



SOCIETATEA ENERGETICA ELECTRICA S.A.

Condensed Consolidated Interim Financial Statements

as at and for the nine month period ended

30 September 2019

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 2019
PREPARED IN ACCORDANCE WITH IAS 34 "INTERIM FINANCIAL REPORTING" AS ADOPTED BY THE EUROPEAN
UNION

Contents

Condensed consolidated statement of financial position	1
Condensed consolidated statement of profit or loss	3
Condensed consolidated statement of comprehensive income	5
Condensed consolidated statement of changes in equity	7
Condensed consolidated statement of cash flows	9

Notes to the condensed consolidated interim financial statements

1. Reporting entity and general information	11
2. Basis of accounting	12
3. Restatements	13
4. Basis of measurement	14
5. Significant accounting policies	14
6. Operating segments	15
7. Revenue	20
8. Other income	21
9. Electricity purchased	21
10. Earnings per share	21
11. Dividends	22
12. Income tax	22
13. Trade receivables	22
14. Cash and cash equivalents	23
15. Deposits with maturity date more than three months	24
16. Other payables	24
17. Long-term bank borrowings	24
18. Provisions	25
19. Financial instruments - fair values	26
20. Related parties	28
21. Subsidiaries in financial distress	30
22. Contingencies	31
23. Subsequent events	33

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

AS AT 30 SEPTEMBER 2019

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

	Note	30 September 2019 (unaudited and not reviewed)	31 December 2018 (audited)
ASSETS			
Non-current assets			
Intangible assets related to concession arrangements		5,040,141	4,810,340
Other intangible assets		13,635	13,899
Property, plant and equipment, net		549,929	601,178
Restricted cash		320,000	320,000
Deferred tax assets		18,201	28,895
Other non-current assets		2,049	1,842
Right of use asset		44,436	-
Total non-current assets		5,988,391	5,776,154
Current assets			
Trade receivables	13	885,132	806,293
Other receivables		30,912	38,461
Green certificates		109	-
Cash and cash equivalents		452,848	665,730
Deposits with maturity date more than three months	15	201,932	136,493
Inventories		72,824	63,585
Prepayments		4,316	2,666
Income tax receivable		3,989	16,481
Assets held for sale		16,312	23,209
Total current assets		1,668,374	1,752,918
Total assets		7,656,765	7,529,072
EQUITY AND LIABILITIES			
Equity			
Share capital		3,459,399	3,459,399
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		95,950	108,704
Legal reserves		352,038	352,038
Retained earnings		1,601,623	1,675,479
Total equity attributable to the owners of the Company		5,541,831	5,628,441
Total equity		5,541,831	5,628,441

(Continued on page 2)

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

AS AT 30 SEPTEMBER 2019

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

	Note	30 September 2019 (unaudited and not reviewed)	31 December 2018 (audited)
Liabilities			
Non-current liabilities			
Financing for network construction related to concession agreements		-	981
Finance lease liability – long term		12,362	-
Deferred tax liabilities		181,885	183,381
Employee benefits		186,720	186,857
Other payables	16	37,643	41,247
Long-term bank borrowings	17	378,721	320,000
Total non-current liabilities		797,331	732,466
Current liabilities			
Financing for network construction related to concession agreements		3,233	11,851
Finance lease liability – short term		32,703	-
Bank overdrafts		371,346	118,972
Trade payables		587,734	742,200
Other payables	16	226,313	181,117
Deferred revenue		4,904	5,037
Employee benefits		57,828	77,988
Provisions	18	26,658	29,106
Current income tax liability		6,884	1,894
Total current liabilities		1,317,603	1,168,165
Total liabilities		2,114,934	1,900,631
Total equity and liabilities		7,656,765	7,529,072

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

14 November 2019

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
 (All amounts are in THOUSAND RON, if not otherwise stated)

	Note	Nine month period ended	
		30 September 2019 (unaudited and not reviewed)	30 September 2018 (unaudited and not reviewed)
Revenue	7	4,607,483	4,009,957
Other income	8	115,752	116,332
Electricity purchased	9	(2,445,695)	(1,855,561)
Green certificates		(384,972)	(257,723)
Construction costs related to concession agreements		(515,192)	(492,517)
Employee benefits		(484,889)	(469,365)
Repairs, maintenance and materials		(70,933)	(64,353)
Depreciation and amortization		(358,362)	(323,033)
Reversal of impairment of property, plant and equipment and intangible assets, net		2,861	1,422
Reversal of impairment/(Impairment) of trade and other receivables, net		1,381	(2,805)
Impairment of assets held for sale		(290)	-
Change in provisions, net		2,448	(52)
Other operating expenses		(275,940)	(278,347)
Operating profit		193,652	383,955
Finance income		10,361	10,126
Finance costs		(9,423)	(4,094)
Net finance income		938	6,032
Profit before tax		194,590	389,987
Income tax expense	12	(33,694)	(75,077)
Profit for the period		160,896	314,910
Profit for the period attributable to:			
- owners of the Company		160,896	314,910
Profit for the period		160,896	314,910
Earnings per share			
Basic and diluted earnings per share (RON)	10	0.47	0.93

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

14 November 2019

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
 (All amounts are in THOUSAND RON, if not otherwise stated)

	Three month period ended	
	30 September 2019 (unaudited and not reviewed)	30 September 2018 (unaudited and not reviewed)
Revenue	1,506,278	1,356,408
Other income	36,961	41,453
Electricity purchased	(763,097)	(586,833)
Green certificates	(123,854)	(103,053)
Construction costs related to concession agreements	(164,127)	(203,008)
Employee benefits	(173,748)	(171,992)
Repairs, maintenance and materials	(23,654)	(22,027)
Depreciation and amortization	(117,473)	(106,997)
(Impairment)/Reversal of impairment of property, plant and equipment and intangible assets, net	(3,061)	1,235
Impairment of trade and other receivables, net	(2,822)	(334)
Impairment of assets held for sale	(94)	-
Change in provisions, net	(11,332)	(131)
Other operating expenses	(90,090)	(82,148)
Operating profit	69,887	122,573
Finance income	3,199	4,216
Finance costs	(3,212)	(683)
Net finance income	(13)	3,533
Profit before tax	69,874	126,106
Income tax expense	(17,764)	(20,820)
Profit for the period	52,110	105,286
Profit for the period attributable to:		
- owners of the Company	52,110	105,286
Profit for the period	52,110	105,286
Earnings per share		
Basic and diluted earnings per share (RON)	0.15	0.31

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

14 November 2019

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

	Nine month period ended	
	30 September 2019 (unaudited and not reviewed)	30 September 2018 (unaudited and not reviewed)
Profit for the period	160,896	314,910
Other comprehensive income	-	-
Total comprehensive income	160,896	314,910
Total comprehensive income attributable to:		
- owners of the Company	160,896	314,910
Total comprehensive income	160,896	314,910

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

14 November 2019

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
 (All amounts are in THOUSAND RON, if not otherwise stated)

	Three month period ended	
	30 September 2019 (unaudited and not reviewed)	30 September 2018 (unaudited and not reviewed)
Profit for the period	52,110	105,286
Other comprehensive income	-	-
Total comprehensive income	52,110	105,286
Total comprehensive income attributable to:		
- owners of the Company	52,110	105,286
Total comprehensive income	52,110	105,286

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

14 November 2019

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
 (All amounts are in THOUSAND RON, if not otherwise stated)

	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 2019 (audited)	3,459,399	103,049	(75,372)	5,144	108,704	352,038	1,675,479	5,628,441
Comprehensive income								
Profit for the period (unaudited and not reviewed)	-	-	-	-	-	-	160,896	160,896
Total comprehensive income (unaudited and not reviewed)	-	-	-	-	-	-	160,896	160,896
Transactions with owners of the Company (unaudited and not reviewed)								
Contributions and distributions								
Dividends to the owners of the Company	-	-	-	-	-	-	(247,506)	(247,506)
Total transactions with the owners of the Company (unaudited and not reviewed)	-	-	-	-	-	-	(247,506)	(247,506)
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	-	-	-	-	(12,754)	-	12,754	-
Balance at 30 September 2019 (unaudited and not reviewed)	3,459,399	103,049	(75,372)	5,144	95,950	352,038	1,601,623	5,541,831

(Continued on page 8)

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
 (All amounts are in THOUSAND RON, if not otherwise stated)

	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	
Restated balance at 1 January 2018 as reported previously (audited)	3,814,242	103,049	(75,372)	5,144	123,748	326,779	1,357,966	5,655,556
Restatement impact (please see Note 3)	(354,843)	-	-	-	-	-	354,843	-
Restated balance at 1 January 2018 (audited)	3,459,399	103,049	(75,372)	5,144	123,748	326,779	1,712,809	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	-
Restated balance at 30 September 2018 (unaudited and not reviewed)	3,459,399	103,049	(75,372)	5,144	115,040	326,779	1,791,057	5,725,096

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

14 November 2019

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
 (All amounts are in THOUSAND RON, if not otherwise stated)

		Nine month period ended	
Note		30 September 2019 (unaudited and not reviewed)	30 September 2018 (unaudited and not reviewed)
Cash flows from operating activities			
	Profit for the period	160,896	314,910
Adjustments for:			
	Depreciation	28,473	30,510
	Amortisation	329,889	292,523
	Reversal of impairment of property, plant and equipment and intangible assets, net	(2,861)	(1,422)
	Loss/(Gain) on disposal of property, plant and equipment and intangible assets	4,116	(241)
	(Reversal of impairment)/Impairment of trade and other receivables, net	(1,381)	2,805
	Impairment on assets held for sale	290	-
18	Change in provisions, net	(2,448)	52
	Net finance income	(938)	(6,032)
12	Expense with corporate income tax	33,694	75,077
		549,730	708,182
Changes in:			
	Trade receivables	(114,422)	39,924
	Other receivables	30,528	44,773
	Prepayments	(1,650)	(1,838)
	Green certificates	(109)	6,558
	Inventories	(9,239)	(3,610)
	Trade payables	70,342	(55,355)
	Other payables	17,876	26,393
	Employee benefits	(20,297)	(5,732)
	Deferred revenue	(133)	(1,679)
	Cash generated from operating activities	522,626	757,616
	Interest paid	(8,123)	(2,188)
	Income tax paid	(7,015)	(30,270)
	Net cash from operating activities	507,488	725,158

(Continued on page 10)

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

	Note	Nine month period ended	
		30 September 2019 (unaudited and not reviewed)	30 September 2018 (unaudited and not reviewed)
Cash flows used in investing activities			
Payments for purchases of property, plant and equipment		(5,741)	(1,951)
Payments for network construction related to concession agreements		(684,546)	(577,998)
Payments for purchases of intangible assets		(5,325)	(1,732)
Proceeds from sale of property, plant and equipment		6,084	13,150
Purchase of treasury bills and government bonds	15	-	(95,339)
Proceeds from maturity of treasury bills and government bonds	15	-	466,722
Increase in deposits with maturity of 3 months or longer	15	(384,116)	(563,000)
Proceeds from deposits with maturity of 3 months or longer	15	319,000	525,000
Interest received		9,687	8,492
Net cash used in investing activities		(744,957)	(226,656)
Cash flows used in financing activities			
Proceeds from long term bank loans	17	58,721	-
Payment of finance lease liabilities		(29,626)	-
Dividends paid		(247,173)	(244,718)
Repayment of financing for network construction related to concession agreements		(9,709)	(24,964)
Net cash used in financing activities		(227,787)	(269,682)
Net (decrease)/increase in cash and cash equivalents		(465,256)	228,820
Cash and cash equivalents at 1 January		546,758	314,589
Cash and cash equivalents at 30 September	14	81,502	543,409

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

The non-cash transactions are disclosed in Note 14.

Chief Executive Officer

Georgeta Corina Popescu

Chief Financial Officer

Mihai Darie

14 November 2019

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(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 2019.

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 2019 and 31 December 2018 the major shareholder of Societatea Energetica Electrica SA is the Romanian State, represented by the Ministry of Energy with a share of ownership of 48.78% from the share capital.

