
Net finance income		3,533	1,942
Profit before tax		126,106	99,880
Income tax expense	11	(20,820)	(12,728)
Profit for the period		105,286	87,152
Profit for the period attributable to:			
- owners of the Company		105,286	70,565
- non-controlling interests		-	16,587
Profit for the period		105,286	87,152
Earnings per share			
Basic and diluted earnings per share (RON)	9	0.31	0.21

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

Chief Executive Officer
Georgeta Corina Popescu

Chief Financial Officer
Mihai Darie

November 14th 2018

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
 (All amounts are in THOUSAND RON, if not otherwise stated)

	Nine month period ended	
	30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Profit for the period	314,910	95,319
Other comprehensive income	-	-
Total comprehensive income	314,910	95,319
Total comprehensive income attributable to:		
- owners of the Company	314,910	64,066
- non-controlling interests	-	31,253
Total comprehensive income	314,910	95,319

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

Chief Executive Officer
 Georgeta Corina Popescu

Chief Financial Officer
 Mihai Darie

November 14th 2018

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
(All amounts are in THOUSAND RON, if not otherwise stated)

	Three month period ended	
	30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Profit for the period	105,286	87,152
Other comprehensive income	-	-
Total comprehensive income	105,286	87,152
Total comprehensive income attributable to:		
- owners of the Company	105,286	70,565
- non-controlling interests	-	16,587
Total comprehensive income	105,286	87,152

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

Chief Executive Officer
 Georgeta Corina Popescu

Chief Financial Officer
 Mihai Darie

November 14th 2018

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
 (All amounts are in THOUSAND RON, if not otherwise stated)

Note	Attributable to the owners of the Company							Total equity
	Share capital	Share premium	Treasury shares reserve	Pre-paid capital contributions in kind from shareholders	Revaluation reserve	Legal reserves	Retained earnings	
Balance at 1 January 2018 (audited)	3,814,242	103,049	(75,372)	5,144	123,748	326,779	1,357,966	5,655,556
Comprehensive income								
Profit for the period (unaudited and not reviewed)	-	-	-	-	-	-	314,910	314,910
Total comprehensive income (unaudited and not reviewed)	-	-	-	-	-	-	314,910	314,910
Transactions with owners of the Company (unaudited and not reviewed)								
Contributions and distributions								
Dividends to the owners of the Company	-	-	-	-	-	-	(245,370)	(245,370)
Total transactions with the owners of the Company (unaudited and not reviewed)	-	-	-	-	-	-	(245,370)	(245,370)
Other changes in equity (unaudited and not reviewed)								
Transfer of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment	-	-	-	-	(8,708)	-	8,708	-
Balance at 30 September 2018 (unaudited and not reviewed)	3,814,242	103,049	(75,372)	5,144	115,040	326,779	1,436,214	5,725,096

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SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 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				
Balance at 1 January 2017 (audited)	3,814,242	103,049	(75,372)	5,144	104,681	302,236	1,429,908	5,683,888	836,599	6,520,487	
Comprehensive income											
Profit for the period (unaudited and not reviewed)	-	-	-	-	-	-	64,066	64,066	31,253	95,319	
Total comprehensive income (unaudited and not reviewed)	-	-	-	-	-	-	64,066	64,066	31,253	95,319	
Transactions with owners of the Company (unaudited and not reviewed)											
Contributions and distributions											
Dividends to the owners of the Company	10	-	-	-	-	-	(251,405)	(251,405)	-	(251,405)	
Total transactions with the owners of the Company (unaudited and not reviewed)		-	-	-	-	-	(251,405)	(251,405)	-	(251,405)	
Other changes in equity (unaudited and not reviewed)											
Dividends to non-controlling interests	10	-	-	-	-	-	-	-	(97,869)	(97,869)	
Transfer of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment		-	-	-	-	(6,322)	6,322	-	-	-	
Balance at 30 September 2017 (unaudited and not reviewed)		3,814,242	103,049	(75,372)	5,144	98,359	302,236	1,248,891	5,496,549	769,983	6,266,532

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

Chief Executive Officer
 Georgeta Corina Popescu

Chief Financial Officer
 Mihai Darie

November 14th 2018

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
 (All amounts are in THOUSAND RON, if not otherwise stated)

		Nine month period ended	
Note		30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Cash flows from operating activities			
	Profit for the period	314,910	95,319
Adjustments for:			
	Depreciation	30,510	34,937
	Amortisation	292,523	258,406
	Reversal of impairment of property, plant and equipment, net	(1,422)	(758)
	(Gain)/Loss on disposal of property, plant and equipment	(241)	1,646
	Impairment of trade and other receivables, net	2,805	11,005
17	Change in provisions, net	52	2,354
	Net finance income	(6,032)	(10,830)
11	Income tax expense	75,077	31,145
		708,182	423,224
Changes in:			
	Trade receivables	39,924	37,959
	Other receivables	44,773	4,248
	Deposits, treasury bills and government bonds	9,489	7,755
	Prepayments	(1,838)	(5,773)
	Green certificates	6,558	(9,071)
	Restricted cash	-	(168,072)
	Inventories	(3,610)	(9,232)
	Trade payables	(55,355)	(287,274)
	Other payables	16,904	(27,352)
	Employee benefits	(5,732)	(24,666)
	Deferred revenue	(1,679)	3,947
	Cash generated from/(used in) operating activities	757,616	(54,307)
	Interest paid	(2,188)	(1,076)
	Income tax paid	(30,270)	(24,666)
	Net cash from/(used in) operating activities	725,158	(80,050)

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SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
 (All amounts are in THOUSAND RON, if not otherwise stated)

		Nine month period ended	
Note		30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Cash flows (used in)/from investing activities			
	Payments for purchases of property, plant and equipment	(1,951)	(18,042)
	Payments for network construction related to concession agreements	(577,998)	(403,046)
	Payments for purchases of intangible assets	(1,732)	-
	Proceeds from sale of property, plant and equipment	13,150	758
14	Purchase of treasury bills and government bonds	(95,339)	(543,114)
14	Proceeds from maturity of treasury bills and government bonds	466,722	1,463,073
	Increase in deposits with maturity of 3 months or longer	(563,000)	(615,625)
	Proceeds from deposits with maturity of 3 months or longer	525,000	126,870
	Interest received	8,492	13,982
	Net cash (used in)/from investing activities	(226,656)	24,856
Cash flows used in financing activities			
	Proceeds from long term bank loans	-	174,821
	Proceeds from short term bank loans	-	62,265
	Repayment of short term bank borrowings	-	(36,000)
	Repayment of financing for network construction related to concession agreements	(24,964)	(65,868)
	Dividends paid	(244,718)	(251,042)
	Net cash used in financing activities	(269,682)	(115,824)
	Net increase/(decrease) in cash and cash equivalents	228,820	(171,018)
	Cash and cash equivalents at 1 January	314,589	746,215
13	Cash and cash equivalents at 30 September	543,409	575,197

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

The non-cash transactions are disclosed in Note 13.

Chief Executive Officer
 Georgeta Corina Popescu

Chief Financial Officer
 Mihai Darie

November 14th 2018

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 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 nine month period ended 30 September 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 30 September 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%).

The Company's subsidiaries are the following:

Subsidiary	Activity	Sole registration code	Head Office	% shareholding as at 30 September 2018	% shareholding as at 31 Dec 2017
Societatea de Distribuție a Energiei Electrice Muntenia Nord S.A.	Electricity distribution in the geographical area of Muntenia Nord	14506181	Ploiesti	99,9999696922382%	99,9999696922382%
Societatea de Distribuție a Energiei Electrice Transilvania Nord S.A.	Electricity distribution in the geographical area of Transilvania Nord	14476722	Cluj-Napoca	99,9999829770757%	99,9999829770757%
Societatea de Distribuție a Energiei Electrice Transilvania Sud S.A.	Electricity distribution in the 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. (in insolvency)	Services in the energy sector (maintenance, repairs, construction)	29384120	Bucuresti	100%	100%
Servicii Energetice Oltenia S.A. (in insolvency)	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 electrical substations and power lines of 0.4 kV to 110 kV.

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 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):

	Order 115,114,116/12.12.2017			Order 113,114,112/14.12.2016		
	1 January-31 December 2018			1 January-31 December 2017		
	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

In September 2018, ANRE issued the following two orders containing changes to the electricity distribution tariff regulations, namely:

- ANRE's Order no. 168/17.09.2018 that approves the regulated rate of return (RRR) of 5.66% starting with January 1st, 2019;
- ANRE's Order no. 169/18.09.2018 that approves the new Tariffs Methodology for the Electricity Distribution Service. Regarding the value of the regulated rate of return, the methodology stipulates an incentive of 1% (RRR = 6.66%) for the investments in the network put in function starting with January 1st, 2019.

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 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 November 14th 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 professional 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 professional 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 annual consolidated financial statements as at and for the year ended 31 December 2017.

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
(All amounts are in THOUSAND RON, if not otherwise stated)

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 alternative basis.

4 Significant accounting policies

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

Starting with January 1st 2018, the Group has applied for the first time two new standards, IFRS 9 „*Financial instruments*” and IFRS 15 „*Revenues from contracts with customers*”.

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 standards IAS 18 „*Revenue*”, IAS 11 „*Construction Contracts*” and IFRIC 13 „*Customer Loyalty Programmes*”. Under the new standard, revenue is recognized 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 to receive in exchange of those goods or services.

Being permitted by the standard, the Group adopted IFRS 15 starting with January 1st 2018 using the modified retrospective method, with cumulated adjustments from the initial application recognised in equity as of January 1st 2018 and without restating the figures of the comparative periods. 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/supplier/distributor would form itself as a Balancing Responsible Party.

Electrica S.A., and subsequently starting with April 1st 2018 Electrica Furnizare S.A. acts as BRP for a large number of participants, electricity producers 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 *Revenue* and *Electricity purchased* captions of the consolidated condensed statement of profit or loss for the nine month period ended 30 September 2018 would have been higher with RON 74,955 thousand, having no impact on the margin.

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
(All amounts are in THOUSAND RON, if not otherwise stated)

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 1st 2018 using the modified retrospective method, with cumulated adjustments from the initial application recognised in equity as of January 1st 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.

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

IFRS 16 „Leases“

Starting with January 1st 2019, the Group will adopt the new standard IFRS 16 „Leases“, using the modified retrospective method. IFRS 16 is effective for annual periods beginning on or after January, 1st 2019. IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The Group is currently performing a detailed assessment of the impact resulting from the application of IFRS 16.