As at 30 September 2019 and 31 December 2018, the Company's subsidiaries are the following:

Subsidiary	Activity	Sole registration code	Head Office	% shareholding as at 30 September 2019	% shareholding as at 31 December 2018
Societatea de Distributie a Energiei Electrice Muntenia Nord S.A. ("SDEE Muntenia Nord S.A.")	Electricity distribution in geographical area of Muntenia Nord	14506181	Ploiesti	99.9999719027621%	99.9999696922382%
Societatea de Distributie a Energiei Electrice Transilvania Nord S.A. ("SDEE Transilvania Nord S.A.")	Electricity distribution in geographical area of Transilvania Nord	14476722	Cluj-Napoca	99.9999731064276%	99.9999829770757%
Societatea de Distributie a Energiei Electrice Transilvania Sud S.A. ("SDEE Transilvania Sud S.A.")	Electricity distribution in geographical area of Transilvania Sud	14493260	Brasov	99.999977569745%	99.999976413243%
Electrica Furnizare S.A.	Electricity Supply	28909028	Bucuresti	99.9998390431663%	99.9998390431663%
Electrica Serv S.A.	Services in the energy sector (maintenance, repairs, construction)	17329505	Bucuresti	100%	100%
Servicii Energetice Muntenia S.A.	Services in the energy sector (maintenance, repairs, construction)	29384120	Bucuresti	100%	100%
Servicii Energetice Oltenia S.A.*	Services in the energy sector (maintenance, repairs, construction)	29389861	Craiova	n/a*	n/a*

**Societatea Energetica Electrica SA lost the control of Servicii Energetice Oltenia starting with 31 October 2018 when the bankruptcy proceedings of the subsidiary were initiated by the Court (see Note 21). As of this date, the Group ceased to consolidate this company.*

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

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

The distribution tariffs approved by the 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			
1 January-31 December 2018			
	High voltage	Medium voltage	Low voltage
SDEE Transilvania Nord S.A.	18.73	60.11	157.35
SDEE Transilvania Sud S.A.	20.29	60.38	160.80
SDEE Muntenia Nord S.A.	14.79	46.33	155.71
Order 198,199,197/20.12.2018			
1 January-28 February 2019			
	High voltage	Medium voltage	Low voltage
SDEE Transilvania Nord S.A.	18.16	60.00	158.67
SDEE Transilvania Sud S.A.	20.27	60.10	160.31
SDEE Muntenia Nord S.A.	15.21	48.29	162.46
Order 25,26,24/25.02.2019			
1 March-30 June 2019			
	High voltage	Medium voltage	Low voltage
SDEE Transilvania Nord S.A.	18.58	61.40	162.38
SDEE Transilvania Sud S.A.	20.75	61.52	164.08
SDEE Muntenia Nord S.A.	15.56	49.40	166.20
Order 79,80,78/24.06.2019			
1 July-31 December 2019			
	High voltage	Medium voltage	Low voltage
SDEE Transilvania Nord S.A.	19.03	62.88	166.27
SDEE Transilvania Sud S.A.	21.21	62.88	167.72
SDEE Muntenia Nord S.A.	15.93	50.58	170.16

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 2018. 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 2018.

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 14 November 2019.

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

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

Judgements and estimates

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements as at and for the year ended 31 December 2018.

3 Restatements

Share capital restatement

Until 31 December 2003, the statutory share capital in nominal terms was restated according to IAS 29 "Financial Reporting in Hyperinflationary Economies" with a corresponding adjustment to Retained Earnings. Through the General Meeting of Shareholders decision no. 1/27.04.2015 was approved the use of the amount known as "Inflation adjustment to share capital" having a value of RON 354,843 thousand to cover the accumulated accounting losses. Therefore, the share capital should have been decreased to reflect the above mentioned operation.

As a consequence, the Share capital has been overstated and Retained earnings understated with the amount of RON 354,843 thousand. The Company reclassified in the statement of financial position the amount RON 354,843 thousand from Share capital to Retained earnings, by restating each of the affected financial statement line items for prior periods, the reclassification having no impact within the Equity line.

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

Consolidated statement of financial position

	1 January 2018 as reported previously	1 January 2018 reclassifications	1 January 2018 as restated
Share capital	3,814,242	(354,843)	3,459,399
Share premium	103,049	-	103,049
Treasury shares reserve	(75,372)	-	(75,372)
Pre-paid capital contribution in kind from shareholders	5,144	-	5,144
Revaluation reserve	123,748	-	123,748
Legal reserves	326,779	-	326,779
Retained earnings	1,357,966	354,843	1,712,809
Total equity attributable to the owners of the Company	5,655,556	-	5,655,556
	30 September 2018 as reported previously	30 September 2018 reclassifications	30 September 2018 as restated
Share capital	3,814,242	(354,843)	3,459,399
Share premium	103,049	-	103,049
Treasury shares reserve	(75,372)	-	(75,372)
Pre-paid capital contribution in kind from shareholders	5,144	-	5,144
Revaluation reserve	115,040	-	115,040
Legal reserves	326,779	-	326,779
Retained earnings	1,436,214	354,843	1,791,057
Total equity attributable to the owners of the Company	5,725,096	-	5,725,096

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

4 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.

5 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 2018, except for the adoption of new standards effective as of January 1st 2019.

Starting with January 1st 2019, the Group has applied for the first time a new standard, IFRS 16 „Leases”.

Due to the transition methods chosen by the Group in applying this standard, comparative information throughout these interim financial statements has not been restated to reflect the requirements of the new standard.

IFRS 16 „Leases”

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases. Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated over the lease term and the liability accrues interest. Interest expense is charged to profit or loss over the lease period on the remaining balance of the lease liability for each period. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals. Lessor accounting shall remain largely unaffected by the introduction of the new standard and the distinction between operating and finance leases will be retained.

In addition, the Group has taken into consideration the following aspects for the contracts that fall under IFRS 16 incidence: i) did not recognize any right-of-use assets or lease liabilities for contracts which expire within 12 months since implementation date; and ii) did not recognize any right-of-use assets or lease liabilities for lower value contracts.

Being permitted by the standard, the Group adopted IFRS 16 starting with January 1st 2019 using the modified retrospective approach, with no restatement of comparative information.

The right-of-use assets for previous operating leases were measured at the date of initial application at the amount of the lease liability, adjusted by prepaid or accrued lease payments. The lease liabilities were measured at the present value of the lease payments over the remaining lease term, discounted using the incremental borrowing rate as of January 1st 2019. The weighted average lessee's incremental borrowing rate used by the Group as at January 1st 2019 is 2.03%.

Initial application of IFRS 16 resulted in the recognition of right-of-use assets as at 1st of January 2019 and also lease liabilities amounting to RON 77,891 thousand out of which short-term liabilities in amount of RON 38,840 thousand and long-term liabilities in amount of RON 39,051 thousand.

As at 30th September 2019, the Group has recognized right-of-use assets amounting to RON 44,436 thousand and lease liabilities amounting to RON 45,065 thousand related to the previous operational leasing contracts, out of which short-term liabilities in amount of RON 32,703 thousand and long-term liabilities in amount of RON 12,362 thousand.

The Group has lease contracts mainly for rental of vehicles, land, buildings and optical fibres.

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

6 Operating segments

(a) Basis for segmentation

The following summary describes the operations of each reportable segment:

Reportable segments	Operations
Electricity supply	Buying and supplying electricity to final consumers (includes Electrica Furnizare SA and the BRP activity of Electrica SA until 1 April 2018)
Electricity distribution	Electricity distribution service (includes Societatea de Distributie a Energiei Electrice Transilvania Sud SA, Societatea de Distributie a Energiei Electrice Transilvania Nord SA, Societatea de Distributie a Energiei Electrice Muntenia Nord SA, Electrica Serv SA and the activity performed by Societatea Energetica Electrica SA within the distribution network)
External electricity network maintenance	Repairs, maintenance and other services for electricity networks owned by other distributors (includes Servicii Energetice Muntenia SA and Servicii Energetice Oltenia SA - for the comparative period)
Headquarter	Includes corporate activities at parent company level

The Board of Directors of the Company reviews management reports of each segment. Segment earnings before interest, tax, depreciation and amortisation ("EBITDA") is used to measure performance because management believes that such information is one of the most relevant in evaluating the results of the segments.

There are varying levels of integration between the Electricity supply, Electricity distribution and External electricity network maintenance segments. This integration includes energy distribution, shared electricity network maintenance services, respectively. Inter-segment pricing policy is determined on an arm's length basis.

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

(b) Information about reportable segments

Nine month period ended 30 September 2019 (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	3,507,270	1,077,253	22,960	-	4,607,483	-	4,607,483
Inter-segment revenue	24,668	903,449	2,034	-	930,151	(930,151)	-
Segment revenue	3,531,938	1,980,702	24,994	-	5,537,634	(930,151)	4,607,483
Segment profit/(loss) before tax	104,807	89,708	(1,287)	254,249	447,477	(252,887)	194,590
Net finance income/(cost)	2,746	(35,499)	(173)	286,751	253,825	(252,887)	938
Amortization and depreciation	(11,215)	(329,586)	(1,114)	(16,447)	(358,362)	-	(358,362)
Reversal of impairment of property, plant and equipment and intangible assets, net	-	2,861	-	-	2,861	-	2,861
Impairment of assets held for sale	-	(290)	-	-	(290)	-	(290)
Reversal of impairment/(Impairment) of trade and other receivables, net	10,022	(8,669)	28	-	1,381	-	1,381
EBITDA*	113,276	452,222	-	(16,055)	549,443	-	549,443
Segment net profit/(loss)	83,909	76,846	(1,221)	254,249	413,783	(252,887)	160,896
Employee benefits	(57,429)	(395,288)	(11,970)	(20,202)	(484,889)	-	(484,889)
Capital expenditure	3,683	530,042	213	639	534,577	-	534,577
Nine month period ended 30 September 2018 (unaudited and not reviewed)							
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
Amortization and depreciation	(10,662)	(309,046)	(1,114)	(3,917)	(324,739)	1,706	(323,033)
Impairment of property, plant and equipment and intangible assets, net	-	1,422	-	-	1,422	-	1,422
Impairment losses on trade and other receivables, net	(9,490)	6,662	23	-	(2,805)	-	(2,805)
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

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

AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019

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

At 30 September 2019 (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	1,068,909	7,157,079	112,656	636,386	8,975,030	(1,318,265)	7,656,765
Trade and other receivables	731,549	434,540	12,557	5,773	1,184,419	(268,375)	916,044
Cash and cash equivalents	214,702	162,021	602	75,523	452,848	-	452,848
Restricted cash	-	-	-	320,000	320,000	-	320,000
Deposits with maturity date more than three months	-	43,286	-	158,646	201,932	-	201,932
Trade and other payables and short term employee benefits	795,025	348,078	4,148	6,011	1,153,262	(243,744)	909,518
Bank overdrafts	-	371,346	-	-	371,346	-	371,346
Finance lease	2,030	41,051	-	1,984	45,065	-	45,065
Financing for network construction related to concession agreements and bank loans	-	381,954	-	-	381,954	-	381,954
At 31 December 2018 (audited)							
Segment assets	1,021,229	6,990,308	116,330	687,934	8,815,801	(1,286,729)	7,529,072
Trade and other receivables	658,463	484,703	11,742	8,356	1,163,264	(318,510)	844,754
Cash and cash equivalents	243,741	248,702	3,332	169,955	665,730	-	665,730
Restricted cash	-	-	-	320,000	320,000	-	320,000
Deposits with maturity date more than three months	-	35,000	-	101,493	136,493	-	136,493
Trade and other payables and short term employee benefits	714,093	578,130	30,967	13,241	1,336,431	(293,879)	1,042,552
Bank overdrafts	-	118,972	-	-	118,972	-	118,972
Financing for network construction related to concession agreements and bank loans	-	332,832	-	-	332,832	-	332,832