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5 Operating segments

(a) Information about reportable segments

Nine month period ended 30 September 2018 (unaudited and not reviewed)	Electricity supply	Electricity distribution	External electricity network maintenance	Headquarter	Total for reportable segments	Consolidation eliminations and adjustments	Consolidated total
External revenues	2,911,934	1,062,856	35,167	-	4,009,957	-	4,009,957
Inter-segment revenue	20,448	843,367	824	-	864,639	(864,639)	-
Segment revenue	2,932,382	1,906,223	35,991	-	4,874,596	(864,639)	4,009,957
Segment profit/(loss) before tax	195,142	215,630	(4,645)	303,408	709,535	(319,548)	389,987
Net finance income/(cost)	3,691	(6,213)	24	310,022	307,524	(301,492)	6,032
Depreciation, amortization and impairment, net	(10,662)	(307,624)	(1,114)	(3,917)	(323,317)	1,706	(321,611)
EBITDA*	202,113	529,467	(3,555)	(2,697)	725,328	(19,762)	705,566
Segment net profit/(loss)	163,263	172,432	(4,645)	303,408	634,458	(319,548)	314,910
Employee benefits	(58,646)	(368,986)	(20,123)	(21,610)	(469,365)	-	(469,365)
Capital expenditure	981	502,366	10	191	503,548	-	503,548
Nine month period ended 30 September 2017 (unaudited and not reviewed)							
External revenues	3,046,246	958,178	30,541	-	4,034,965	-	4,034,965
Inter-segment revenue	185,019	933,527	52	-	1,118,598	(1,118,598)	-
Segment revenue	3,231,265	1,891,705	30,593	-	5,153,563	(1,118,598)	4,034,965
Segment profit/(loss) before tax	(64,338)	205,200	4,309	296,301	441,472	(315,008)	126,464
Net finance income/(cost)	1,431	(2,579)	67	359,252	358,171	(347,341)	10,830
Depreciation, amortization and impairment, net	(9,529)	(283,046)	(76)	(692)	(293,343)	-	(293,343)
EBITDA*	(56,240)	494,810	16,183	(62,259)	392,494	15,725	408,219
Segment net profit/(loss)	(54,854)	164,571	16,171	296,301	422,189	(326,870)	95,319
Employee benefits	(60,675)	(379,016)	(17,493)	(15,313)	(472,497)	-	(472,497)
Capital expenditure	3	459,139	2,064	434	461,640	-	461,640

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At 30 September 2018 (unaudited and not reviewed)	Electricity supply	Electricity distribution	External electricity network maintenance	Headquarter	Total for reportable segments	Consolidation eliminations and adjustments	Consolidated total
Segment assets	1,014,896	6,454,990	145,440	871,926	8,487,252	(1,103,584)	7,383,668
Trade and other receivables	557,771	444,282	21,778	48,477	1,072,308	(316,068)	756,240
Cash and cash equivalents	328,815	255,749	5,078	30,834	620,476	-	620,476
Restricted cash	-	-	-	320,000	320,000	-	320,000
Deposits, treasury bills and government bonds	-	25,000	-	380,743	405,743	-	405,743
Trade and other payables and short term employee benefits	643,593	448,044	48,798	5,595	1,146,030	(336,473)	809,557
Bank overdrafts	-	77,067	-	-	77,067	-	77,067
Financing for network construction related to concession agreements and bank loans	-	340,230	-	-	340,230	-	340,230
At 31 December 2017 (audited)							
Segment assets	1,067,230	5,769,629	144,458	1,222,115	8,203,432	(586,097)	7,617,335
Trade and other receivables	697,069	447,032	27,909	297	1,172,307	(312,412)	859,895
Cash and cash equivalents	219,306	208,391	8,802	125,994	562,493	-	562,493
Restricted cash	-	-	-	320,000	320,000	-	320,000
Deposits, treasury bills and government bonds	-	-	-	746,981	746,981	-	746,981
Trade and other payables, and short term employee benefits	710,796	482,322	58,397	12,449	1,263,964	(320,975)	942,989
Bank overdrafts	-	247,904	-	-	247,904	-	247,904
Financing for network construction related to concession agreements and bank loans	-	363,831	-	-	363,831	-	363,831

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

Nine month period ended 30 September 2018 (unaudited and not reviewed)	Distribution Muntenia Nord	Distribution Transilvania Nord	Distribution Transilvania Sud	Electricity network maintenance	Eliminations	Total Electricity distribution
External revenues	338,419	357,518	346,746	20,173	-	1,062,856
Inter-segment revenue	293,041	271,906	272,885	99,921	(94,386)	843,367
Segment revenue	631,460	629,424	619,631	120,094	(94,386)	1,906,223
Segment profit (loss) before tax	38,333	86,991	71,140	19,166	-	215,630
Net finance income/(cost)	(2,585)	(3,250)	(1,042)	664	-	(6,213)
Depreciation, amortization and impairment, net	(95,091)	(103,460)	(102,263)	(6,810)	-	(307,624)
EBITDA*	136,009	193,701	174,445	25,312	-	529,467
Net profit	28,324	68,543	58,710	16,855	-	172,432
Employee benefits	(119,318)	(108,355)	(116,013)	(25,300)	-	(368,986)
Capital expenditure	179,935	174,753	147,678	-	-	502,366
Nine month period ended 30 September 2017 (unaudited and not reviewed)						
External revenues	289,817	308,127	327,135	33,099	-	958,178
Inter-segment revenue	313,849	284,445	296,407	209,383	(170,557)	933,527
Segment revenue	603,666	592,572	623,542	242,482	(170,557)	1,891,705
Segment profit (loss) before tax	41,317	74,334	95,258	(5,710)	1	205,200
Net finance income/(cost)	(163)	(715)	(1,537)	(164)	-	(2,579)
Depreciation, amortization and impairment, net	(84,724)	(99,460)	(95,967)	(7,639)	4,744	(283,046)
EBITDA*	125,446	174,509	192,762	2,093	-	494,810
Net profit	34,353	60,904	75,231	(5,917)	-	164,571
Employee benefits	(96,465)	(93,093)	(89,553)	(107,541)	7,636	(379,016)
Capital expenditure	154,106	150,586	152,383	2,064	-	459,139

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At 30 September 2018 (unaudited and not reviewed)	Distribution Muntenia Nord	Distribution Transilvania Nord	Distribution Transilvania Sud	Electricity network maintenance	Eliminations	Total Electricity distribution
Segment assets	2,210,390	2,041,212	1,845,423	396,783	(38,818)	6,454,990
Trade and other receivables	128,625	131,096	127,415	95,964	(38,818)	444,282
Cash and cash equivalents	134,949	22,155	70,692	27,953	-	255,749
Deposits, treasury bills and government bonds	-	-	-	25,000	-	25,000
Trade and other payables and short term employee benefits	109,820	165,011	186,825	25,206	(38,818)	448,044
Bank overdrafts	-	57,491	19,576	-	-	77,067
Financing for network construction related to concession agreements and bank loans	86,650	116,986	136,594	-	-	340,230
At 31 December 2017 (audited)	1,908,339	1,772,965	1,691,300	469,321	(72,296)	5,769,629
Segment assets	1,908,339	1,772,965	1,691,300	469,321	(72,296)	5,769,629
Trade and other receivables	138,621	129,961	150,196	100,550	(72,296)	447,032
Cash and cash equivalents	96,140	23,972	59,367	28,912	-	208,391
Deposits, treasury bills and government bonds	-	-	-	-	-	-
Trade and other payables, and short term employee benefits	155,541	185,121	159,883	54,073	(72,296)	482,322
Bank overdrafts	21,185	128,511	98,208	-	-	247,904
Financing for network construction related to concession agreements and bank loans	99,139	121,127	143,565	-	-	363,831

**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

	30 September 2018 (unaudited and not reviewed)	31 December 2017 (audited)
Total assets		
Total assets for reportable segments	8,487,252	8,203,432
Elimination of inter-segment assets	(1,127,285)	(627,197)
Unallocated amounts	23,701	41,100
Consolidated total assets	7,383,668	7,617,335
Trade and other receivables		
Trade and other receivables for reportable segments	1,072,308	1,172,307
Elimination of inter-segment trade and other receivables	(316,068)	(312,412)
Consolidated trade and other receivables	756,240	859,895
Trade and other payables and short term employee benefits		
Trade and other payable and short term employee benefits for reportable segments	1,146,030	1,263,964
Elimination of inter-segment trade and other payables and short term employee benefits	(336,473)	(320,975)
Consolidated trade and other payables and short term employee benefits	809,557	942,989

6 Revenue

	Nine month period ended	
	30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Electricity distribution and supply	3,432,722	3,490,386
Construction revenue related to concession agreements	502,366	459,139
Repairs, maintenance and other services rendered	65,267	77,144
Re-connection fees	5,960	7,488
Sales of merchandise	3,642	808
Total	4,009,957	4,034,965

Starting with January 1st 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 nine month period ended 30 September 2018 would have been higher with RON 74,955 thousands.

In respect to the timing of the revenue recognition, most of the Group’s services provided are transferred to the customer over time, only a small part amounting to RON 1,572 thousand being transferred at a point in time (e.g. metering services provided by the distribution companies, providing periodic data analysis to the customer for certain taxes collected on behalf of the customer).

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7 Other income

	Nine month period ended	
	30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Rental income	76,534	69,874
Revenues from notices	12,076	15,125
Late payment penalties from customers	11,558	13,581
Commissions for the collection of radio, TV and habitat taxes	1,469	3,144
Other	14,695	32,992
Total	116,332	134,716

8 Electricity purchased

Starting with January 1st 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 nine month period ended 30 September 2018 would have been higher with RON 74,955 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

	Nine month period ended	
	30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Profit for the period attributable to the owners of the Company	314,910	64,066
Profit attributable to ordinary shareholders	314,910	64,066

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 not reviewed) as at 30 September 2018 is of 339,049,336 (30 September 2017: 339,049,336).

Earnings per share

	Nine month period ended	
	30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Basic and diluted earnings per share (RON per share)	0.93	0.19

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10 Dividends

On 27 April 2018 the General Shareholders Meeting of the Company approved dividend distribution of RON 245,370 thousand. The dividend per share distributed is RON 0.7237 per share.

During the nine month period ended 30 September 2017, dividends of RON 97,869 thousand were approved for distribution to non-controlling interests - Fondul Proprietatea S.A., by the General Shareholders Meeting of the following subsidiaries: Electrica Furnizare, Societatea de Distributie a Energiei Electrice Muntenia Nord S.A., Societatea de Distributie a Energiei Electrice Transilvania Nord S.A. and Societatea de Distributie a Energiei Electrice Transilvania Sud S.A.. In 2018, Fondul Proprietatea is no longer a shareholder of the above mentioned subsidiaries.

11 Income taxes

	Nine month period ended	
	30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Current period tax expense	46,289	36,908
Deferred tax expense/(income)	28,788	(5,763)
Total income tax expense	75,077	31,145

12 Trade receivables

	30 September 2018 (unaudited and not reviewed)	31 December 2017 (audited)
Trade receivables, gross	1,783,412	1,863,868
Bad debt allowance	(1,055,922)	(1,059,507)
Total trade receivables, net	727,490	804,361

Receivables from related parties are disclosed in Note 19.

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

	Bad debt allowance
Balance as at 1 January 2018 (audited)	1,059,507
Impairment recognized	15,891
Impairment reversed	(13,079)
Amounts written off	(6,397)
Balance as at 30 September 2018 (unaudited and not reviewed)	1,055,922

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 1st 2018, the Group has applied for the first time the new standard IFRS 9 „Financial instruments“, resulting in an earlier recognition of bad debt allowances for receivables. Being permitted by the standard, the Group

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adopted IFRS 9 starting with January 1st 2018 using the modified retrospective method, with cumulated adjustments from the initial application recognised in equity as of January 1st 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.

13 Cash and cash equivalents

	30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Total cash and cash equivalents in the condensed consolidated statement of financial position	620,476	745,874
Overdrafts used for cash management purposes	(77,067)	(170,677)
Total cash and cash equivalents in the condensed consolidated statement of cash flows	543,409	575,197

The Group has overdrafts as follows:

Bank	Contract date	Facility type	Maturity	Overdraft limit (th RON)	Balance at 30 September 2018 (unaudited and not reviewed)
BRD Groupe Societe Generale	29-May-18	overdraft facility for financing the current activity	Until 29 May 2019	95,000	-
Raiffeisen Bank	19-Jan-18	overdraft facility for financing the current activity	Until 15 April 2019	135,000	57,491
Raiffeisen Bank	6-Nov-17	overdraft facility for financing current activity	Until 6 November 2019	100,000	19,576
Total				330,000	77,067

As at 30 September 2018, Electrica SA has collateral deposits at BRD - Groupe Societe Generale set up 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 Nord. The amount of the collateral deposits as at 30 September 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 16.

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 34 million during the nine month period ended 30 September 2018 (nine month period ended 30 September 2017: RON 180 million).

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14 Deposits, treasury bills and government bonds

	30 September 2018 (unaudited and not reviewed)	31 December 2017 (audited)
Treasury bills and government bonds denominated in RON with original maturity of more than three months	86,322	462,739
Deposits with maturity of more than three months	319,421	284,242
Total deposits, treasury bills and government bonds	405,743	746,981

Treasury bills and government bonds with original maturity of more than three months have an average interest rate (yield) of 2.16% (2017: 1.34%). Treasury bills and government bonds were classified as held to maturity investments.

15 Other payables

	30 September 2018 (unaudited and not reviewed)		31 December 2017 (audited)	
	Current	Non-current	Current	Non-current
VAT payable	100,006	-	85,832	-
Liabilities towards the State	8,366	-	21,003	-
Other liabilities	63,904	41,768	27,391	40,440
Total	172,276	41,768	134,226	40,440

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.

16 Long-term bank borrowings

	30 September 2018 (unaudited and not reviewed)	31 December 2017 (audited)
Long-term bank borrowings	320,000	320,000
Total	320,000	320,000

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). Details of the long term bank borrowings are as follows:

Lender	Facility type	Maturity	Loan amount	Balance at 30 September 2018 (unaudited and not reviewed)	Balance at 31 December 2017 (audited)
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

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Lender	Facility type	Maturity	Loan amount	Balance at 30 September 2018 (unaudited and not reviewed)	Balance at 31 December 2017 (audited)
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
Total			320,000	320,000	320,000

17 Provisions

	Provisions
Balance at 1 January 2018 (audited)	29,889
Provisions recorded during the period	5,830
Provisions used	(4,935)
Provisions reversed	(843)
Balance at 30 September 2018 (unaudited and not reviewed)	29,941

As at 30 September 2018, provisions refer mainly to:

- RON 3,481 thousand representing potential tax charges of the Group (including interest and penalties);
- RON 1,745 thousand referring to work litigations;
- RON 24,715 thousand representing mainly the provision for the fine from Competition Council, RON 10,801 thousand, and other provisions for claims for which the Group might have the obligation to pay the amounts subject to litigations and other claims in the future. The fine amounting to RON 10,801 thousand received from the Competition Council was executed by ANAF in October 2018.

The provisions recorded during the nine period ended 30 September 2018 refer mainly to:

- RON 2,007 thousand for a litigation of Societatea de Distributie a Energiei Electrice Muntenia Nord S.A. with Sinaia City Hall;
- RON 1,397 thousand representing claims in work litigations.

The provisions used during the nine month period ended 30 September 2018 refer mainly to:

- the payment obligation of RON 4,670 thousand based on the decision issued and communicated by tax authorities to Electrica Furnizare S.A. following the completion of the fiscal inspections. The amount represents additional fiscal obligations in the form of interest and penalties.

As at 31 December 2017, provisions refer mainly to:

- RON 7,244 thousand representing potential tax charges of the Group (including interest and penalties);
- RON 22,645 thousand representing mainly the provision for the fine from Competition Council, RON 10,801 thousand, and other provisions for claims for which the Group might have the obligation to pay the amounts subject to litigations and other claims in the future.

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18 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.

30 September 2018 (unaudited and not reviewed)	Carrying amount				Fair value			
	Loans and receivables	Held to maturity financial assets	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value								
Trade receivables	727,490	-	-	727,490				
Deposits, treasury bills and government bonds	-	405,743	-	405,743				
Cash and cash equivalents	620,476	-	-	620,476				
Restricted cash	320,000	-	-	320,000				
Total	1,667,966	405,743	-	2,073,709				
Financial liabilities not measured at fair value								
Bank overdrafts	-	-	77,067	77,067				
Financing for network construction related to concession agreements	-	-	20,230	20,230		20,455		20,455
Long-term bank borrowings	-	-	320,000	320,000				
Trade payables	-	-	522,327	522,327				
Total	-	-	939,624	939,624				
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
Financial assets not measured at fair value								
Trade receivables	804,361	-	-	804,361				
Deposits, treasury bills and government bonds	-	746,981	-	746,981				
Cash and cash equivalents	562,493	-	-	562,493				
Restricted cash	320,000	-	-	320,000				
Total	1,686,854	746,981	-	2,433,835				

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

31 December 2017 (audited)	Carrying amount			Total	Fair value			Total
	Loans and receivables	Held to maturity financial assets	Other financial liabilities		Level 1	Level 2	Level 3	
Financial liabilities not measured at fair value								
Bank overdrafts	-	-	247,904	247,904				
Financing for network construction related to concession agreements	-	-	43,831	43,831		45,367		45,367
Long-term bank borrowings	-	-	320,000	320,000				
Trade payables	-	-	689,405	689,405				
Total	-	-	1,301,140	1,301,140				

(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 3.34% as at 30 September 2018 (31 December 2017: 2.07%).

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19 Related parties

(a) Main shareholders

As at 30 September 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%).

(b) Management and administrators' compensation

	Nine month period ended	
	30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Executive Management compensation	18,212	14,190

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

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

	Nine month period ended	
	30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Members of Board of Directors	2,393	1,852

(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:

Supplier	Purchases (excluding VAT)		Balance (including VAT)	
	Nine month period ended 30 September 2018 (unaudited and not reviewed)	Nine month period ended 30 September 2017 (unaudited and not reviewed)	30 September 2018 (unaudited and not reviewed)	31 December 2017 (audited)
Transelectrica	335,250	568,608	74,296	94,150
OPCOM	321,787	541,656	4,451	4,298
Hidroelectrica	242,732	228,321	8,346	16,840
Complexul Energetic Oltenia	234,704	56,105	25,857	42,700
Nuclearelectrica	159,087	155,968	24,767	22,176
Electrocentrale Bucuresti	25,100	-	1,522	-
Electrocentrale Galati	4,345	-	-	-
Others	4,449	13,655	875	4,141
Total	1,327,454	1,564,313	140,114	184,305

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

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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:

Client	Sales (excluding VAT)	Balance, gross (including VAT)	Allowance	Balance, net
	Nine month period ended 30 September 2018 (unaudited and not reviewed)		30 September 2018 (unaudited and not reviewed)	
Societatea Comerciala "Cupru Min"	23,282	6,066	-	6,066
OPCOM	15,516	1,948	-	1,948
SNGN Romgaz	12,684	1,289	-	1,289
Transelectrica	11,035	1,563	-	1,563
CN Romarm	7,463	179	-	179
Hidroelectrica	6,541	467	-	467
CFR Electrificare	5,690	350	-	350
CNCF CFR Bucuresti SA	1,937	65	-	65
CN Posta Romana	1,808	47	-	47
ANAR - Administratia Nationala Apele Romane	1,078	51	-	51
CN Remin SA	278	71,200	(71,148)	52
CET Braila	15	4,125	(4,125)	-
C.N.C.A.F. MINVEST S.A.	-	29,903	(29,903)	-
Oltchim	-	715,259	(715,259)	-
Termoelectrica	-	1,508	(1,508)	-
Others	13,780	3,313	(1,838)	1,475
Total	101,107	837,333	(823,781)	13,552

Client	Sales (excluding VAT)	Balance, gross (including VAT)	Allowance	Balance, net
	Nine month period ended 30 September 2017 (unaudited and not reviewed)		31 December 2017 (audited)	
Societatea Comerciala "Cupru Min"	24,202	6,635	-	6,635
OPCOM	14,598	3,662	-	3,662
Transelectrica	13,057	1,841	-	1,841
SNGN Romgaz	12,902	1,279	-	1,279
CFR Electrificare	9,384	944	-	944
CN Romarm	7,154	286	-	286
CN Remin SA	280	71,219	(71,148)	71
C.N.C.A.F. MINVEST S.A.	-	29,903	(29,903)	-
Oltchim	-	715,259	(715,259)	-
Others	51,551	16,369	(7,543)	8,826
Total	133,128	847,397	(823,853)	23,544

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20 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 30 September 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:

30 September 2018 (unaudited and not reviewed)	Servicii Energetice Muntenia	Servicii Energetice Oltenia	Total
Property, plant and equipment	100,114	18,427	118,541
Trade receivables	7,082	9,356	16,438
Cash and cash equivalents	3,630	1,448	5,078
Total assets	110,826	29,231	140,057
Trade payables	(5,298)	(3,266)	(8,564)
Payables to the State budget	(526)	(7,618)	(8,144)
Social security and other salary taxes	(539)	(5,272)	(5,811)
Provisions, employee benefits and deferred taxes	(24,138)	(12,534)	(36,672)
Total liabilities	(30,501)	(28,690)	(59,191)

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

The Group has not classified the assets and liabilities of these subsidiaries as held for sale as at 30 September 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 nine month period ended 30 September 2018.

At the date of approval of these financial statements, Servicii Energetice Muntenia completed the reorganization plan, the payables included in the payment schedule being fully paid, thus the legal procedures for exiting the insolvency procedures can be completed in the following period.

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As mentioned in Note 22, on October 31st 2018, the court decided the bankruptcy of Servicii Energetice Oltenia, at the request of the judicial administrator and cancelled its right of management. The term for enrolling in the creditors' table within the bankruptcy proceedings is on December 12, 2018.

21 Contingencies

Contingent Liabilities

Tax inspection report for Electrica Serv

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

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

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

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

Other litigations and claims

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

As summarised in Note 17, the Group set-up provisions for the litigations or claims for which the management assessed as probable the outflow of resources embodying economic benefits due to low chances of favourable outcomes of those litigations or disputes. The Group does not present information in the financial statements and did not set-up provisions for items for which the management assessed as remote the possibility of outflow of economic benefits.

The Group discloses below information on the most significant items of litigations or claims for which the Group did not set-up provisions as they relate to possible obligations that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Group (ie. litigations for which different inconsistent sentences were issued by the Courts, or litigations which are in early stages and no preliminary ruling were issued so far):

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- In 2015 Electrica SA was sued by Hidroelectrica S.A., which claimed the payment of RON 5,445 thousand and other damages, representing claims related to acquisition of electricity by the Company from Hidroelectrica S.A. at a price alleged to be unfair. The first court dismissed the exception of prescription of the material right for action as unreasonable and the action as unfounded. Both parties have filed an appeal, which were dismissed as unfounded. As of the date of these financial statements, both parties filed another appeal, being in the filter procedure at the High Court of Cassation and Justice.

Fiscal environment

Tax audits are frequent in Romania, consisting of detailed verifications of the accounting records of tax payers. Such audits sometimes take place after months, even years, from the date liabilities are established. Consequently, companies may be found liable for significant taxes and fines. Moreover, tax legislation is subject to frequent changes and the authorities demonstrate inconsistency in interpretation of the law.

Income tax returns may be subject to revision and corrections by tax authorities, generally for a five year period after they are completed.

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

22 Subsequent events

Change in the componse of the Board of Directors of Electrica SA

On October, 12 2018, Mrs. Arielle Malard de Rothschild decided to renounce her position as member of the Board of Directors of Electrica SA, continuing to perform her duties as member of the Board of Directors of Electrica SA until November, 11th 2018.

Change in the executive management of Electrica SA

On October, 15th 2018, the Board of Directors of Electrica SA has reached a mutual agreement with Mr. Dan Catalin Stancu regarding the termination of the mandate agreement as the Chief Executive Officer of Electrica SA, starting with November 1st 2018. At the same time, the Board of Directors decided the nomination of Mrs. Georgeta Corina Popescu, as interim CEO of Electrica SA, starting with November 1st 2018, for a one year period or until the nomination of a new CEO.

Actions in Court against ANRE Orders regarding the electricity distribution tariffs

In October 2018, Electrica SA together with its three electricity distribution subsidiaries filed two preliminary complaints to ANRE, having as object the full revocation request of ANRE President's Order no. 168/2018 regarding the establishment of the regulated rate of return applied for the approval of the tariffs for the electricity distribution service provided by the concession distribution operators starting with January, 1st 2019 and the partial revocation of ANRE President's Order no. 169/2018 that approves the new Tariffs Methodology for the Electricity Distribution Service. At the same time, two actions were filed based on the Administrative Contentious Law, having as the object the request for the full annulment of ANRE Order no. 168/2018 and partial annulment of ANRE Order no. 169/2018, the litigations being in an early stage.

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Bankruptcy of Servicii Energetice Oltenia

On October 31st 2018, the court decided the bankruptcy of Servicii Energetice Oltenia, at the request of the judicial administrator and cancelled its right of management. The term for enrolling in the creditors' table within the bankruptcy proceedings is on December 12, 2018.

Chief Executive Officer
Georgeta Corina Popescu

Chief Financial Officer
Mihai Darie

November 14th 2018



2018 THIRD QUARTER CONSOLIDATED DIRECTORS' REPORT (Q3 2018)

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

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

**in compliance with art. 67 of the Law no. 24/2017 on issuers of financial instruments and
market operations and with annex no. 13 to ASF Regulation no. 5/2018 and the Bucharest Stock
Exchange Code**

for the nine month period ended 30 September 2018

Free translation from the Romanian version of the report, which will prevail in the event of any discrepancies with the English version.