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

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

Nine month period ended 30 September 2019 (unaudited and not reviewed)	Distribution Muntenia Nord	Distribution Transilvania Nord	Distribution Transilvania Sud	Electricity network maintenance	Eliminations	Total Electricity distribution
External revenues	306,811	336,391	424,420	9,631	-	1,077,253
Inter-segment revenue	321,903	282,273	293,889	100,403	(95,019)	903,449
Segment revenue	628,714	618,664	718,309	110,034	(95,019)	1,980,702
Segment profit before tax	5,457	48,249	24,378	9,917	1,707	89,708
Net finance income/(cost)	(12,263)	(12,535)	(11,300)	599	-	(35,499)
Amortization and depreciation	(94,168)	(108,124)	(106,970)	(22,031)	1,707	(329,586)
Reversal of impairment of property, plant and equipment and intangible assets, net	2,545	-	265	51	-	2,861
Impairment of assets held for sale	-	-	-	(290)	-	(290)
Impairment of trade and other receivables, net	(1,212)	(874)	(3,387)	(3,196)	-	(8,669)
EBITDA*	109,343	168,908	142,383	31,588	-	452,222
Net profit/(loss)	(435)	40,605	21,509	13,460	1,707	76,846
Employee benefits	(124,547)	(119,410)	(127,165)	(24,166)	-	(395,288)
Capital expenditure	147,533	143,612	234,351	4,546	-	530,042
Nine month period ended 30 September 2018 (unaudited and not reviewed)						
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 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)
Amortization and depreciation	(95,823)	(103,754)	(102,659)	(6,810)	-	(309,046)
Impairment of property, plant and equipment and intangible assets, net	732	294	396	-	-	1,422
Impairment losses of trade and other receivables, net	2,693	719	1,855	1,395	-	6,662
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

SOCIETATEA ENERGETICA ELECTRICA S.A.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019

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

At 30 September 2019 (unaudited and not reviewed)	Distribution Muntenia Nord	Distribution Transilvania Nord	Distribution Transilvania Sud	Electricity network maintenance	Eliminations	Total Electricity distribution
Segment assets	2,425,330	2,245,108	2,135,965	396,155	(45,479)	7,157,079
Trade and other receivables	145,313	133,168	132,329	62,005	(38,275)	434,540
Cash and cash equivalents	74,568	40,394	18,969	28,090	-	162,021
Deposits with maturity date more than three months	-	-	-	43,286	-	43,286
Trade and other payables and short term employee benefits	97,444	146,091	124,566	18,252	(38,275)	348,078
Bank overdrafts	70,231	163,436	137,679	-	-	371,346
Finance lease	5,085	7,073	686	28,207	-	41,051
Financing for network construction related to concession agreements and bank loans	80,212	114,444	187,298	-	-	381,954
At 31 December 2018 (audited)						
Segment assets	2,415,082	2,189,664	2,045,814	389,512	(49,764)	6,990,308
Trade and other receivables	149,021	140,984	144,049	91,503	(40,854)	484,703
Cash and cash equivalents	125,119	25,171	71,720	26,692	-	248,702
Deposits with maturity date more than three months	-	-	-	35,000	-	35,000
Trade and other payables, and short term employee benefits	195,963	196,595	203,222	23,204	(40,854)	578,130
Bank overdrafts	-	29,153	89,819	-	-	118,972
Financing for network construction related to concession agreements and bank loans	82,026	116,202	134,604	-	-	332,832

**EBITDA (Earnings before interest, tax, depreciation and amortisation) for operating segments is defined and calculated as segment profit/(loss) before tax of a given operating segment adjusted for i) depreciation, amortization and impairment/ reversal of impairment of property, plant and equipment and intangible assets in the operating segment, ii) impairment of assets held for sale and iii) 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.*

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

(c) Reconciliation of information on reportable segments to IFRS measures

	30 September 2019 (unaudited and not reviewed)	31 December 2018 (audited)
Total assets		
Total assets for reportable segments	8,975,030	8,815,801
Elimination of inter-segment assets	(1,336,466)	(1,315,624)
Unallocated amounts	18,201	28,895
Consolidated total assets	7,656,765	7,529,072
Trade and other receivables		
Trade and other receivables for reportable segments	1,184,419	1,163,264
Elimination of inter-segment trade and other receivables	(268,375)	(318,510)
Consolidated trade and other receivables	916,044	844,754
Trade and other payables and short term employee benefits		
Trade and other payable and short term employee benefits for reportable segments	1,153,262	1,336,431
Elimination of inter-segment trade and other payables and short term employee benefits	(243,744)	(293,879)
Consolidated trade and other payables and short term employee benefits	909,518	1,042,552

7 Revenue

	Nine month period ended	
	30 September 2019 (unaudited and not reviewed)	30 September 2018 (unaudited and not reviewed)
Electricity distribution and supply	3,993,666	3,432,722
Supply of natural gas	37,437	-
Construction revenue related to concession agreements	525,496	502,366
Repairs, maintenance and other services rendered	44,390	65,267
Re-connection fees	5,548	5,960
Sales of merchandise	946	3,642
Total	4,607,483	4,009,957

Starting with 1 January 2018, with the adoption of 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. 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.

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 1,566 thousand (nine month period ended 30 September 2018: 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).

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

8 Other income

	Nine month period ended	
	30 September 2019 (unaudited and not reviewed)	30 September 2018 (unaudited and not reviewed)
Rental income	78,220	76,534
Late payment penalties from customers	15,257	11,558
Revenues from notices	10,425	12,076
Other	11,850	16,164
Total	115,752	116,332

9 Electricity purchased

The cost of the electricity purchased increased during the nine month period ended 30 September 2019 as compared to the same period of the previous year, as a result of the increase in the acquisition price of electricity on the market and the increase in the amount of electricity purchased on the supply segment.

10 Earnings per share

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

Profit attributable to Company's shareholders

	Nine month period ended	
	30 September 2019 (unaudited and not reviewed)	30 September 2018 (unaudited and not reviewed)
Profit for the period attributable to the owners of the Company	160,896	314,910
Profit attributable to Company's shareholders	160,896	314,910

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 2019 is of 339,049,336 (30 September 2018: 339,049,336).

Earnings per share

	Nine month period ended	
	30 September 2019 (unaudited and not reviewed)	30 September 2018 (unaudited and not reviewed)
Basic and diluted earnings per share (RON)	0.47	0.93

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

11 Dividends

On 25 April 2019 the General Shareholders Meeting of the Company approved dividend distribution of RON 247,506 thousand (2018: RON 245,370 thousand). The dividend per share distributed is RON 0.73 per share (2018: RON 0.7237 per share).

12 Income tax

	Nine month period ended	
	30 September 2019 (unaudited and not reviewed)	30 September 2018 (unaudited and not reviewed)
Current period tax expense	24,496	46,289
Deferred tax expense	9,198	28,788
Total income tax expense	33,694	75,077

13 Trade receivables

	30 September 2019 (unaudited and not reviewed)	31 December 2018 (audited)
Trade receivables, gross	1,902,146	1,832,007
Bad debt allowance	(1,017,014)	(1,025,714)
Total trade receivables, net	885,132	806,293

Receivables from related parties are disclosed in Note 20.

The reconciliation between the opening balances and the closing balances of the impairment for trade receivables is as follows:

	Bad debt allowance
Balance as at 1 January 2019 (audited)	1,025,714
Impairment recognized	29,711
Impairment reversed	(31,092)
Amounts written off	(7,319)
Balance as at 30 September 2019 (unaudited and not reviewed)	1,017,014

Bad debt allowances are determined according to IFRS 9 "Financial instruments" based on "expected credit loss" model. In applying IFRS 9, the Group has identified 5 clusters of customers based on shared risk characteristics: 3 separate clusters for the distribution subsidiaries and 2 clusters (households and non-households) for the supply subsidiary.

A significant part of the bad debt allowances refers to clients in litigation, insolvency or bankruptcy procedures, many of them being older than five years. The Group will derecognize these receivables together with the related allowances after the finalization of the bankruptcy process. These receivables were treated separately in computing the allowance according to IFRS 9.

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

14 Cash and cash equivalents

	30 September 2019 (unaudited and not reviewed)	30 September 2018 (unaudited and not reviewed)
Total cash and cash equivalents in the condensed consolidated statement of financial position	452,848	620,476
Overdrafts used for cash management purposes	(371,346)	(77,067)
Total cash and cash equivalents in the condensed consolidated statement of cash flows	81,502	543,409

The Group has overdrafts as follows:

Bank	Contract date	Facility type	Maturity	Overdraft limit	Balance as at 30 September 2019 (unaudited and not reviewed)*
ING Bank N.V.	May 2019	overdraft facility for financing working capital	May 2020	60,000	5,038
BRD Groupe Societe Generale	January 2019	overdraft facility for financing the current activity	January 2020	180,000	163,436
Banca Comerciala Romana	March 2019	overdraft facility for financing the current activity	March 2020	125,000	117,707
Banca Comerciala Romana	April 2019	multi-product facility for financing the current activity	March 2020	135,000	85,165
BNP Paribas	April 2019	credit line for financing general corporate purposes	March 2020	160,000	-
Total				660,000	371,346

Bank	Contract date	Facility type	Maturity	Overdraft limit	Balance as at 30 September 2018 (unaudited and not reviewed)*
BRD Groupe Societe Generale	May 2018	overdraft facility for financing the current activity	May 2019	95,000	-
Raiffeisen Bank	January 2018	overdraft facility for financing the current activity	April 2019	135,000	57,491
Raiffeisen Bank	November 2017	overdraft facility for financing working capital	November 2019	100,000	19,576
Total				330,000	77,067

*The balance of the overdrafts used also includes interest on the amounts used.

As at 30 September 2019, 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 2019 is RON 320,000 thousand (31 December

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

2018: RON 320,000 thousand) presented in the consolidated statement of financial position as long-term restricted cash. Refer also to Note 17.

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 36,964 thousand during the nine month period ended 30 September 2019 (nine month period ended 30 September 2018: RON 34,142 thousand).

During the nine month period ended 30 September 2019, the Group made payments related to network construction, property, plant and equipment and intangible assets in amount of RON 695,612 thousand (nine month period ended 30 September 2018: RON 581,681 thousand).

15 Deposits with maturity date more than three months

	30 September 2019 (unaudited and not reviewed)	31 December 2018 (audited)
Deposits with maturity of more than three months	201,932	136,493
Total deposits with maturity of more than three months	201,932	136,493

Deposits with original maturity of more than three months have an average interest rate (yield) of 2.73% (2018: 2.9%).

As at 30 September 2019, respectively 31 December 2018, the Group did not hold treasury certificates or government bonds.

16 Other payables

	30 September 2019 (unaudited and not reviewed)		31 December 2018 (audited)	
	Current	Non-current	Current	Non-current
VAT payable	121,596	-	85,293	-
Liabilities towards the State	9,333	-	8,489	-
Other liabilities	95,384	37,643	87,335	41,247
Total	226,313	37,643	181,117	41,247

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.

17 Long-term bank borrowings

	30 September 2019 (unaudited and not reviewed)	31 December 2018 (audited)
Long-term bank borrowings	378,721	320,000
Total	378,721	320,000

On 17 October 2016 the Company's distribution subsidiaries (Societatea de Distributie a Energiei Electrice Transilvania Sud S.A., Societatea de Distributie a Energiei Electrice Muntenia Nord S.A. and Societatea de Distributie a Energiei Electrice Transilvania Nord S.A.) 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).

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

Also, on July 18, 2019, Societatea de Distributie a Energiei Electrice Transilvania Sud S.A., as a borrower, concluded with Banca Transilvania S.A. an investment credit agreement with the purpose of financing investments in the electricity distribution network, according to the investment plan. Interest rate: fixed, 4.59% per annum; Maturity: 30.06.2027.