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1. Identification Details Of The Issuer

Report date: 14 November 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

LEI Code (Legal Entity Identifier): 213800P4SUNUM5AUDX61

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 issued securities are traded: the Company's shares are listed on the Bucharest Stock Exchange (ticker: EL), and the Global Depository Receipts (ticker: ELSA) are listed on the London Stock Exchange

Applicable accounting standards: International Financial Reporting Standards as approved by the European Union; interim financial statements based on the International Accounting Standard IAS 34 – Interim Financial Reporting

Reporting period: Third quarter of 2018 (period 1 January - 30 September 2018)

Audit/Review: The condensed consolidated interim financial statements as at and for the period ended 30 September 2018 are not reviewed or audited by an independent financial auditor

	Ordinary Shares	GDR
ISIN	ROELECACNOR5	US83367Y2072
Bloomberg Symbol	0QVZ	ELSA:LI
Currency	RON	USD
Nominal Value	RON 10	RON 40
Stock Market	Bucharest Stock Exchange REGS	London Stock Exchange MAIN MARKET
Ticker	EL	ELSA

Source: Electrica

2. Highlights

Electrica Group is one of the main distributors and suppliers of electricity on the Romanian market. The Group's core business segments are the distribution of electricity to users and the supply of electricity to household and non-household consumers.

Electrica's distribution segment comprises the following subsidiaries: Societatea de Distribuție a Energiei Electrice Muntenia Nord ("SDMN"), Societatea de Distribuție a Energiei Electrice Transilvania Nord ("SDTN"), Societatea de Distribuție a Energiei Electrice Transilvania Sud ("SDTS") and Electrica Serv ("ELSERV"), and it is geographically limited to Northern Muntenia, Northern Transylvania and Southern Transylvania, in what concerns the distribution subsidiaries. The Group holds exclusive distribution licenses for these regions which have a remaining term of 9 years and may be extended for another 25 years. Electrica Serv provides repair and other ancillary services to third parties and various services to the companies within the group (vehicles rental, building rental etc.)

The electricity supply segment operates through Electrica Furnizare ("EFSA") subsidiary, and the main activity is the supply of electricity to final customers, both as the supplier of last resort (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.

2.1. Key Events during the period January – September 2018 (Q3 2018)

During the nine month period ended 30 September 2018 and up to date, the following significant events for the main activity segments of the Group took place:

Events in the period January – September 2018 and up to date

Main resolutions of the Ordinary General Meetings of Shareholders (OGMS) dated 9 February 2018:

- Approval of the remuneration policy of the members of the Board of Directors of the Company and its application from the date of its approval by the OGMS;
- Approval of the proposed Mandate Agreement for the members of the Board of Directors of the Company and of the remuneration limits of the Company's executive managers.

Main resolutions of the General Meetings of Shareholders dated 27 April 2018:

- Approval of Electrica's 2017 financial statements and 2018 revenue and expenses budget, both at individual and consolidated levels;
- Approval of the 2017 profit distribution; gross dividend value - RON 245.37 million; gross dividend per share - RON 0.7237; payment date - 22 June 2018;
- Election of the members of the Board of Directors of Electrica SA through the cumulative voting method: Elena Doina Dascalu, Gicu Iorga, Ramona Ungur, Valentin Radu, Arielle Malard De Rothschild, Bogdan George Iliescu, Willem Jan Antoon Henri Schoeber and the setting of their mandate's duration for a period of four years;
- Rejection of the appointment of Deloitte Audit as Electrica's financial auditor;
- Rejection of the establishment of a company's working point in Bucharest, 4 – 8 Nicolae Titulescu Road, West Wing, 6th floor, district 1, Romania.

Resolution of the Ordinary General Meetings of Shareholders dated 18 September 2018:

- Appointment of Deloitte Audit as Electrica’s financial auditor for a three-year period (2018, 2019, 2020).

Main Board of Directors decisions:

- **Board of Directors composition:**

- The appointment of Ms. Elena Doina Dascalu as Board of Directors’ Chair for a one year mandate; the approval of the committees’ composition and the election of their chairs for one year mandate, starting with 14 May 2018:
 - Strategy and Corporate Governance Committee: Mr. Willem Jan Antoon Henri Schoeber – Chair, Ms. Arielle Malard de Rothschild – Member, Mr. Gicu Iorga – Member;
 - Audit and Risk Committee: Mr. Bogdan George Iliescu – Chair, Ms. Arielle Malard de Rothschild – Member, Ms. Ramona Ungur – Member;
 - Nomination and Remuneration Committee: Mr. Valentin Radu – Chair, Mr. Bogdan George Iliescu – Member, Ms. Doina Elena Dascalu – Member;
- Decision of Ms. Arielle Malard de Rothschild to renounce her position as member of the Board of Directors of Electrica SA, starting 11 November 2018. In accordance with the provisions of the mandate contract, Ms. Malard de Rothschild continued to perform her duties as member of the Board of Directors of Electrica SA until 11 November 2018.

- **Executive Management Change:**

- During the meeting held on 25 July 2018, the Board of Directors of Electrica SA approved the revocation of Mr. Dan Crisfalusi from the position of Chief IT&T Officer of Electrica SA starting with July 25 2018;
- During the meeting held on 14 September 2018, the Board of Directors of Electrica SA approved the revocation of Ms. Dana Dragan from the position of Chief HR Officer of Electrica SA;
- During the meeting held on 15 October 2018, the Board of Directors of Electrica SA decided through mutual agreement with Mr. Dan Catalin Stancu to terminate without cause the mandate agreement from the CEO position of Electrica SA, starting with 1 November 2018. Also, The Board of Directors has decided the nomination of Ms. Georgeta Corina Popescu as interim CEO of Electrica SA starting with 1 November 2018, for a one year period or until the nomination of a new CEO – whichever occurs first.

- **Corporate Governance - policies:**

- The approval of the updated version of the Dividend Policy and of the Forecast Policy for Electrica S.A., both published on the Company’s website on 19 February 2018;
- Approval of the updated version of the Policy of Transactions with Related Parties, document published on the Company’s website on 1 October 2018.

- **Intra-group loans and other intra-group facilities granted by Electrica SA:**

- Grant of intercompany loans in favor of the DSOs, up to a total amount of RON 520 million for financing the 2018 CAPEX plan as necessary – 5 April 2018;
- Grant of intercompany loan in favor of Servicii Energetice Muntenia SA (a Group subsidiary), up to a total amount of RON 5.5 million – 26 April 2018.

Other events:

- Conclusion of the Balancing Responsible Party (BRP) activity transfer from Electrica S.A. to Electrica Furnizare S.A. – 28 March 2018;
- Appeal of the Competition Council’s Decision no. 77/20.12.2017, by which the Company has been sanctioned with a fine amounting to RON 10.8 million, requesting to cancel the above mentioned sanction as unlawful and unfounded and, additionally, to reduce the amount of the fine. The fine was executed by ANAF in October 2018. The file is pending for solution, next term 19 November 2018.
The suspension of the enforcement of the Decision until the final settlement of the claim was requested on 15 May 2018 but rejected and the company filed for appeal (appeal term: 17 April 2019);
- Final dismissal by the High Court of Cassation and Justice of case no. 134/2/2016 regarding Electrica S.A.’s request for suspension of the Romanian Energy Regulatory Authority (“ANRE”) Order no. 165/2015 regarding the amendment of the Methodology for establishing the tariffs for the electricity distribution service, approved by ANRE Order no. 72/2013 (2 October 2018);
- Application for annulment of the ANRE Order no. 168/2018 regarding the establishment of the regulated rate of return applied for the approval of the tariffs for the electricity distribution service provided by the concessionaire distribution operators from 1 January 2019 (19 October 2018);
- Application for partial annulment of ANRE Order no. 169/2018 regarding the approval of the Methodology for establishing the tariffs for the electricity distribution service (22 October 2018).

Distribution Segment

- a)** Implementing the transformation plan in the distribution area of activity (Electrica Serv, SDMN, SDTN, SDTS) - after the business transfer from Electrica Serv, beginning with 1 November 2017, a new target model of organizing the distribution segment was implemented, having as main objective the accomplishment of the ambitious investment plan for 2018, as well as the increase of the reaction capacity and improving the performance in the operational area:
- the activities internalized from Electrica Serv (design, acquisition and logistics, maintenance, investments’ execution, technical auto services) were integrated in the functions of the new organizational model, and the transferred employees were included in the new organizational structure;
 - the network construction entities (internal structures) were created, dedicated to the internally generated investments;
 - the business processes were redefined based on the unique responsibility principle with emphasis on streamlining and the quality of services provided to customers.
- b)** A new business plan has been approved for Electrica Serv providing measures to streamline and optimize the operational processes, including:
- Improving the services currently provided and extending them to companies outside Electrica Group;
 - Developing new products and supporting activities for the companies within the Group;
 - Streamlining of the real estate portfolio;
 - Reduction of the administrative and general costs.

❖ Distribution Activity:

ANRE (Romanian Energy Regulatory Authority) issued orders that require additional efforts from the distribution operators in order to comply with the new requirements:

a) New regulation orders:

- ANRE Order no. 34/2018 that supplements and amends the Investments' Procedure approved through Order 8/2016 which stipulates the additional obligation of the distribution system operator (DSO) to realize 95% from the value of the investment plan and the right of the DSO to ask for approval for own auto fleet acquisition; as a result, Electrica Group's distribution companies have requested such approval, providing supporting documents;
- The Order no. 145/2014 regarding the implementation of electricity smart metering (SM) systems was supplemented and amended by Order no. 25/2018 that stipulates: the value of the investments related to the SM systems may not exceed 10% of the investment program approved for 2018; the limit for investments recognized in 2018 is the weighted average cost of DSO for which a 10% variance is allowed;
- ANRE Order no. 177/10.10.2018 regarding the conditions for smart metering roll out - ANRE draws up the national smart metering implementation calendar for 2019-2028 based on the SM systems implementation plans that will be submitted by each DSO until 10 January 2019.

b) Regulations regarding network connection

- ANRE Order no. 95/2018 for the approval of mandatory clauses in the connection works' services contracts: it imposes terms to the DSOs regarding the payment of the works executed by certified operators;
- ANRE Order no. 113/2018 amending the Methodology for Establishing Connection Tariffs, approved by ANRE Order no. 11/2014, and also the ANRE Order no. 141/2014 for the approval of the specific tariffs and specific indices used for setting the connection tariffs: it stipulates the removal of the cost of the meter from the connection tariff and implicitly its bearing by the DSO (i.e. the decrease of the investments value made with financial contributions and the increase of the investments realised with own sources, recognized in the tariff, within the limit approved for 2018).

c) Energy Law no. 123/2012 amended by the Law no. 167/2018:

- The timetable for implementation of the SM systems recognized in the investment plans will be approved by ANRE as follows:

c1) 1 January 2024: customers with an annual consumption higher than a threshold established by ANRE and producers with an installed power of less than 10 kW;

c2) 31 December 2028: customers who do not fall under c1).

- New contraventions and increased fines, between 5% and 10% of the annual turnover, for:
 - the refusal of a distribution operator to take over the power grid if the owner of the distribution network is unable to provide universal service to the users connected to that network;
 - non-compliance by the transmission and system operator (TSO) and the DSO of the maintenance and investment programs, within the terms and conditions established by the ANRE regulation.

d) Regulations regarding distribution tariffs:

- ANRE Order no. 168/17.09.2018 approved the new Regulated Rate of Return (RRR) of 5.66% starting with 1 January 2019;
- ANRE Order no. 169/18.09.2018 approved the new Methodology of establishing the tariffs for the electricity distribution service. The methodology states the provision of an incentive of 1% (RRR of 6.66%) for investments in power distribution network (i.e. for 90% of the annual investment plan) put into operation starting with 1 January 2019. The deadline for submitting the substantiation documents for the distribution tariffs for the fourth regulatory period was 22 October 2018.

❖ Investments

- At the end of the third quarter of 2018, the three DSOs of Electrica Group realized and commissioned investments amounting to RON 372 million out of annual planned value of RON 905 million, which represents the highest historical level of investments of Electrica Group;
- The Investment Plans were drafted in accordance with the Offering Prospectus and the requirements stipulated by the regulatory authority in the ANRE Order no. 8/2016 "Procedure regarding the elaboration and approval of the investment programs of the concessionaire distribution operators of the electricity distribution service". Thus, the total value of the investment plans accepted by ANRE for the current regulatory period (2014-2018) is RON 3,2 billion (in real terms 2013, value adjustable with inflation).

Supply Segment

- Starting 1 April 2018, the activity of Balancing Responsible Party (BRP) was transferred from Electrica S.A. to Electrica Furnizare S.A.;
- Starting 10 May 2018, the license for the electricity supply activity of Electrica SA ceased, according to the ANRE Decision no. 728/2018 – at the request of the operator.

❖ Supply activity

- In Q3 2018, the implementation of the initiatives identified for streamlining the activity of Electrica Furnizare SA was continued as follows:
 - Continuous improvement of the MyElectrica mobile application and its alignment with the web interface;
 - Continuing the implementation of the Customer Relationship Management (CRM) system;
 - Modernization of the integrated risk management system;
 - The implementation of a system for the continuous monitoring of the customer satisfaction and the identification of the measures to improve quality of services;
 - Starting the implementation of a modernization solution for the commercial call center;
 - Implementing a digitization/ modernization project of customer relations centers;
 - Continuing the process of optimization of the portfolio of products/services tailored to customers needs.
- ANRE Order no. 75/2017, applicable in H1 2018, established the conditions for the participation of suppliers of last resort (SoLR) in the purchase of electricity on Centralized Market for Universal Service (CMUS), being obliged to ask for offers on CMUS for at least 50% of the energy requirement for universal service (US) clients, the remaining energy could be purchased from the other Centralized Forward Markets (CFM). The value of the purchase price used to calculate the Competitive Market Component tariff (CMC) depended on: the weighted average price of contracts concluded on CMUS, the weighted average price of all contracts concluded on the CFM after the entry into force of the ANRE Order and a profiling rate of up to 8%. For energy purchased on the CFM, ANRE considered the minimum of the weighted average purchase price realized on the CFM by SoLR and the weighted average price of all contracts (concluded on the CFM after the date of entry into force of the ANRE Order) with delivery during that period. The cost of supply per unit considered by ANRE was of RON 4.5/client/month. The regulated profit for supplying US customers was 1.5% of total costs. Adjustment of the regulated tariff/ CMC/ last resort of the previous period applies;
- As result of finalizing the schedule of elimination of regulated tariffs and the total liberalization of electricity market starting 1 January 2018, ANRE approved the regulatory package for the last resort supplying service/ universal service, which is applicable starting with H2 2018:
 - ANRE Order no. 27/2018 – the CMUS becomes voluntary market for SoLR;

- ANRE Order no. 26/2018 – appointment of the SoLRs is realized through a competitive process: the bound SoLRs are appointed for a period of 4 years on the basis of eligibility and capability criteria, and the optional SoLRs are appointed for 1 year based on eligibility, capability and availability criteria. Through ANRE Decision no. 657/2018, Electrica Furnizare S.A. was appointed as bound SoLR for the network areas Muntenia North, Transilvania North and Transilvania South, for the period 1 July 2018 – 30 June 2022;
- ANRE Order no. 39/2018 – ANRE establishes for each network area and each SoLR the maximum price for US based on three components: acquisition cost (based on the realized acquisitions and the average price on the centralized markets), the cost of supply (which includes the recognized profit), adjustment cost (previous corrections) and endorses the prices proposed by SoLR as equal to the maximum prices for universal service considered justified by ANRE.
- The tariffs for the transport service and for the system service were modified by ANRE Order no. 108/2018, respectively the average tariff for the electricity transmission service increased by 12.38%, the area transport tariff for the electricity extraction component from the network increased by 7.37%, the tariff for the system service decreased by 12.30%;
- Law no. 167/10.07.2018 regarding the amendment and completion of the Electricity and Natural Gas Law no. 123/2012 introduces new obligations for suppliers:
 - The obligation of each electricity supplier to purchase electricity so as to ensure the coverage of its customers' consumption, with priority for the customers of the universal service in their own portfolio;
 - The supplier does not have the right to unilaterally terminate the electricity supply contracts concluded with the final customers.
- Law no. 184/2018 for approval of the Government Emergency Ordinance no. 24/2017 regarding the amendment and completion of the Law no. 220/2008 for establishing the system of promoting the production of energy from renewable energy sources and for amending some normative acts, brought substantial changes, such as:
 - Prosumers who own renewable electricity generating units of up to 27 kW installed power per consumption place can sell the electricity produced and delivered in the electricity network to the electricity suppliers with whom they have concluded contracts for the supply of electricity, according to ANRE regulations;
 - Public authorities owning renewable electricity generation capacities, financed partially or totally through structural funds, benefit from the suppliers with whom they have contracts for the supply of electricity, on request, by the regularization between the delivered energy and the energy consumed from the network;
 - Starting with the 2018 analysis year, by 1 March of each year, for the previous year, ANRE establishes the mandatory annual green certificate acquisition quota based on the final electricity consumption of the respective year, so that the average impact for the final consumer to be up to 11.7 EUR/MWh in 2018, 12.5 EUR/MWh in 2019, 13 EUR/MWh in 2020 and 2021 and 14.5 EUR/MWh from 2022.
- the Methodology for establishing the mandatory annual quota for the acquisition of green certificates is approved through the ANRE Order no. 157/2018, and the estimated mandatory quota for the acquisition of green certificates for the period August - December 2018 is established through the ANRE Order no. 158/2018.

2.2. Summary of financial indicators

A summary of the main indicators is presented below:

- In the nine month period ended 30 September 2018, EBITDA increased to RON 706 million, by RON 297 million, as compared with the same period of 2017;

- The volume of the investments in the distribution network in the first nine months of 2018 was of RON 493 million, increasing by approx. RON 42 million, or 9%, compared to RON 450 million cumulated in the third quarter of 2017;
- The operating profit in Q3 2018 was of RON 384 million, posting a significant increase as compared with the same period of the previous year, when the Group recorded an operational profit of RON 116 million, mainly due to the increased electricity acquisition prices in 2017, as a result of the energy crisis from the beginning of the year;
- The cost of electricity purchased decreased by RON 346 million, or 16%, to RON 1,856 million in the nine month period ended 30 September 2018, compared to RON 2,202 million recorded in the comparative period, when historically high electricity purchase costs were recorded;
- Revenue from the distribution segment increased by RON 15 million, or 1%, to RON 1,906 million (out of which RON 1,063 million external revenues), compared to Q3 2017; the contribution of the electricity distribution segment to the Group’s consolidated revenue is of 27%;
- In the third quarter of 2018, the revenue from the electricity supply segment decreased by RON 299 million y-o-y, or 9%, to RON 2,932 million (out of which RON 2,912 million external revenues), mainly from the variation of the revenues from BRP, as a result of applying IFRS 15 standard (“Balancing Responsible Party”); the contribution of the electricity supply segment to the Group’s consolidated revenue is of 73%.

3. Organizational Structure

3.1. Group Structure

Electrica S.A. is the parent company for the Group, which comprises four subsidiaries in its distribution segment: Societatea de Distributie a Energiei Electrice Transilvania Nord SA, Societatea de Distributie a Energiei Electrice Transilvania Sud SA, Societatea de Distributie a Energiei Electrice Muntenia Nord SA, FISE Electrica Serv SA, whereas the supply segment comprises one subsidiary, Electrica Furnizare S.A.

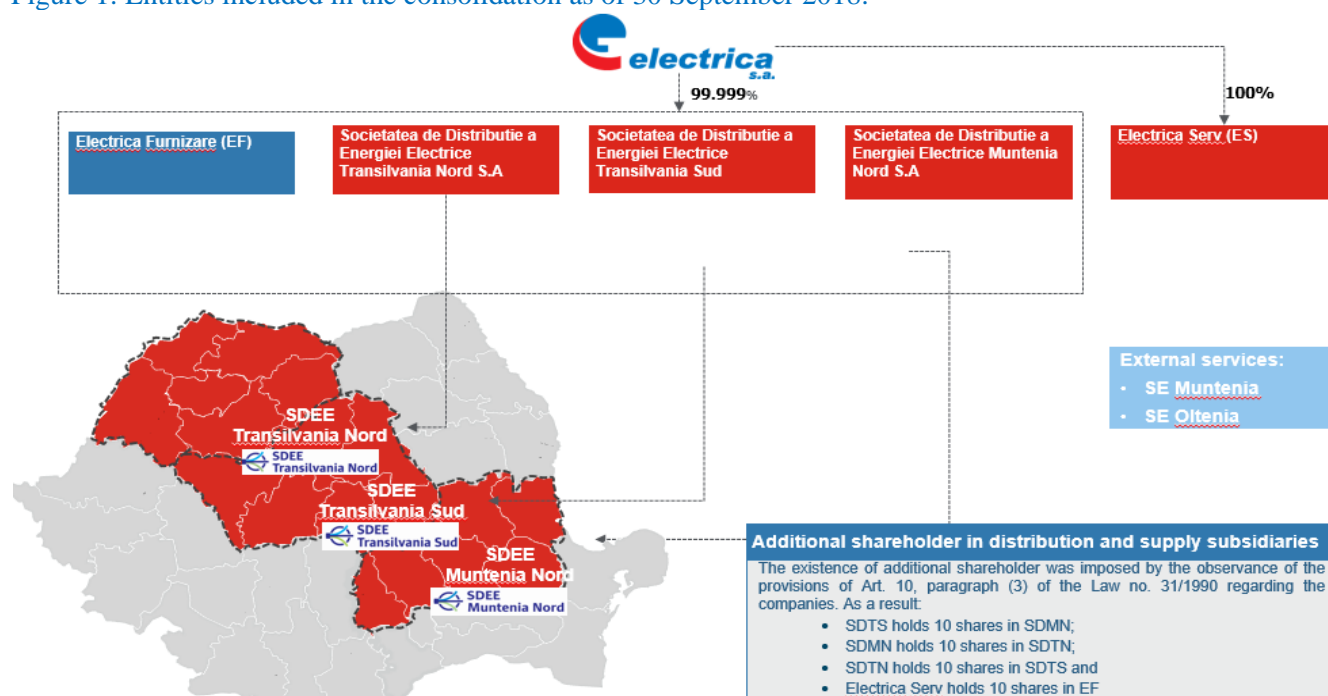
The Company also owns all shares of Servicii Energetice Oltenia SA (“SE Oltenia”) and Servicii Energetice Muntenia SA (“SE Muntenia”). In January 2014, the Board of Directors of Servicii Energetice Oltenia and in October 2014, the Board of Directors of Servicii Energetice Muntenia decided the commencement of the insolvency procedure with a view to reorganization. The insolvency procedures were initiated in 2014.

On 31 October 2018, the court decided the bankruptcy of SE Oltenia, at the request of the judicial administrator, and cancelled its right of management. The term for enrolling in the creditors’ table within the bankruptcy proceedings is on 12 December 2018.

At the date of this report, SE Muntenia completed the reorganization plan, the payables included in the payment schedule being fully paid, thus the legal procedures for exiting the insolvency procedures can be completed in the following period.

As of 30 September 2018, the main shareholder of Electrica SA is the Romanian State, represented by the Ministry of Energy (48.7805%).

Figure 1: Entities included in the consolidation as of 30 September 2018:



Source: Electrifica

Presentation of Group subsidiaries

Subsidiary	Activity	Registration code	Headquarters	% shareholdings as of 30 September 2018
Societatea de Distributie a Energiei Electrice Muntenia Nord SA	Electricity distribution in North Muntenia geographical area	14506181	Ploiesti	99,9999696922382%
Societatea de Distributie a Energiei Electrice Transilvania Nord SA	Electricity distribution in Northern Transylvania geographical area	14476722	Cluj-Napoca	99,9999829770757%
Societatea de Distributie a Energiei Electrice Transilvania Sud SA	Electricity distribution in Southern Transylvania geographical area	14493260	Brasov	99,999976413243%
Electrica Furnizare SA	Supply and trading of electricity	28909028	Bucharest	99,9998390431663%
Electrica Serv SA	Services in the energy sector (maintenance, repair, construction)	17329505	Bucharest	100%
Servicii Energetice Muntenia SA (in insolvency)	Services in the energy sector (maintenance, repair, construction)	29384120	Bucharest	100%
Servicii Energetice Oltenia SA (in insolvency as of 30 September 2018 and in bankruptcy starting 31 October 2018)	Services in the energy sector (maintenance, repair, construction)	29389861	Craiova	100%

Source: Electrifica

The main activities of the Group are the regulated distribution of electricity (through operation and development of electricity distribution networks) and the electricity supply to end consumers. The Group is the electricity distribution operator and the main electricity supplier in North Transylvania (Cluj, Maramures, Satu Mare, Salaj, Bihor and Bistrita-Nasaud counties), South Transylvania (Brasov, Alba, Sibiu, Mures, Harghita and Covasna counties) and North Muntenia (Prahova, Buzau, Dambovita, Braila, Galati and Vrancea counties), ensuring the electricity distribution service by operating the installations that function at voltages ranging from 0,4 kV to 110 kV (power lines, substations and electrical transformer stations).