Details of the long term bank borrowings are as follows:

Lender	Facility type	Maturity	Loan amount	Balance at 30 September 2019 (unaudited and not reviewed)	Balance at 31 December 2018 (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
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
Banca Transilvania S.A.	investment credit agreement for financing investments in the electricity distribution network	Until 30 June 2027	125,000	58,721	-
Total			445,000	378,721	320,000

18 Provisions

	Fiscal	Other	Provisions
Balance at 1 January 2019 (audited)	13,961	15,145	29,106
Provisions recorded during the period	12,051	991	13,042
Provisions used	-	(1,281)	(1,281)
Provisions reversed	(11,387)	(2,822)	(14,209)
Balance at 30 September 2019 (unaudited and not reviewed)	14,625	12,033	26,658

As at 30 September 2019, provisions refer mainly to:

- RON 14,625 thousand representing potential tax charges of the Group (including interest and penalties);
- RON 3,228 thousand representing estimated payments upon termination of directors' contractual relations to cover non-compete clauses;
- RON 455 thousand referring to work litigations;
- RON 8,350 thousand for various claims and litigations involving the Group companies.

The provisions recorded during the nine month period ended 30 September 2019 refer mainly to a provision in amount of RON 12,051 thousand recorded as a result of a tax audit to which the subsidiary SDEE Muntenia Nord S.A. is subject to at the date of authorization of these interim financial statements. The tax audit is performed by the Local Taxes Department within Galati City Hall and refers to the building tax. The Group recognized a provision in this respect considering management's best estimate of the likelihood of an outflow of resources embodying economic benefits, taking into account the completion of the tax audit and subsequent ways of appeal.

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

The provisions reversed and used during the nine month period ended 30 September 2019 refer mainly to:

- RON 2,333 thousand representing solved litigations (for which the sentence was issued by the court);
- RON 1,770 thousand representing estimated payments upon termination of directors' contractual relations;
- RON 11,387 thousand representing potential tax charges of the Group (including interest and penalties).

As at 31 December 2018, provisions refer mainly to:

- RON 13,961 thousand representing potential tax charges of the Group (including interest and penalties);
- RON 4,892 thousand representing estimated payments upon termination of directors' contractual relations to cover non-compete clauses;
- RON 736 thousand referring to work litigations;
- RON 9,517 thousand for various claims and litigations involving the Group companies.

19 Financial instruments – fair values

(a) Accounting classifications and fair values

According to IFRS 9, financial assets classified as held-to-maturity, loans and receivables are measured at amortised cost as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

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 2019 (unaudited and not reviewed)	Note	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	13	885,132	-	-	885,132				
Deposits with maturity date more than three months	15	-	201,932	-	201,932				
Cash and cash equivalents		452,848	-	-	452,848				
Restricted cash		320,000	-	-	320,000				
Total		1,657,980	201,932	-	1,859,912				
Financial liabilities not measured at fair value									
Bank overdrafts		-	-	371,346	371,346				
Financing for network construction related to concession agreements		-	-	3,233	3,233		3,219		3,219
Long-term bank borrowings	17	-	-	378,721	378,721				
Finance lease		-	-	45,065	45,065				
Trade payables		-	-	587,734	587,734				
Total		-	-	1,386,099	1,386,099				

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

31 December 2018 (audited)		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	13	806,293	-	-	806,293				
Deposits with maturity date more than three months	15	-	136,493	-	136,493				
Cash and cash equivalents		665,730	-	-	665,730				
Restricted cash		320,000	-	-	320,000				
Total		1,792,023	136,493	-	1,928,516				
Financial liabilities not measured at fair value									
Bank overdrafts		-	-	118,972	118,972				
Financing for network construction related to concession agreements		-	-	12,832	12,832		12,832		12,832
Long-term bank borrowings	17	-	-	320,000	320,000				
Trade payables		-	-	742,200	742,200				
Total		-	-	1,194,004	1,194,004				

(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 (eg. prices) or indirectly (eg. derived from prices);
- Level 3: inputs from an asset or a liability that are not based on observable market data (unobservable inputs).

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 3.07% as at 30 September 2019 (31 December 2018: 3.32%).

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

20 Related parties

(a) Main shareholders

As at 30 September 2019 and 31 December 2018, the major shareholder of Societatea Energetica Electrica SA is the Romanian State, represented by the Ministry of Energy with a share of ownership of 48.78% from the share capital.

(b) Management and administrators' compensation

	Nine month period ended	
	30 September 2019 (unaudited and not reviewed)	30 September 2018 (unaudited and not reviewed)
Executive Management compensation	21,329	18,212

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

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

	Nine month period ended	
	30 September 2019 (unaudited and not reviewed)	30 September 2018 (unaudited and not reviewed)
Members of the Board of Directors	2,152	2,393

(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, transport and system services and sale of electricity. Significant purchases and balances are mainly with energy producers/suppliers, as follows:

Supplier	Purchases (excluding VAT)		Balance (including VAT)	
	Nine month period ended 30 September 2019 (unaudited and not reviewed)	Nine month period ended 30 September 2018 (unaudited and not reviewed)	30 September 2019 (unaudited and not reviewed)	31 December 2018 (audited)
OPCOM	431,265	321,787	3,391	6,883
Transelectrica	350,007	335,250	88,907	137,970
Nuclearelectrica	289,675	159,087	32,691	21,323
Hidroelectrica	279,694	242,732	16,309	9,069
Complexul Energetic Oltenia	244,443	234,704	61,141	17,417
Electrocentrale Bucuresti	82,508	25,100	-	-
ANRE	38,796	1,515	-	-
Electrocentrale Galati	-	4,345	-	-
Others	2,660	2,934	287	694
Total	1,719,048	1,327,454	202,726	193,356

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

AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019

(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 2019 (unaudited and not reviewed)	30 September 2019 (unaudited and not reviewed)		
Transelectrica	24,090	1,996	-	1,996
OPCOM	19,944	1,579	-	1,579
SNGN Romgaz	10,635	1,404	-	1,404
CN Romarm	9,554	365	-	365
CNCF CFR Bucuresti	9,375	1,662	-	1,662
Hidroelectrica	8,583	4,450	-	4,450
CFR Electrificare	5,749	780	-	780
Cupru Min S.A. Abrud	5,525	35	-	35
CNAIR	2,847	-	-	-
CN Posta Romana	2,084	205	-	205
Transgaz	1,096	7	-	7
ANAR	1,072	38	-	38
Baita S.A.	820	-	-	-
CN Remin	377	71,221	(71,148)	73
CET Braila	12	4,100	(4,100)	-
Oltchim	-	670,526	(670,526)	-
C.N.C.A.F. MINVEST	-	26,802	(26,802)	-
Others	14,811	3,085	(1,847)	1,238
Total	116,574	788,255	(774,423)	13,832

Client	Sales (excluding VAT)	Balance, gross (including VAT)	Allowance	Balance, net
	Nine month period ended 30 September 2018 (unaudited and not reviewed)	31 December 2018 (audited)		
Cupru Min S.A. Abrud	23,282	4,150	-	4,150
OPCOM	15,516	1,610	-	1,610
SNGN Romgaz	12,684	1,467	-	1,467
Transelectrica	11,035	3,241	-	3,241
CN Romarm	7,463	1,119	-	1,119
Hidroelectrica	6,541	988	-	988
CFR Electrificare	5,690	360	-	360
CNCF CFR Bucuresti SA	1,937	65	-	65
CN Posta Romana	1,808	190	-	190
ANAR - Administratia Nationala Apele Romane	1,078	128	-	128
CN Remin SA	278	71,307	(71,254)	53
CET Braila	15	4,132	(4,132)	-
Oltchim	-	670,526	(670,526)	-
C.N.C.A.F. MINVEST S.A.	-	29,903	(29,903)	-
Others	13,780	5,120	(2,774)	2,346
Total	101,107	794,306	(778,589)	15,717

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

21 Subsidiaries in financial distress

On 31 October 2018, the court decided the bankruptcy of Servicii Energetice Oltenia, at the request of the judicial administrator and cancelled its right of management and consequently the Group discontinued its consolidation as of the date as it no longer has control over this entity.

The individual assets and liabilities of Servicii Energetice Oltenia at the date the Group ceased its consolidation (31 October 2018) were as follows:

	Carrying amount
	Servicii Energetice Oltenia as of 31 October 2018
Property, plant and equipment	18,265
Trade receivables	8,772
Cash and cash equivalents	1,205
Total assets	28,242
Trade payables	(2,981)
Other payables	(7,569)
Provisions	(262)
Employee benefits	(12,483)
Deferred tax liabilities	(5,248)
Total liabilities	(28,543)
Gain on loss of control	(301)

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 procedure was initiated in 2014.

Considering the positive effects of the measures established by the Reorganization Plan confirmed on November 25, 2015, the Bucharest Court, on April 3, 2019, established the closure of insolvency proceedings of the subsidiary Servicii Energetice Muntenia and decided that all the necessary measures to be taken for the reinsertion of the company in the business activity, according to court clerk certificate issued on 4 April 2019 by the Bucharest Court.

As at 30 September 2019 and 31 December 2018 the carrying amount of the assets and liabilities of Servicii Energetice Muntenia included in the consolidated interim financial statements was as follows:

	30 September 2019	31 December 2018
	(unaudited and not reviewed)	(audited)
Property, plant and equipment and inventories	99,840	101,254
Trade receivables	11,424	8,577
Cash and cash equivalents	602	3,332
Total assets	111,866	113,163
Trade payables	(2,229)	(4,142)
Payables to the State budget	(758)	(405)
Social security and other salary taxes	(309)	(519)
Provisions, employee benefits and deferred taxes	(15,820)	(15,730)
Total liabilities	(19,116)	(20,796)

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

22 Contingencies

Contingent Liabilities

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 expenses 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.

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 (including related interest and penalties) that was considered tax deductible in the period 2012-2013 by the subsidiary 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. On 3 July 2019 the Bucharest Court of Appeal partially admitted the appeal through the partial annulment of the fiscal decision for the amount of RON 7,264 thousand representing the VAT and the related interest and penalties, illegally retained as non-deductible. The solution is not final, being susceptible for appeal, after the release of the sentence. As at 30 September 2019 and 31 December 2018, the Group recognised a receivable from the fiscal authorities in amount of RON 12,281 thousand, without a related bad debt allowance, taking into account that management's best estimate is that Electrica Serv shall be able to obtain a favourable final Court decision in this case.

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

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 39,249 thousand as a result of certain tax record allocations for prior periods. Electrica SA filed a complaint with the tax authorities against the enforcement order and also filed a legal action to suspend the enforced payment until 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 72,460 thousand.

In February 2018, Electrica SA has obtained a favourable Supreme Court ruling in one of the litigations with NAFA, which essentially maintains into force a prior Court of Appeal decision, which is favourable for the Group. Based on this Court ruling and in conjunction with all other litigations with NAFA 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 is that Electrica SA shall be able to obtain favourable Court rulings with the end result of no future cash outflows.

Also, in April 2019, Electrica SA obtained another favourable decision pronounced by the Bucharest Court of Appeal in one of the disputes with NAFA, whereby the court obliges NAFA to correct the evidence of the tax receivables so that it reflects the extinction by prescription of the amount of RON 16,916 thousand representing income tax as well as all the related accessories. This decision forms the object of the appeal declared by NAFA, with the court term on 17.11.2021, at the High Court of Cassation and Justice.

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

Moreover, in November 2019, Electrica SA obtained one more favourable decision pronounced by the Bucharest Court of Appeal in one of the disputes with NAFA, whereby the court obliges NAFA to cancel the administrative documents issued regarding the accessory fiscal obligations in the amount of RON 39,249 thousand and ordered the refund/compensation of the amount and the correction of the tax record. The solution is not final, being susceptible for appeal, after the release of the sentence.

Other litigations and claims

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

As summarised in Note 18, 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 (eg. litigations for which different inconsistent sentences were issued by the Courts, or litigations which are in early stages and no preliminary ruling were issued so far):

- In 2015, Electrica SA was sued by Hidroelectrica S.A., which claimed the payment of RON 5,445 thousand and other damages, representing claims related to acquisition of electricity by the Company from Hidroelectrica S.A. at a price alleged to be unfair. 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 consolidated interim financial statements, both parties filed another appeal, which is in the preliminary procedure, with term on 15.01.2020.
- Electrica SA was sued by Societatea de Administrare a Participatiilor in Energie S.A. ("SAPE") for the joint payment of the amount of RON 1,569,144 thousand and the amount of EUR 458,381 thousand for the alleged damages suffered by the Romanian State as a result of the inaction regarding the monitoring, coordination and verification of the performance with the observance of the conditions of legality of the privatization contracts of Electrica SA subsidiaries. Electrica SA filed a pleading in which it invoked the exception of the lack of passive procedural quality, exception regarding the statute of limitation, as well as other arguments on the merit of the case against SAPE's allegations. On 20 June 2019, the court dismissed SAPE's action for claims of approx. EUR 800 million, admitting:
 - the exception of Electrica's lack of passive processing quality, for the claim based on contractual civil liability;
 - the exception of the prescription of the material right to action, for the claim based on civil tort liability.

The solution may be appealed within 30 days from its' communication. As of the date of these consolidated interim financial statements, the decision was not communicated.

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

23 Subsequent events

Share capital increase of Electrica S.A.

Based on the decision of the Extraordinary General Shareholders Meeting of Electrica S.A. dated April 25, 2019, on October 4, 2019, the Board of Directors of Electrica S.A. approved the share capital increase of the Company through in kind and cash contribution, with the maximum amount of RON 6,049,830, from the amount of RON 3,459,399,290 up to the maximum amount of RON 3,465,449,120, by issuing a maximum number of 604,983 new shares, nominative and dematerialized, with the nominal value of 10 RON/share, of which 295,114 shares represent the in kind contribution of the Romanian State, represented by the Ministry of Energy and up to 309,869 new shares will be offered for subscription by cash contributions, following the exercise of the preference right, to the other shareholders (except the Romanian State).

The Simplified Prospectus prepared in connection with the share capital increase, for the purpose of its approval by the Financial Supervisory Authority ("FSA"), was approved by the Board of Directors of Electrica S.A. on October 21, 2019. Subsequently, by decision no. 1311 dated October 30, 2019, FSA approved the simplified prospectus for issuing a maximum number of up to 309,869 new shares, by exercising the preference rights within the share capital increase of Electrica S.A., the subscription period being November 1, 2019 - December 3 2019.

Litigation with National Agency of Fiscal Administration

On 8 November 2019, the Bucharest Court of Appeal admitted the complaint filed by Electrica SA in one of the litigations with NAFA and obliged NAFA to cancel the administrative documents issued regarding the accessory fiscal obligations in the amount of RON 39,249 thousand and ordered the refund/compensation of the amount. The Court obliged NAFA to correct the tax record and to pay the legal fees. The decision may be appealed by NAFA within 15 days of communication. By the date of authorization of these consolidated interim financial statements, the decision of the court of first instance was not communicated.

Chief Executive Officer
Georgeta Corina Popescu

Chief Financial Officer
Mihai Darie

14 November 2019



CONSOLIDATED DIRECTORS' REPORT

for the nine month period ended 30 September 2019 (9M 2019)

**(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**

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

Table of content

Glossary	4
1. Identification Details Of The Issuer	6
2. Highlights	7
2.1. Key Events during the period January – September 2019 (9M 2019)	7
2.2. Summary of financial indicators.....	15
3. Organizational Structure	16
3.1. Group Structure	16
3.2. Key information by segments.....	18
4. Shareholders’ Structure	20
5. Operational Results	21
6. Outlook	26
7. Capital Expenditures	29
8. Statements	30
9. Annexes	31
9.1. Agreements concluded reported according to art. 82 of Law 24/2017	31
9.2. Economic and financial indicators of Electrica Group as of 30 September 2019 according to Annex 13/ASF Regulation no. 5/2018.....	32

Glossary

ANRE	Romanian Energy Regulatory Authority
BoD	Board of Directors
BRP	Balance Responsible Party
BSE	Bucharest Stock Exchange
CAPEX	Capital Expenditure
CGC	Corporate Governance Code
CMC	Competitive Market Component
CMUS	Centralized Market for Universal Service
CNTEE	The National Transmission System Operator
DAM	Day Ahead Market
DSO	Distribution System Operator
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortization
EDN	Electrical Distribution Network
ELSA	Electrica S.A.
EGMS	Extraordinary General Meeting of Shareholders
EU	European Union
EUR	The monetary unit of several member states of the European Union
GC	Green Certificates
GDP	Gross Domestic Product
GDR	Global Depositary Receipts
GEO	Government Emergency Ordinance
GMS	General Meeting of Shareholders
HV	High Voltage
IAS	International Accounting Standard
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
IPO	Initial Public Offering
IR	Investor Relations
ISIN	International Securities Identification Number
KPI	Key Performance Indicators
kV	KiloVolt
LR	Last Resort
LV	Low Voltage
MV	Medium Voltage
MVA	Mega Volt Ampere
MWh	MegaWatt hour

MKP	Management Key Position
NAFA	National Agency for Fiscal Administration
NES	National Electricity System
NL	Network Losses
NRC	Nomination and Remuneration Committee
OMPF	Order of Ministry of Public Finances
OGMS	Ordinary General Meeting of Shareholders
OHL	Overhead Line
OHS	Occupational Health and Safety
OPCOM	Romanian Gas and Electricity market operator
RAB	Regulated Asset Base
RM	Retail Market
RON	Romanian monetary unit
RRR	Regulated Rate of Return
SAD	Distribution Automation System
SCADA	Supervisory Control And Data Acquisition
SDMN	Societatea de Distributie a Energiei Electrice Muntenia Nord
SDTN	Societatea de Distributie a Energiei Electrice Transilvania Nord
SDTS	Societatea de Distributie a Energiei Electrice Transilvania Sud
SEM	Servicii Energetice Muntenia SA
SEO	Servicii Energetice Oltenia SA
SoLR	Supplier of last resort
TWh	TeraWatt hour
TSO	Transmission and system operator
UM	Unit of Measurement
US	Universal Service
VAT	Value Added Tax

1. Identification Details Of The Issuer

Report date: 14 November 2019

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

Sole Registration Code: 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 Depositary 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: 9 months 2019 (period 01 January – 30 September 2019)

Audit/Review: The condensed consolidated interim financial statements as of and for the nine month period ended 30 September 2019 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 operates through its 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 18 counties from the historical regions Muntenia and Transylvania, in what concerns the distribution subsidiaries. The Group holds exclusive distribution licenses for these regions, which are valid until 2027, 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 an electricity supply license covering the entire territory of Romania, valid until 2021, with the possibility of extension, and a license for natural gas supply activity, valid until 2022.

2.1. Key Events during the period January – September 2019 (9M 2019)

During the nine month period ended 30 September 2019 and up to date, the following significant events for the main activity segments of the Group took place:

Events in the period January – September 2019

General Meetings of Shareholders of Electrica (ELSA or the Company):

On **7 February 2019**, the Ordinary General Meeting of Shareholders (OGMS) of ELSA took place, during which ELSA's shareholders elected, through the simple voting method, the members of the company's Board of Directors following the vacancy of the positions in the Board of Directors, after the renunciation to the mandate by Ms. Arielle Marie Malard de Rothschild, by Mr. Willem Jan Antoon Henri Schoeber and by Ms. Elena Doina Dascalu. Thus, the three new members elected are Mr. Radu Mircea Florescu, Mr. Dragos Andrei si Mr. Nicolae Havrilet. Their mandate period is equal to the period remaining until the expiry of the mandate for the vacant positions, i.e. until 27 April 2022.

On **25 April 2019**, ELSA's Ordinary General Meeting of Shareholders and ELSA's Extraordinary General Meeting of Shareholders took place.

In the OGMS, ELSA's shareholders approved mainly the following:

- ELSA's 2018 audited financial statements and the 2019 revenue and expenses budget, at individual as well as at consolidated level;
- the 2018 profit distribution: total gross dividend value – RON 247.51 mn; gross dividend per share – RON 0.73; ex-date – 6 June 2019; payment date – 24 June 2019;
- the discharge of liability of the members of ELSA's Board of Directors for the financial year 2018.

At the same time, OGMS rejected the remuneration policy and the proposed mandate agreement of ELSA's Board of Directors members as well as the remuneration limits of ELSA's executive managers.

In the EGMS, the shareholders approved the following:

- the initiation of the share capital increase operation of ELSA through contribution in kind, with a number of 9 (nine) plots of land with a total area of 55,524.46 sqm and the request to appoint an expert evaluator by the Trade Register Office of Bucharest Court to evaluate the land plots for the contribution in kind;
- the delegation to the Board of Directors of ELSA, for a period of three years, of the powers to increase ELSA's share capital by no more than RON 18,000,000, up to the maximum value of RON 3,477,399,290, representing authorized share capital, as follows: (i) the contribution in kind of the Romanian State, represented by the Ministry of Energy, as a result of obtaining the land ownership certificates of 9 (nine) plots of land and (ii) the cash contribution of the other shareholders, resulted from exercising their preference right, granted as a result of the contribution in kind of the Romanian State through the Ministry of Energy, as well as the approval of mandating the Board of Directors of ELSA to take all measures in the name and on behalf of the Company, for initiating, carrying out and finalizing the share capital increase.

On **14 November 2019**, ELSA's Ordinary General Meeting of Shareholders took place.

In the OGMS, ELSA's shareholders approved the following:

- filing a civil action in court to engage the liability of the persons who have held the positions of directors and respectively, executive managers of the Company for obligations not fulfilled and/or improperly fulfilled, according to art. 155 of Law no. 31/1990, which determined the damages retained by the Romanian Court of Accounts (RCA), in order to implement the measures ordered by the Romanian Court of Accounts for remedying the irregularities identified according to items 1-5 of the RCA Decision no. 12/27 December 2016.

At the same time, AGOA rejected the following:

- the proposals to modify some provisions of the Remuneration Policy for the Directors and Executive Managers in force at Company level, regarding the number of BoD meetings for which compensation will be granted, the value and duration of the professional insurance policy for the executive managers and BoD members, as well as clauses regarding non-compete compensation.

Regarding the EGMS, at the first convening dated **14 November 2019** the needed quorum was not met.

The main decisions of ELSA's Board of Directors (BoD) referred to:

■ The composition of the Board of Directors' advisory committees:

Approval of the BoD committees' composition and election of their chairs, starting with 18 February 2019 and until 31 December 2019, as follows:

- The Strategy and Corporate Governance committee: Mr. Valentin Radu – Chair; Mr. Dragos Andrei – Member; Mr. Nicolae Havrilet – Member;
- The Audit and Risk committee: Ms. Ramona Ungur – Chair; Mr. Bogdan George Iliescu – Member; Mr. Radu Florescu – Member;
- The Nomination and Remuneration committee: Mr. Bogdan George Iliescu – Chair; Mr. Gicu Iorga – Member; Mr. Valentin Radu – Member.

■ Executive Management Change:

On 23 January 2019, ELSA's Board of Directors decided to appoint Ms. Georgeta Corina Popescu as CEO and to appoint Ms. Bibiana Constantin as Chief Human Resources Officer, both mandates starting on 1 February 2019, for

a period of four years. We mention that Ms. Georgeta Corina Popescu has been appointed by the Board of Directors as interim CEO starting with 1 November 2018.

During the meeting held on 14 May 2019, the Board of Directors of ELSA decided the appointment of Mr. Mircea-Toma Modran as Chief IT&C Officer, starting with 1 June 2019, for a four year period.

On 2 August 2019, the mandate agreement of the Chief Corporate Governance and M&A Officer, Ms. Alexandra Popescu Borislavski, has terminated upon lapse of the 4 year duration.

■ **Corporate Governance - policies:**

The most recent version of the Policy of Transactions with Related Parties was published on ELSA's website on 14 January 2019.