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

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

According to the regulations issued by ANRE, the SoLRs 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 position 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 end customer. The provision of electricity in the universal service regime and in the last resort regime is performed based on contracts regulated by ANRE Orders.

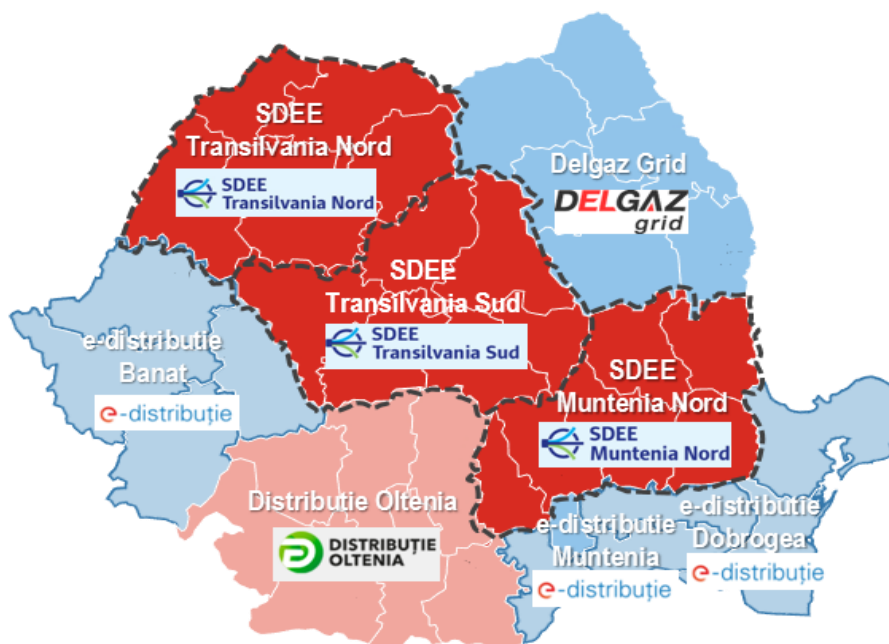
3.2. Key information by segments

DISTRIBUTION SEGMENT

Essential information for the period ended 30 September 2018

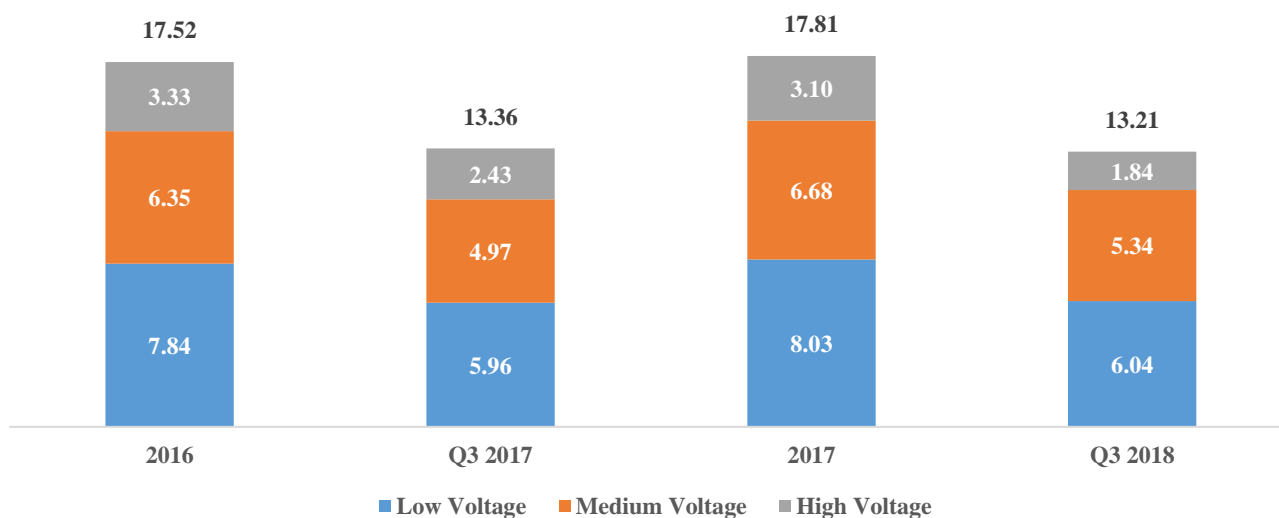
- The Regulated Assets Base (RAB estimated) at the end of Q3 2018 was RON 4,848 million
- 197,520 km of electric lines – 7,594 km for High Voltage ("HV"), 45,574 km for Medium Voltage ("MV") and 144,353 km for Low Voltage ("LV")
- Total area covered: 97,196 km², 40.7% of Romania's territory
- 3.73 million users at the end of Q3 2018 for the distribution activity
- 13.21 TWh of electricity distributed in Q3 2018, a decrease of 1.1% as compared to Q3 2017

Figure 2: Romanian electricity distribution map



Source: Electrica

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



Source: Electrica

SUPPLY SEGMENT

Essential market data (according to ANRE Report for August 2018)

- The supply market comprises both the competitive segment and the regulated segment
- The regulated segment comprises five suppliers of last resort, while the competitive market segment comprises 98 suppliers (including those of last resort active in the retail market competitive segment, of which 88 are relatively small - less than 4% market share)

- Electrica Furnizare has a market share of 17.04%. Electrica Furnizare is the market leader on the regulated market, with a market share of 44.37%, while for the competitive market has a share of 8.85%. By comparison, in 2017, Electrica Furnizare had a market share of 40.79% on the regulated market and a 11.58% market share on the competitive market (2017 ANRE report)
- In Q3 2018, the Group supplied 7.1 TWh of electricity to a number of approx. 3.55 million final consumers, representing a decrease of 4.6% y-o-y.

4. Shareholders' Structure

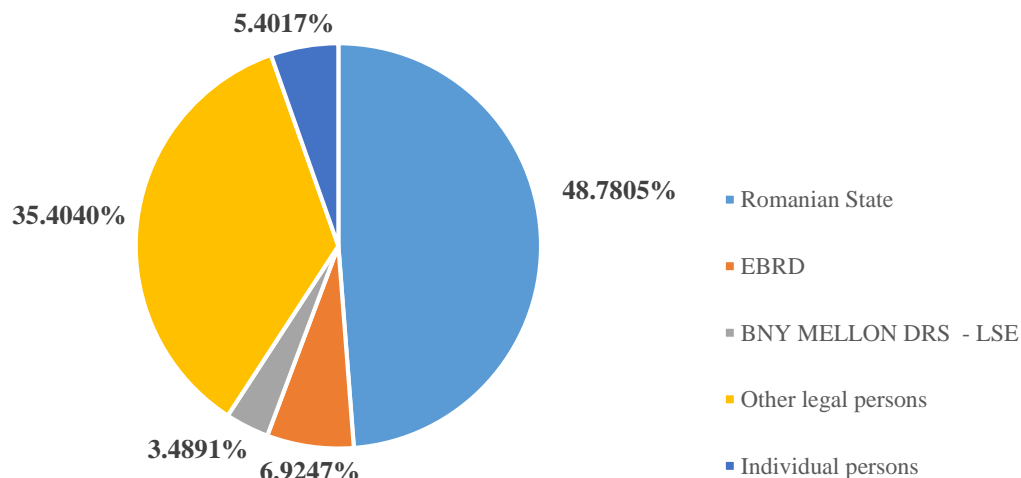
Until July 2014, the Romanian State, acting through the Ministry of Energy was the sole shareholder of Electrica S.A. Starting 4 July 2014 the Company's shares are listed on Bucharest Stock Exchange, and the GDRs are listed on London Stock Exchange. As of 30 September 2018, the shareholder's structure is:

Shareholder	Shares	Percentage of share capital (%)
Romanian State through the Ministry of Energy	168,751,185	48.7805%
BERD	23,955,272	6.9247%
Bank of New York Mellon - DRS	12,070,340	3.4891%
Other legal persons	122,476,488	35.4040%
Individual persons	18,686,644	5.4017%
Total	345,939,929	100.0000%

Source: Electrica, Depozitarul Central

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 30 September 2018



Source: Electrica

5. Operational Results

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

Indicator	30 September 2018 (not reviewed and not audited)	30 September 2017 (not reviewed and not audited)	Variation (%)
Revenues	4,010	4,035	-1%
Other income	116	135	-14%
Electricity purchased	(1,856)	(2,202)	-16%
Green certificates	(258)	(277)	-7%
Construction costs related to concession agreements	(493)	(450)	9%
Employee benefits	(469)	(472)	-1%
Repairs, maintenance and materials	(64)	(55)	16%
Depreciation and amortization	(323)	(293)	10%
Reversal of impairment of property, plant and equipment, net	1	1	88%
Impairment of trade and other receivables, net	(3)	(11)	-75%
Change in provisions, net	(0)	(2)	-98%
Other operating expenses	(278)	(291)	-4%
Operating profit	384	116	232%
Finance income	10	14	-29%
Finance costs	(4)	(3)	20%
Net finance income	6	11	-44%
Profit before tax	390	126	208%
Income tax expense	(75)	(31)	141%
Profit for the period	315	95	230%
Profit/ (Loss) for the period attributable to:			
- owners of the Company	315	64	392%
- non-controlling interests	-	31	-100%
Profit for the period	315	95	230%

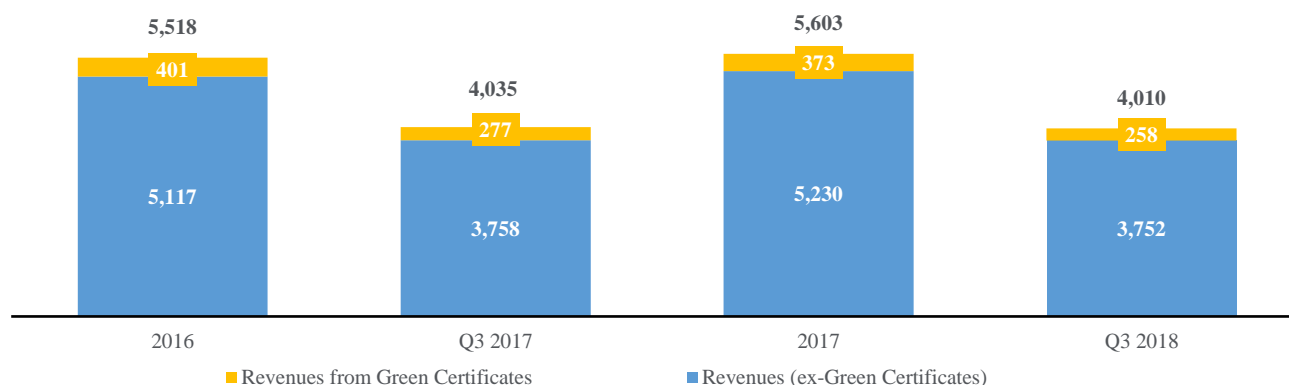
Source: Electrica

Key financial indicators for the period ended 30 September 2018:

- **Revenues:** RON 4 billion, a 1% y-o-y decrease;
- **EBITDA:** RON 706 million, a RON 297 million increase compared to same period of last year;
- **EBIT:** RON 384 million, a RON 268 million increase compared to Q3 2017;
- **EBT:** RON 390 million, a RON 264 million increase compared to same period of last year;
- **Net Profit:** RON 315 million, a RON 220 million y-o-y increase.

Revenues and other income

Figure 5: Revenue for Q3 2018 and comparative information (RON mil.)



Source: Electrica

Electrica’s revenues and other income in the nine month period ending 30 September 2018 and 30 September 2017 amounted to RON 4,126 million and RON 4,170 million, respectively, representing a decrease by approx. RON 43 million, or 1%.