■ **Consolidated investment plan (CAPEX)**

During the meeting held on 19 February 2019, the Board of Directors approved the consolidated value of the Investment Plan (CAPEX) of Electrica Group for 2019, in total amount of RON 739 mn. Out of this value, RON 710 mn. represents the investment plan (CAPEX) of the distribution subsidiaries.

■ **Share capital increase**

After the EGMS dated 25 April 2019 approved the initiation of ELSA's share capital increase, in September 2019, ELSA selected BRD - Groupe Société Générale as SPO intermediary, and during the meeting held on 4 October 2019, the Board of Directors approved ELSA's share capital increase with the maximum value of RON 6,049,830, out of which RON 2,951,140 representing the contribution in kind of the Romanian State (equivalent of nine lands) and up to RON 3,098,690 representing a maximum number of 309,869 new shares offered for subscription to the other shareholders.

Also, on 21 October 2019, ELSA's Board of Directors approved the form of the prospectus prepared in connection with the share capital increase of the Company, and submitted it for approval to the Financial Supervisory Authority.

■ **Other events**

- On 28 February 2019, the Trade Register Office of Timis Court admitted ELSA's request for registration of the rightful increase of E-Distributie Banat SA's share capital, with contribution in kind with a land, ELSA becoming shareholder of E-Distributie Banat SA, with 0.00431744696016% of the share capital.
- Considering the positive effects of the measures established through the Reorganization Plan confirmed on 25 November 2015, the Bucharest Court - Civil Division VII, on 3 April 2019, **established the closure of the insolvency proceedings and decided that all the necessary measures can be taken for the reinsertion of Servicii Energetice Muntenia in the business activity**. We mention that, on 26 November 2014, Servicii Energetice Muntenia entered into insolvency with reorganization proceedings in accordance with Law no. 85/2014, ordered by the Bucharest Court;
- On 23 September 2019, ELSA announced that it has obtained the **issuer corporate rating of BBB (Investment Grade), with a stable outlook** from **Fitch Ratings Agency**.

Litigations

Litigations between ELSA and its subsidiaries:

- EFSA filed to the Bucharest Court a lawsuit for damages (file no. 2869/3/2019). The object of the complaint was to order ELSA to:
 - pay the amount of RON 17,274,162, representing the value of the invoices paid by EFSA in the absence of supporting documents, as noted by the Court of Accounts through Report no. 2835/17 May 2013 and Decision no. 20/17 June 2013;
 - pay the legal interest in the amount of RON 3,213,446, due starting with the date when the defendant collected the amounts and until 31 March 2019, the legal interest calculated from 31 March 2019 until the issuance date of an enforceable court decision and the legal penalty interest calculated from the date of the enforceable court decision until the actual payment of the principal debit.

On 20 June 2019, the Bucharest Court rejected the request filed by EFSA. The decision is not final and it may be appealed within 30 days from its communication at the end of October.

- SDTS filed to the Brasov Court a lawsuit for damages (file no. 4469/62/2018). The object of the complaint is to order ELSA to:
 - pay the amount of RON 8,951,811, representing the value of the services paid by SDTS and considered to be not provided by ELSA, during the period 2010-2014, based on the consultancy, mandate and service agreements concluded between the parties, as noted by the Court of Accounts through Report no. 700/23618/04 December 2013 and Decision no. 75/23 December 2013 (for the period 2010-2012), respectively by the plaintiff, as a result of the extension of the verifications ordered by the Court of Accounts (until 2014);
 - pay the legal interest calculated from the date of payment until the date of effective refund, as well as the difference between the value of the services paid by SDTS and not provided by ELSA and their value updated with the inflation rate for the period between the payment date and the action date.

The court has declined the competence to settle the case to the Bucharest Court and a term will be assigned.

- EFSA filed a lawsuit for damages to the Bucharest Court (file no. 6665/3/2019) for ordering ELSA to pay the amount of RON 6,232,398, representing claims according to the Decision of the Court of Accounts no. 11/2016 and the Inspection Report of the Court of Accounts no. 5799/29 November 2016. Within the same file, EFSA also requested that ELSA has to pay the amount of RON 793,234 representing the legal interest calculated from the date when ELSA collected the sums of money until 31 March 2019, as well as the legal interest calculated from 31 March 2019 until the date of execution of an enforceable court decision and the legal interest calculated from the date of the enforceable court decision up to the date of effective payment by ELSA of the principal debit. The case is suspended until the settlement of the case 2213/2/2017, which is in the role of the High Court of Cassation and Justice (HCCJ), whose purpose is the annulment of RCA Decision no. 11/2016 and of the Control Report no. 5799/2016.
- ELSA requested the court to order SDTN to pay the amount of RON 2,712,500, representing penalties for non-payment on due date of the dividends due to ELSA for the financial year 2016. The action was admitted, SDTN has filed an appeal which is in course of settlement.

Litigations of ELSA and its subsidiaries with entities outside the Group:

- In January 2019, ELSA, together with its distribution subsidiaries, has filed in court applications for the annulment of the ANRE orders regarding the approval of the regulated specific tariffs for electricity distribution service and of the price for reactive electricity (ANRE Order no. 197/2018, ANRE Order no. 198/2018 and ANRE Order no. 199/2018).

At the same time, in each file, ANRE was required to recognize the amounts that were not included in the 2019 tariffs and to include these amounts in the tariffs' computation for the year following the final settlement of the disputes. The files are pending before the Bucharest Court of Appeal, in course of settlement.

- On 17 April 2019, The High Court of Cassation and Justice has resolved the case no. 3883/2/2018, dismissing definitively the request of suspension of the Competition Council Decision no. 77/20 December 2017, by which the Company was fined with the amount of RON 10,800,984, until the final resolution on the case no. 3889/2/2018, in which ELSA requested the cancellation of the sanction as being unlawful and unfounded and, alternatively, the reduction of the fine.

Also, regarding the file no. 3889/2/2018 with Competition Council, ELSA filed an appeal against the Decision no. 707/2019, by which the Bucharest Court of Appeal rejected the action requesting, mainly, the annulment of the Competition Council Decision no. 77/20 December 2017.

- On 20 June 2019, also, in case no. 7968/2/2015, the High Court of Cassation and Justice has definitively settled Electrica's action for the annulment of ANRE Order no. 165/2015 regarding the amendment of the Methodology for establishing the electricity distribution tariffs, approved through ANRE Order no. 72/2013 and for the annulment of the ANRE notification no. 872/01 February 2016, rejecting the preliminary complaint against Order 165/2015.
- On 20 June 2019, the case no. 46365/3/2016 vs. SAPE had been settled. The Bucharest Tribunal dismissed SAPE's action for claims of approx. EUR 800 million, admitting:
 - the exception of Electrica's lack of passive processing quality, for the claim based on contractual civil liability;
 - the exception of the prescription of the material right to action, for the claim based on civil tort liability.

The solution may be appealed within 30 days from the communication date. Until the report date, no communication was made.

- In case no. 6043/2/2018, having as object forcing NAFA to correct the recording of tax receivables so that it reflects the solutions pronounced by the courts in disputes between the parties, on 15 April 2019, the court admitted the request and forced the defendant to correct the record of the tax receivables, so that it reflects the prescription of the amount of RON 16,915,950, representing income tax as per the Decision no. 3/2008, as well as all the accessories related to this amount, including the amount of RON 30,777,354, included in the Decision no. 357/2008, as well as to remove these amounts from the fiscal records of ELSA. The decision was appealed by NAFA, with appeal term on 17 November 2021.
- In September 2019 ELSA, together with its distribution subsidiaries, filed accessory intervention requests in case no. 7341/2/2014 on docket with the High Court of Cassation and Justice - The Contentious Administrative and Fiscal Division, in which Fondul Proprietatea S.A. is the plaintiff and The National Energy Regulatory Authority (ANRE) is the defendant. The file has as object Fondul Proprietatea's request for the cancellation of art. I points 2, 3, 8, 9 and 10 of ANRE President's Order no. 112/2014 for amending and completing the Methodology for establishing the tariffs for the electricity distribution service, approved by ANRE President's Order no. 72/2013, the intervention requests being discussed on 22 January 2020.

Distribution segment

After completing in 2018 the organizational transformation program initiated in 2017, the distribution companies of Electrica Group have gone through a stabilization and consolidation period, a necessary step before starting a new regulatory period (the fourth regulatory period - RP4). Currently, the implementation of the actions resulting from this program is continued, in the context of the new regulatory framework, the revenue and expenses budget and the strategic directions of the Group. In this context, the strategic projects for RP4 have been validated and budgeted and a set of identified Lean solutions has been implemented, activities to be carried out during the next period.

The priorities for the distribution segment are:

- orientation towards the smart grid concept by promoting on a large scale the smart metering;
- reduction of distribution network losses;
- improving the distribution service quality;
- increasing operational efficiency;
- digitizing processes and improving the experience of network users.

■ **Distribution activity:**

ANRE has issued orders requesting additional efforts from distribution operators to comply with the new requirements:

a) Regulations regarding tariffs:

- On 25 February 2019, the new distribution tariffs were approved through ANRE orders no. 24, 25 and 26, applicable from 1 March 2019 (until 30 June 2019). These tariffs record an increase of approximately 2.3% as compared with the tariffs for the first two months of 2019, following the application of the GEO no. 114/2018 provisions on the increase of the monetary contribution paid to ANRE (from 0.1% to 2%);
- On 24 June 2019, ANRE approved, through orders no. 78, 79 and 80, new distribution tariffs applicable from 1 July 2019, increased by 2.3% for Electrica group DSO as compared with 1 March 2019, as a result of GEO no. 19/2019 application, regarding the increase of RRR to 6.9%, starting with 29 March 2019;
- On 1 July 2019, Electrica group DSOs sent to ANRE data regarding distribution tariffs setting for 2020 and RP4 new projection. ANRE analysis was carried out until 1 September 2019, with distribution tariffs for 2020 being approved by 15 December 2019;
- On 15 July 2019, ANRE has published the draft decision to revise the templates for the expenses and revenues' monitoring, which will include a detailed level of information;
- In September and October 2019, ANRE submitted to the public debate two stages of the Draft Order for amending the Methodology for establishing the distribution tariffs approved by ANRE Order no. 169/2018, successively including part of the DSO proposals, as follows:
 - (i) the recovery in the 2020 tariffs of the difference between the NL reference price resulted in H1 2019, considered the average of the purchase price of the electricity needed for NL of all DSOs and of the TSO, and the NL reference price approved ex-ante by ANRE;
 - (ii) recognition of the inflation for regulated assets base (RAB), if RAB is lower than the net book value of the respective assets;
 - (iii) corrections for the level 1 and 2 management personnel average costs;
 - (iv) maintenance costs (preventive and corrective), without including personnel costs, can be recovered in the following year;
 - (v) the RRR revision after the repeal of the Law article establishing a RRR of 6.9%.

b) Smart metering systems regulations:

- ANRE Decision no. 778/08 May 2019 to approve smart metering implementation calendar on national level, for 2019-2028. The plans for smart metering implementation for Electrica group DSOs have been approved for the values and parameters requested to ANRE.

c) Investments regulations

- ANRE has launched to public debate the amendment of Investments Procedure approved through Order no. 8/2016, proposing: the obligation of carrying out the preventive maintenance plan in a proportion of 95% vs.

90%; capping to 10% any possible exceeding of smart metering maintenance costs, recognition in RAB of replacement works, conditional on the exclusion from RAB of dismantled assets.

d) Primary legislation:

- GEO no. 19/29 March 2019, for the amendment and completion of some normative acts, approves the regulated rate of return of 6.9% for 2019-2024 for electricity and natural gas distribution and transmission operators. ANRE has the obligation to amend the regulations in order to implement the provisions within 60 days from the date of entry into force of GEO no. 19;
- Law no. 117/20 June 2019 for the amendment and completion of Law no. 50/1991 regarding the authorization of construction works' execution, provides for the installation of the prosumers' photovoltaic panels without a construction authorization, but only with the prior notification of the local public administration authorities;
- The Law Project to revise and amend Energy Law no. 123/2012, approved in the Senate plenary at the end of October, for which additional approvals are necessary, stipulates the following:
 - i) starting with January 2020 the RRR of 6.9% will be canceled, thus returning to 5.66%;
 - ii) OD will ensure the financing of the connection of non-domestic clients, having the network length less than 2500 meters, value which will be recognized in the distribution tariff in a 5 years period (this type of works represent ~20% of yearly investments plan);
 - iii) the return to the previous percentage of 0.1% of the ANRE contribution.

e) Other regulations

Network connection regulations:

- ANRE order no. 36/2019 modifies the methodology for assessing the investment financing conditions for the counties' electrification, or for extending the electricity distribution network (EDN), and establishes an Appendix to calculate the investment's economic efficiency, applied at national level.
- ANRE proposes the amendment of the ANRE Order no. 25/2016 approving the Methodology for issuing location permits (LP) in order to eliminate the right of the distribution operator (DSO) to issue unfavorable LP and thus restricting the right of the DSO to declare a location as unacceptable from the point of view of EDN protection and safety.

Prosumers

- ANRE have approved in December 2018 the regulation package regarding the prosumers which own electrical power plants from renewable sources with installed power of up to 27 kW per consumption spot:
 - (i) Order 226/2018 to approve commercial rules of produced energy;
 - (ii) Order 227/2018 to approve Framework-Contract for sale-purchase of produced energy;
 - (iii) Order 228/2018 to approve the Technical Norm „Technical conditions for connection to the public-interest electrical networks for prosumers with injection of active power in the network“.

Licenses

- ANRE launched for public debate two steps of the Project to revise the ANRE orders for the approval of:
 - i) general conditions associated to distribution licenses (Order no. 73/2014)
 - ii) regulation for granting licenses (Order no. 12/2015), by which is proposed the change of the 60 days term notification to ANRE to:
 - 90 days before, the intention to carry out mergers, divisions, transformations, as well as any sale or transfer of assets or other operations after which the tangible assets will be transferred or belong to another/other person;
 - 6 months before, the intention to carry out mergers, divisions, transformations, as well as any sale

or transfer of assets or other operations after which the value of the existing share capital is reduced.

■ Investments

- In 9M 2019, the three distribution companies of Electrica group realized and commissioned investments amounting to RON 381.8 mn, representing 56.9% of the commissioning program value planned for 2019 (i.e. RON 670.8 mn, out of which RON 612.5 mn for 2019 and RON 58.3 mn related to 2018 plan; from the first category, RON 326.4 mn were realized, and RON 55.4 mn represent recoveries related to 2018). The values achieved in 9M 2019 show a 3.8% increase compared with same period of 2018.
- The investment plans were drafted in accordance with the requirements stipulated by the regulatory authority in the "Procedure regarding the elaboration and approval of the investment programs of the economic operators concessionaires of the electricity distribution service" approved by the ANRE Order no. 8/2016 with subsequent amendments and completions.

Supply segment

■ Supply activity

Key Projects

- Starting from the significant changes in the energy market regarding the regulatory framework, as well as from the increasing competition, EFSA launched an ambitious internal transformation project which aims to successfully meet the current and future challenges, and whose mission is the transformation and optimization of sales and customer relations activities, along with the development of the entire staff's skills.
- In the first phase, the project focused on developing the sales strategy. In the second phase, the effort is focusing on improving internal processes, systems and technology, and, naturally, on upgrading organizational structures.

Regulatory Framework

- During January - February 2019, the application of the regulatory package approved by ANRE for the activity of supply of last resort/universal service activity (US) - applicable starting with H2 2018, continued – ANRE Order no. 26/2018, ANRE Order no. 27/2018 and ANRE Order no. 39/2018;
- As of 1 March 2019, the supply regulatory framework was modified in accordance with the provisions of GEO no. 114/2018, as follows:
 - ANRE Order no. 10/2019 - ANRE approves the Methodology of establishing the prices of electricity sold by producers based on regulated contracts and on the quantities of electricity from the regulated contracts concluded by the producers with the suppliers of last resort. ANRE Order no. 34/2019 - ANRE approves the contractual framework for electricity sale and purchase concluded between the electricity producers and suppliers of last resort. Based on this methodology, for the period March - December 2019, the suppliers of last resort have received part of the electricity needed to ensure the household customers' consumption through agreements with regulated prices from producers;
 - ANRE Order no. 11/2019 (cancels order no. 39/2018) - ANRE approves the Methodology for setting the regulated tariffs and the prices applied by SoLRs to the final customers. The criteria and rules for determining the regulated tariffs for household consumers (different tariffs for bound and optional SoLRs) are established, as well as the criteria for endorsement of the universal service (US) price for each bound SoLR network area. The regulated tariffs consist of: purchase component, supply component, adjustment component and service charges (transmission, distribution and system services). Based on this

methodology, ANRE approved for EFSA, as bound SoLR, the regulated tariffs for household customers for the period 01 March 2019 – 31 December 2019 and endorsed the prices related to US for the period 01 March 2019 - 31 December 2019;

- ANRE Order no. 17/2019 - optional SoLR designation from 01 March 2019 for a period of one year, through a competitive process, based on the criteria of eligibility, availability and capability; EFSA is designated optional SoLR through the ANRE decision no. 334/28 February 2019 for the following network areas: Banat, Dobrogea, South Muntenia, Oltenia, Moldova.
- Starting with 1 July 2019, the tariffs for the transmission and system service were changed, through ANRE order no. 81/2019, as well as the distribution service tariffs, through ANRE orders no. 78 – 80/2019 but regulated prices for household customers remain unchanged;
- As of 1 July 2019 through ANRE Order no. 156/2019 was approved the value of high efficiency cogeneration contribution at RON 0.01564/Kwh;
- GEO no. 114/2018 completed by GEO no. 19/2019 regarding the setting of measures in the field of public investments and fiscal-budgetary measures, amendment and completion of some normative acts:
 - The monetary contribution from the license holders in electricity area equals 2% of the turnover achieved from the activities that are subject to the licenses granted by ANRE, according to the provisions of ANRE order no. 18/2019;
 - For the period 1 March 2019 – 28 February 2022, for household customers, the electricity supply is made under regulated conditions;
 - The purchase cost differences of suppliers from 2018 and 2019, not recovered through the prices charged, will be recovered by 30 June 2022.
- ANRE Orders no. 226, no. 227/2018 completed by Order no. 194/2019 established the rules for trading of electricity produced in electric power stations held by prosumers and approved the framework agreement for sale-purchase of electricity produced by them. The electricity supplier has the obligation to buy the electricity produced and delivered by the prosumer, if the latter has/concludes a supply agreement with the electricity supplier. The distributor's obligation that the reading frequency of the meter index for each prosumer connected to the network of one calendar month is established, as well as the supplier's obligation to issue invoices based on the data measured by distribution operator.

2.2. Summary of financial indicators

A summary of the main financial indicators is presented below:

- In the nine month period ended 30 September 2019, EBITDA decreased to RON 549.4 mn, by RON 156.1 mn, as compared with the same period of 2018;
- The volume of the investments in the distribution network in the first nine months of 2019 was of RON 515.2 mn, increasing by approx. RON 22.7 mn, or 4.6%, compared to RON 492.5 mn cumulated at the end of 9M 2018;
- The operating profit as of 9M 2019 is of RON 193.7 mn, posting a significant decrease as compared with the same period of the previous year, when the Group recorded an operating profit of RON 384 mn, mainly due to the electricity prices recorded in 2019, increasing compared the same period in 2018, the modified regulatory framework applicable for the distribution segment in 2019, as well as the impact of the regulated supply segment, particularly in January and February 2019;
- The cost of electricity purchased increased by RON 590.1 mn, or 31.8%, to RON 2,445.7 mn in the nine month period ended 30 September 2019, compared to RON 1,855.6 mn recorded in the comparative period, mainly as a result of the upward evolution of the electricity price;

- Revenue from the distribution segment increased by RON 74.5 mn, or 3.9%, to RON 1,980.7 mn (out of which RON 1,077.3 mn external revenues), compared to 9M 2018; the contribution of the electricity distribution segment to the Group's consolidated revenue is of 23.4%;
- In 9M 2019, the revenue from the electricity supply segment increased by RON 599.6 mn y-o-y, or 20.4%, to RON 3,531.9 mn (out of which RON 3,507.3 mn external revenues), both as a result of rising selling prices and increase in the quantity of electricity and natural gas supplied; the contribution of the electricity supply segment to the Group's consolidated revenue is of 76.1%.

3. Organizational Structure

3.1. Group Structure

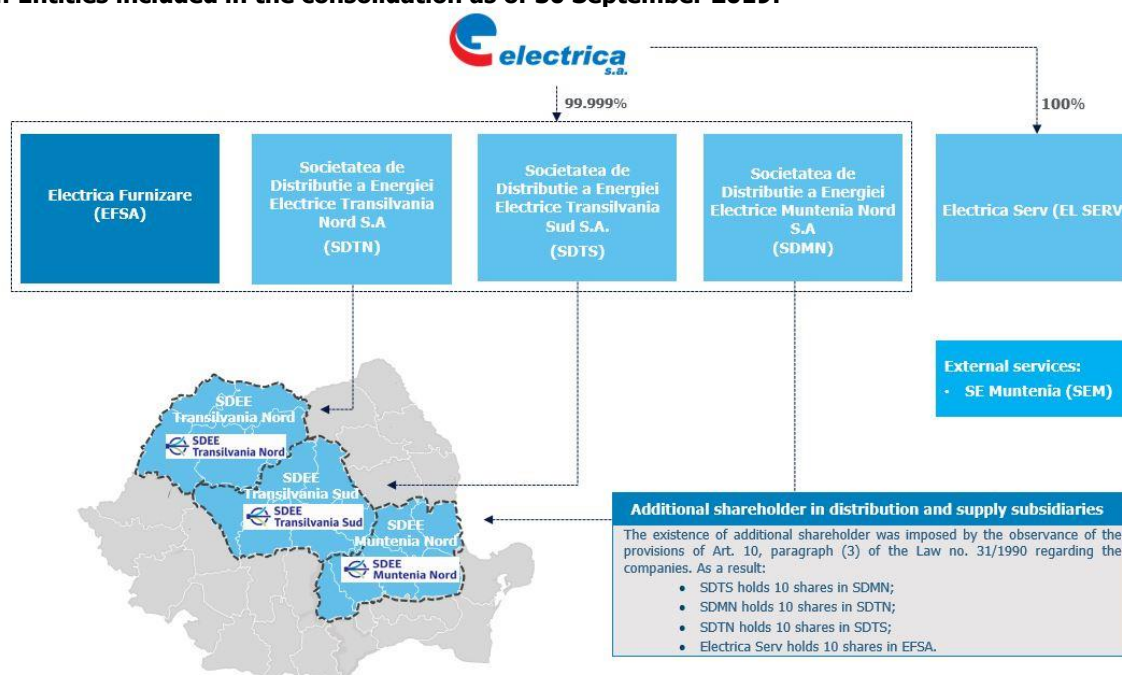
ELSA is the parent company for the Group, which comprises four subsidiaries in its distribution segment: SDTN, SDTS, SDMN and ELSERV, whereas the supply segment comprises one subsidiary, EFSA.

The Company also owns all shares of SEM. In October 2014, the Board of Directors of SEM decided the commencement of the insolvency procedure with a view to reorganization. The insolvency procedures were initiated in 2014.

In the first part of 2019, 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. Considering the positive effects of the measures established by the Reorganization Plan, the Bucharest Court established on 3 April 2019 the closure of the insolvency proceedings and decided that all the necessary measures can be taken for the reinsertion of the company in the business activity.