Revenues

As of 1 January 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 of this activity. If this financial reporting standard wouldn’t have been implemented, the Revenues and respectively Electricity purchased lines from the consolidated condensed statement of profit or loss for the nine month period ended at 30 September 2018 would have been higher by RON 75 million, without any impact on the margin.

The first part 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 Q3 2017 include Balancing Responsible Party activity revenues of approx. RON 249 million, since the Group decided to apply IFRS 15 using the modified retrospective method, without restating the figures of the comparative period.

The revenues decreased by RON 25 million, or 1%, being the cumulative effect of the following main factors:

- external revenue (outside the Group): the electricity sales towards third parties have increased by RON 254 million, having a favorable impact on the consolidated revenue;
- RON 15 million increase of the distribution segment’s revenues;
- decrease by RON 299 million of the supply segment.

In the nine month period ending 30 September 2018, the revenue from the electricity distribution segment increased by approx. RON 15 million, or 1%, to RON 1,906 million, from RON 1,892 million in the nine month period ending 30 September 2017; the total quantity slightly decreased as a result of the high voltage distributed quantity drop by 24.6%, partially compensated by the increases recorded on medium and low voltage by 7.5% and 1.3%, respectively, where the distribution tariffs are higher, thus generating a positive effect on the total distribution revenues; the increase of the revenues from reactive energy had also a positive impact on the revenues. The revenues

from electricity distribution segment are influenced also by the recognition of investments into the network under concession agreements in accordance with IFRIC 12.

In the nine month period ending 30 September 2018, the revenue from the electricity supply segment decreased by RON 299 million, or 9%, to RON 2,932 million, from RON 3,231 million in the same period of the previous year.

The variation of the supply segment is generated by two elements: the electricity supply, with a positive impact on the segment revenue, mainly due to the sale price increase by 9%, which covers the impact of the quantity decrease of 4.6%, while the Balancing Responsible Party activity revenues variation had a negative influence mainly due to the accounting for BRP activity starting 1 January in accordance with IFRS 15, thus by eliminating the BRP revenues and the corresponding expense.

The value of the Green Certificates included in the invoice to the final consumer, set by ANRE, increased from RON 45.70/MWh in the nine month period ending 30 September 2017 to RON 48.74/MWh in the nine month period ending 30 September 2018.

Other income

In the third quarter of 2018, other income decreased by RON 18.4 million, or 14%, to RON 116 million, from RON 135 million realized in the same period of the previous year. The decrease is generated by the fact that in Q3 2017 revenues from litigations won with customers for old receivables due were recognized and, also, from compensations for contracts termination on the supply segment.

Electricity purchased

In the nine month period ending 30 September 2018, the expense for electricity purchased decreased by RON 346 million, or 16%, to RON 1,856 million, from RON 2,202 million in the comparative period.

The decrease is mainly due to the fact that the first part of 2017 was affected by the unfavorable events from the energy market, which generated significantly higher electricity prices as compared to Q3 2018.

The cost of the electricity purchased for supply and balancing decreased by RON 296 million, or 18%, to RON 1,306 million in the first nine months of 2018, from RON 1,602 million recorded in the same period of 2017, the main factor being the reduction in the volatility of electricity purchase prices; out of this variance, RON 75 million decrease is attributable to the change in the financial reporting standards.

Regarding the distribution segment, in the nine month period ending 30 September 2018, the cost of the electricity purchased to cover network losses decreased by RON 25 million, or 6%, to RON 379 million, from RON 404 million, the evolution being generated by lower average electricity purchase prices (positive effect of RON 16 million) and a decrease in the level of quantity of electricity used to cover the network losses (positive effect of RON 9 million).

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

Nine month period ending 30 September (RON million)	2018	2017
Electricity purchased to cover network losses	379	404
Electricity purchased for supply and balancing	1,306	1,602
Transmission and system services related to supply and balancing activities	171	196
Total electricity purchased	1,856	2,202

Source: Electrica

Green certificates

Green certificates' (GC) cost is recognized in the statement of profit and loss based on the quantitative quota set by the regulatory authority and is influenced by the amount of the GC that the Group has to purchase for the current year and the purchase price of GC on the centralized market. The cost with the acquisition of green certificates is a pass through cost.

In the nine month period ended 30 September 2018, the cost of GC decreased by RON 19 million, or 7%, to RON 258 million, from RON 277 million in the same period of the prior year.

The decrease was mainly determined by:

- lower supplied volumes, for which there is an obligation to purchase green certificates, by 8% (RON 23 million positive variance);
- the regularization impact – positive variance of RON 22 million, reflected in both revenue and expenses, therefore no impact on the margin (the regularization for 2017 of RON 36 million with impact in 2018 compared to the regularization of RON 14 million for 2016 with impact in 2017);
- 1.3% increase in the average price from RON 132.31/GC in the nine month period ending 30 September 2017 to RON 134.07/GC in the nine-month period month ended 30 September 2018, cumulated with the increase in average regulated quota of GC imposed to electricity suppliers by ANRE at 0.363 GC/MWh supplied from 0.344 GC/MWh supplied in the nine month period ending 30 September 2017 (RON 26 million negative variance).

Construction costs

In the nine month period ending 30 September 2018, the costs related to concession agreements increased by RON 42.3 million, or 9%, to RON 493 million, from RON 450 million in the nine month period ending 30 September 2017. This increase is attributable to the realized investments related to the Regulated Asset Base.

Salaries and other employee benefits

The expenses for salaries and employee benefits decreased by RON 3 million, or 1%, to RON 469 million in the nine month period ending 30 September 2018, from RON 472 million in the same period of the previous year, following the activity optimization measures taken by the Group.

Repairs, maintenance and materials

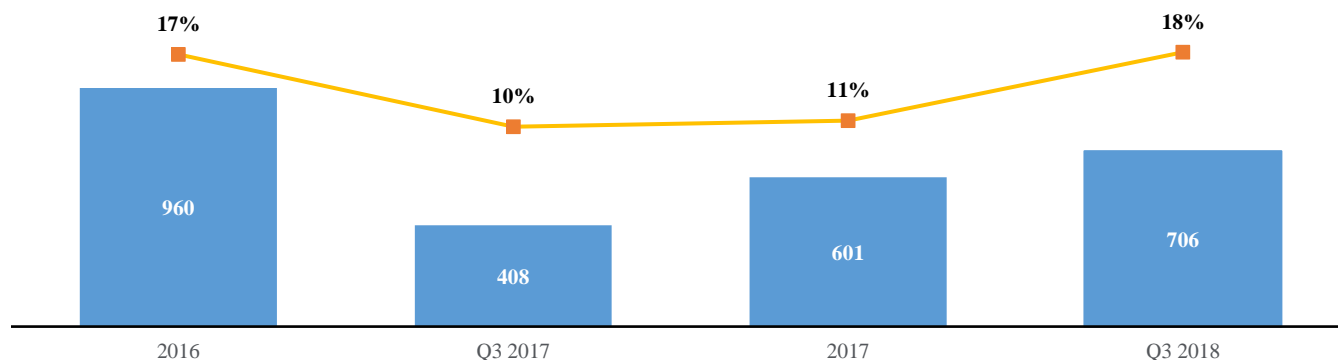
In the nine month period ending 30 September 2018, the repairs, maintenance and materials expenses increased by RON 9 million, or 16%, to RON 64 million, from RON 55 million in the nine month period ending 30 September 2017, considering the Group's reorganization of maintenance, investments and design activities to support the investments plan.

Other operating expenses

Other operating expenses decreased by RON 13 million in the nine month period ending 30 September 2018 compared to the same period of 2017, to RON 278 million, from RON 291 million, mainly due to the fact that in 2017 Electrica incurred a significant expense related to Termoelectrica litigation, for old receivables not collected, expense that has no effect in 2018.

EBITDA and EBITDA margin

Figure 6: EBITDA and EBITDA margin for Q3 2018 and comparative information (RON million and %)

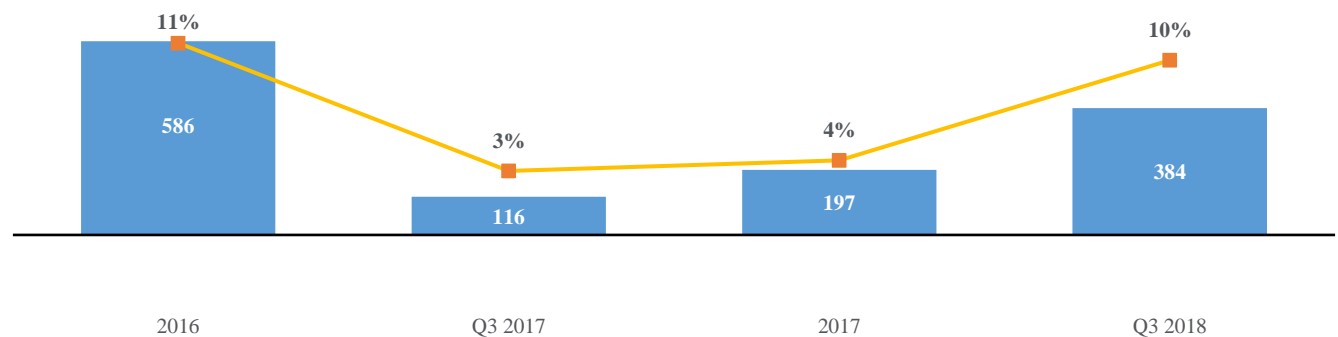


Source: Electrica

Operating profit

The Group EBIT increased by approx. RON 268 million y-o-y, adding to the EBITDA evolution only the impact of the depreciation and amortization, an increase by RON 30 million, or 10%, mainly due to the higher level of investments' commissioning and also to the results of revaluations performed as of 31 December 2017.

Figure 7: EBIT and EBIT margin for Q3 2018 and comparative information (RON million and %)



Source: Electrica

Net financial result

The net financial result at group level decreased by 44% in the nine month period ending 30 September 2018 compared to the similar period in 2017, due to lower finance income, while the finance costs remained around the same level.

Profit before tax

The profit before tax increased by RON 264 million, to RON 390 million in the nine month period ending 30 September 2018, from RON 126 million in the same period of the previous year.

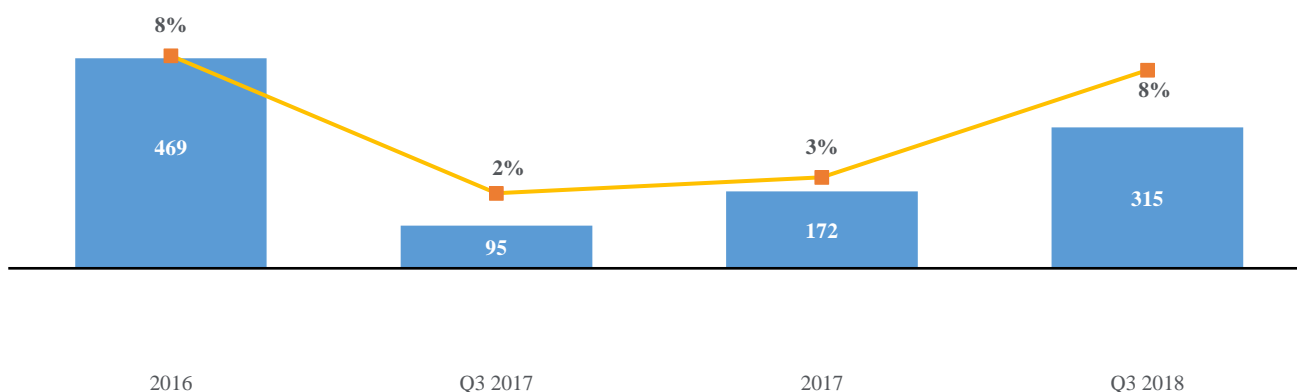
Income tax expense

In the nine month period ended 30 September 2018, the income tax increased by RON 44 million, to RON 75 million, from RON 31 million in the nine month period ending 30 September 2017, this evolution having the same trend as the profit before tax.

Net profit for the period

As a result of the factors described above, in the nine month period ended 30 September 2018, the net profit increased by RON 220 million, to RON 315 million, from RON 95 million in the comparative period.

Figure 8: Net profit and Net profit margin for Q3 2018 and comparative information (RON million and %)



Source:Electrica

6. Outlook

Tendencies in the energy market

Considering the developed 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 has an increasing trend at national level and will be accompanied by the diversification of the portfolio of products offered to customers (offers for gas, insurance, household appliances etc.) and digitalization of the services offered (mobile applications, online invoices and payments, expanding customer service through chat type solutions);
- Customers who, in accordance with the legal provisions, have the right to benefit from the universal service and do not wish to migrate to the eligible segment, will be supplied electricity under regulated conditions. It is possible to have a moderate competition on this segment as well, considering the new rules for optional suppliers of last resort;
- Distributed energy generation technologies will determine the distribution operators to adapt their processes and strategies for the upgrade and development of the network and offer solutions to independent producers, considering the new prosumers, which are active participants on the energy market; in this context, significant investments are needed in order to improve infrastructure, both for transmission and for distribution;

- Full electric vehicles and light commercial vehicles are expected to increase the consumption of electricity in the transportation sector;
- 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);
 - The implementation of smart metering will offer the consumers complex tariffs options, detailed information about the consumption behavior, 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;
 - Significant cost reduction of photovoltaic technologies is a development opportunity for smaller-scale generation projects, especially in the household area;
 - 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.

The key drivers of changes in the electricity market are presented in the following table:

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>Intensification of electricity consumption is a major trend in Romania. Over 2010-2017, there was a significant increase in electricity consumption, as opposed to a decrease of the gas consumption, mainly due to the curtailment of heavy industry production.</p>	Electricity consumption
Demographic evolution and technology development	<p>Despite the demographic decline recorded at EU and Romanian level (approx. 0.5% p.a.), the electricity consumption is impacted by the changes in the consumer behavior and the increase in urbanization. For example, smart devices are expected to generate a massive increase in connected devices, and implicitly in the electricity consumption and revenue growth across multiple industries.</p>	Electricity consumption
Changes in regulations	<p>The regulatory framework has undergone major changes with the aim of aligning the Romanian legislation with the EU legislation. 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. From 2019, the 4th Regulatory Period will start, and ANRE approved significant changes in the methodology for all tariff elements (regulated rate of return, regulated assets base, network losses, operating and maintenance expenses, dynamic distribution tariffs starting from 2020).</p>	Electricity prices
Technological development	<p>Smart networks and smart meters will create benefits for end consumers, distributors and suppliers in terms of energy efficiency, resource optimization and</p>	Electricity prices and consumption

Key driver	Description	Impact on
	network operation, implementation of demand response etc. It is necessary to prepare the networks and to integrate the distributed resources (storage solutions, micro-grids, local production, electric machines etc.), considering also the management of their impact.	
Increase in environmental awareness	Romania has adopted the EU 20-20-20 provisions, 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

Regulatory Framework

The energy regulatory framework has experienced major changes in the past decade, including market liberalization, unbundling and support scheme for renewable energy.

ANRE's changes of the distribution tariff setting methodology, including the change in level of remuneration given by 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.

For the distribution area, the following **changes** for the fourth regulatory period (RP4), approved on September 2018 through ANRE Orders no. 168/2018 and no. 169/2018:

- Regulated Rate of Return (RRR) becomes 5.66% for the assets existing in the Regulated Assets Base (RAB) at 31.12.2018, while for investments in the power distribution network put into operation starting with RP4, a 1% incentive is granted (RRR of 6,66%). RRR may be reviewed annually according to the evolution of the parameter values taken into consideration for RRR;
- The exclusion from RAB of the fixed assets not recorded as fixed assets and/or rented; the inflation is automatically considered by ANRE, until the difference between the inflated RAB and net book value of the assets included in RAB is lower than 5%; RAB will be decreased with the disposals from the initial RAB made in the period 2005-2018;
- The value of the annual investment program shall be at least equal to the amount of the total annual forecasted regulated depreciation charge, and in the event of the partial realization of the investment plan, annual corrections will be made;
- Regarding the network losses (NL), the target for the year 2019 will be lower than the minimum achieved in the current regulatory period; the low voltage NL reference target will be the minimum between the 2018 approved value and the current period realized values, following linear reduction by 2023 between 15% and 25%, depending on the reference value; the ANRE forecasted ex-ante NL price will be equal with the average value realized by distribution system operators (DSO) and the transmission and system operator (TSO) achieved during the cumulated period H2 2017 and H1 2018 and limited to 5% quantity from the balancing market (BM), without considering the extreme values. The NL price recognized ex-post by ANRE will be the minimum value between the DSOs realized price and a reference price set as the average of DSOs and TSO realized prices, limited to 5% quantity from BM, without the extreme values;
- The controllable costs (controllable OPEX) for 2019 will be established based on comparative analyses between DSOs and justified adjustments requested by DSOs. The operating and maintenance costs (excluding personnel

costs and health & safety costs) are subject to an efficiency factor capped at maximum 2%, and 40% of the efficiency gain will be kept by DSOs; the efficiency gain considered is up to 5%. The methodology defines new cost recognition criteria by reference to their prudence, as well as annual corrections between forecasted and realized values;

- The costs with affiliated parties will be recognized based on comparative analyses, market price and prudence criteria as well;
- According to the new methodology, the profit from other activities is capped at maximum 5%, the working capital financing component will be eliminated from revenue (tariffs), and starting with 2020, the DSOs are obliged to offer dynamic distribution tariffs at the request of users or their suppliers.

Regarding the changes to the Romanian legislation, relevant for the **supply segment**, the most significant are:

- The complete market liberalization starting 1 January 2018 that may change, in the next period, the structure of the customer portfolio, especially through the migration of the household customers to the eligible segment;
- The increasing competition between the optional suppliers of last resort (SoLR) and bound SoLR, which will lead to firm measures for cost reduction and the implementation of new strategies for energy procurement on the wholesale market, namely volumes and values hedging strategies, supported by IT applications that will allow fast analysis of the entire portfolio and price forecasts;
- The Law no. 184/2018 and the fact that prosumers are able to sell the electricity produced and delivered into the network to the electricity suppliers with whom they have signed electricity supply contracts, as well as the right of the prosumer to benefit from the regularization between the value of the electricity delivered and the value of the electricity used from the network, will lead to changes to the ANRE Order no. 88/2015 for the approval of framework agreements for the supply of electricity, for both household and non-household clients, to the general conditions for electricity supply to the end consumers of the SoLR and to the electricity invoice model and electricity consumption agreement model, used by the SoLR.

Electrica Group

Currently, Electrica is in the process of reviewing its medium and long-term strategy in order to incorporate and capitalize on changes in the national and international environment, taking also into account the organizational changes.

The Group analyzes the strategic options and aims to implement streamlining measures, including through restructuring programs and transformation of group's divisions, training and staff development programs, redesigning business models, introducing a system of intra-group service contracts, or entering new business segments, in order to improve both the quality of the services offered and the financial performance.

The most important assumptions considered for the strategy review are the following:

- The Romanian energy mix landscape is changing significantly, being heavily disrupted by the advent of renewables, together with the emergence of the prosumers in the following years;
- On the long term, Romania's economy is expected to grow; however, divergent trends in the electricity consumption 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 the accomplishment of the 20-20-20 strategy regarding the climate changes and the implementation of the new Framework for the period 2020-2030;
- In supply, the market liberalization has changed the landscape significantly, requiring repositioning of all

market players; in addition, challenges to SoLR business model have appeared;

- No major geopolitical turbulences have been taken into account, which might significantly affect the Romanian electricity market;
- Financial markets would allow access to financing sources to support companies' investment programs.

Please note that other factors not presented above and not considered by the Group may occur and may have a significant impact on the implementation and evolution of the Group's strategy.

7. Capital Expenditures

A core part of Electrica business strategy includes implementing the investment plan. Electrica's activities 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.

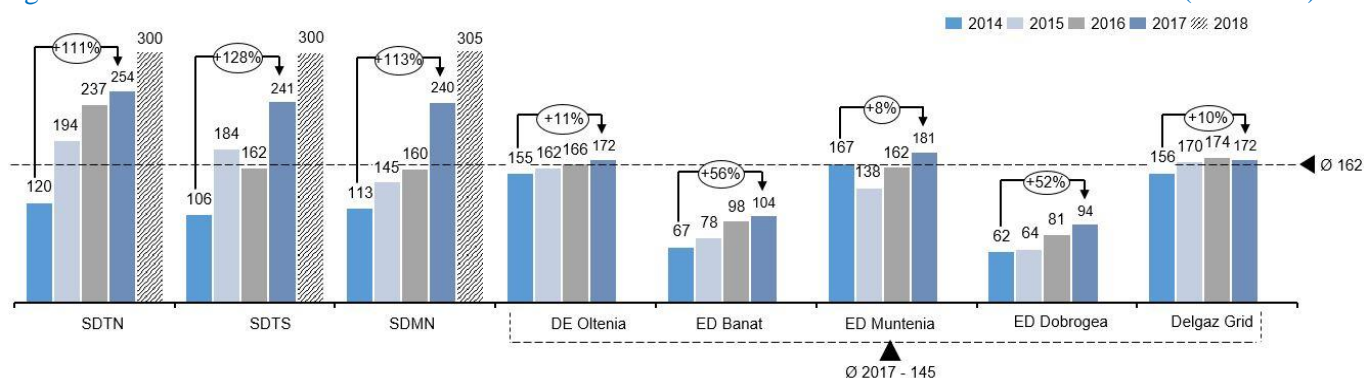
Electrica's capital expenditures in the nine month periods ending 30 September 2018 and 30 September 2017 amounted to RON 504 million and RON 462 million, respectively.

The volume of investments in the distribution network increased by aprox. RON 42 million, or 9%, to RON 493 million in the nine month period ending 30 September 2018 from RON 450 million realized in the same period of the previous year. This increase is mainly attributable to the realized 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.

Figure 9: Network investments for all national DSOs for 2014-2018 and the variation 2017 vs. 2014 (RON mil.)



Source: 2017 Annual ANRE report and Electrica

During RP3, Electrica Group had the most ambitious medium term investment plan, correlated with the objectives assumed after the IPO. During 2017, the investments' execution was supported by the optimization measures implemented within the distribution area, SDMN and SDTS significantly improving their performance y-o-y. The average performance of Electrica DSO in 2017 in terms of investment commissionings, which is 92.8% of the planned values, was approx. 69% higher than the national average achieved in 2017 by the other DSOs.

8. Statements

Based on the best available information, we confirm that the interim condensed consolidated financial statements for the nine month period ended September 30, 2018 (not reviewed and unaudited) prepared in accordance with the International Accounting Standard IAS 34 – Interim Financial Reporting, provides an accurate and real image regarding the Electrica Group’s financial position, the financial performance and the cash flows, as required by the applicable accounting standards, and that this Report prepared in accordance with art. 67 of the law no. 24/2017 on issuers of financial instruments and market operations and to annex no. 13 to ASF Regulation no. 5/2018 for the nine month period ended 30 September 2018, comprises accurate and real information according to the development and performance of the Group.

Chair of the Board of Directors,

Doina Elena DASCALU

Chief Executive Officer,

Corina Georgeta POPESCU

Chief Financial Officer,

Mihai DARIE

9. Annexes

9.1. Contracts concluded reported according to art. 82 of Law 24/2017

In the first part of 2018 (up to date) six current reports were issued 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 3 January 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 29 March 2018:
 - Business transfer contract no. 42/28.03.2018 with Electrica Furnizare: Business and assets transfer of Balancing Responsible Party activity

- Current report from 5 April 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 27 April 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.

- Current report from 29 May 2018:
 - Loan contract no. 167/29.05.2018 with Servicii Energetice Muntenia: Granting a loan of max. RON 5,500,000.

- Current report from 25 October 2018:
 - Services contract no. 219/24.10.2018 with Societatea de Distributie a Energiei Electrice „Muntenia Nord”: Rendering of services using AMR system for the period 1 October 2018 – 28 February 2019

9.2. Economic and financial indicators of Electrica Group as of 30 September 2018 according to Annex 13/ ASF Regulation no. 5/2018

Indicator	Formula	Value
Current liquidity ratio	Current assets/ Current liabilities	2
Capital Gearing Ratio	Debt/ Equity * 100	6%
Trade receivables turnover	Average balance trade receivables/ Turnover * 270	52 days
Non-current asset turnover ratio	Turnover/ Non-current assets	0.7