As of 30 September 2019, 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 2019:



Source: Electrica

Presentation of Group subsidiaries

Subsidiary	Activity	Registration code	Headquarters	% shareholdings as of 30 September 2019	% shareholdings as of 31 December 2018
Societatea de Distribuție a Energiei Electrice Muntenia Nord SA (SDMN)	Electricity distribution in North Muntenia geographical area	14506181	Ploiesti	99.9999719027621%	99.9999696922382%
Societatea de Distribuție a Energiei Electrice Transilvania Nord SA (SDTN)	Electricity distribution in Northern Transylvania geographical area	14476722	Cluj-Napoca	99.9999731064276%	99.9999829770757%
Societatea de Distribuție a Energiei Electrice Transilvania Sud SA (SDTS)	Electricity distribution in Southern Transylvania geographical area	14493260	Brasov	99.999977569745%	99.999976413243%
Electrica Furnizare SA (EFSA)	Supply and trading of electricity	28909028	Bucharest	99.9998390431663%	99.9998390431663%
Electrica Serv SA (EL SERV)	Services in the energy sector (maintenance, repair, construction)	17329505	Bucharest	100%	100%
Servicii Energetice Muntenia SA (SEM)	Services in the energy sector (maintenance, repair, construction)	29384120	Bucharest	100%	100%
Servicii Energetice Oltenia SA (SEO)*	Services in the energy sector (maintenance, repair, construction)	29389861	Craiova	n/a*	n/a*

Source: Electrica

*Societatea Energetica Electrica SA lost the control of Servicii Energetice Oltenia starting 31 October 2018 when the bankruptcy proceedings of the subsidiary began. As of this date, the Group ceased to consolidate this company.

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

EFSA is an electricity supplier in the competitive market and bound supplier of last resort for the network regions: North Muntenia, North Transylvania and South Transylvania.

According to the regulations issued by ANRE, the bound suppliers of last resort ensure the electricity supply to the end consumers, which benefit, under the law, from universal service, to the non-household customers who have not exercised their eligibility right and to the non-household customers taken over because they have not ensured the supply of electricity from any other source.

In the competitive market, the electricity supply was done based on contracts and on negotiated prices.

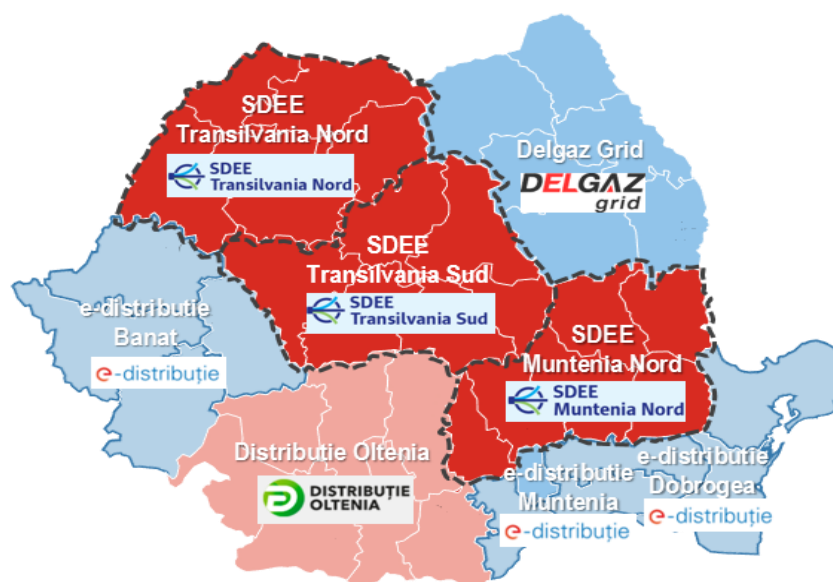
3.2. Key information by segments

DISTRIBUTION SEGMENT

Information for the period ended 30 September 2019

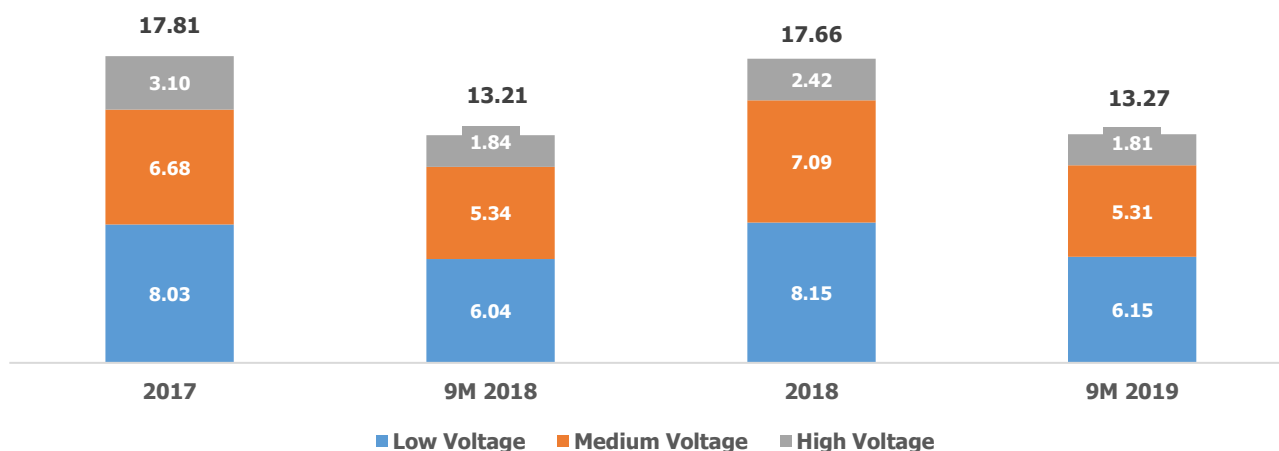
- The Regulated Assets Base (RAB estimated) at the end of 9M 2019 was RON 5,384 mn
- 198,494 km of electric lines – 7,596 km for High Voltage (“HV”), 45,903 km for Medium Voltage (“MV”) and 144,995 km for Low Voltage (“LV”)
- Total area covered: 97,196 km², 40.7% of Romania’s territory
- 3.77 mn users at the end of 9M 2019 for the distribution activity
- 13.27 TWh of electricity distributed in 9M 2019, an increase of 0.5% as compared to 9M 2018

Figure 2: Romanian electricity distribution map



Source: Electrica

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



Source: Electrica

SUPPLY SEGMENT**Market data (according to ANRE Report for August 2019)**

- 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 92 suppliers (including those of last resort active in the retail market competitive segment, of which 81 are relatively small - less than 4% market share)
- EFSA has a market share of 18.54%; is the market leader on the regulated market, with a market share of 51.00%, while for the competitive market has a share of 10.85%. By comparison, at December 2018, EFSA had a market share of 45.61% on the regulated market and a 9.36% market share on the competitive market (December 2018 ANRE report)
- In 9M 2019, the Group supplied 6.9 TWh of electricity to a number of approx. 3.5 mn final consumers (both in last resort regime and on the competitive market), representing an increase of 8.7% y-o-y.

4. Shareholders' Structure

Until July 2014, the Romanian state, acting through the Ministry of Energy was the sole shareholder of ELSA. 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 2019, the shareholders' structure is the following:

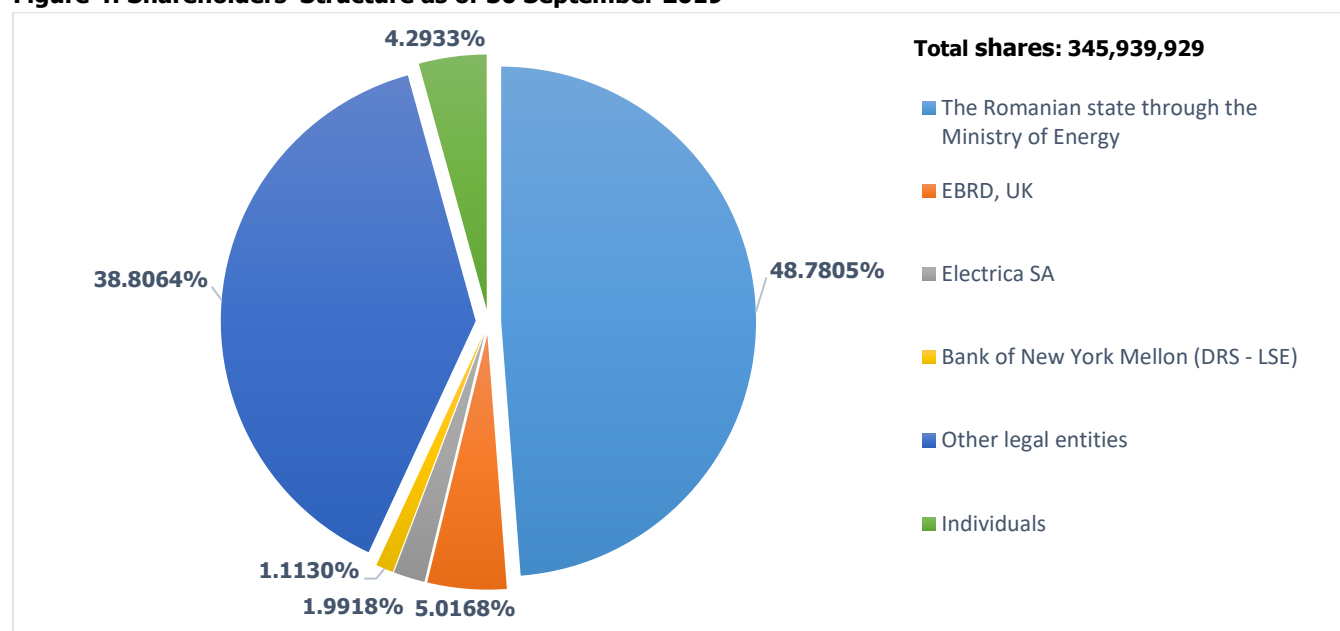
Shareholder	Number of shares	Stake held (% of the share capital)
The Romanian state, through the Ministry of Energy, Bucharest, Romania	168,751,185	48.7805%
The European Bank for Reconstruction and Development, London, UK	17,355,272	5.0168%
Electrica SA (no voting rights)	6,890,593	1.9918%
BNY MELLON DRS, New York, USA	3,850,304	1.1130%
Other legal entities*	134,240,441	38.8046%
Individuals	14,852,134	4.2933%
TOTAL	345,939,929	100.0000%

Source: Central Depository, Electrica

*Dedeman SRL, NN Group NV, Allianz Tiriac Private Pensions owns between 5 and 10% of the total number of shares

Following the stabilization process after the IPO, ELSA owns 6,890,593 of its own shares, representing 1.9918% of the total share capital, which do not entitle ELSA either to voting rights, or dividends.

Figure 4: Shareholders' Structure as of 30 September 2019



Source: Electrica

5. Operational Results

Selected financial information from the condensed consolidated statement of profit or loss – in RON mn:

Indicator	30 September 2019 (not reviewed or audited)	30 September 2018 (not reviewed or audited)	Variation (%)
Revenues	4,607.5	4,010.0	14.9%
Other income	115.8	116.3	-0.5%
Electricity purchased	(2,445.7)	(1,855.6)	31.8%
Green certificates	(385.0)	(257.7)	49.4%
Construction costs related to concession agreements	(515.2)	(492.5)	4.6%
Employee benefits	(484.9)	(469.4)	3.3%
Repairs, maintenance and materials	(70.9)	(64.4)	10.2%
Depreciation and amortization	(358.4)	(323.0)	10.9%
Reversal of impairment of property, plant and equipment and intangible assets, net	2.9	1.4	101.2%
Reversal of impairment/(Impairment) of trade and other receivables, net	1.4	(2.8)	-
Impairment of assets held for sale	(0.3)	-	-
Change in provisions, net	2.4	(0.1)	-
Other operating expenses	(275.9)	(278.3)	-0.9%
Operating profit	193.7	384	-49.6%
Finance income	10.4	10.1	2.3%
Finance costs	(9.4)	(4.1)	130.2%
Net finance income	0.9	6.0	-84.4%
Profit before tax	194.6	390	-50.1%
Income tax expense	(33.7)	(75.1)	-55.1%
Profit for the period	160.9	314.9	-48.9%

Source: Electrica

Key financial indicators for the period ended 30 September 2019:

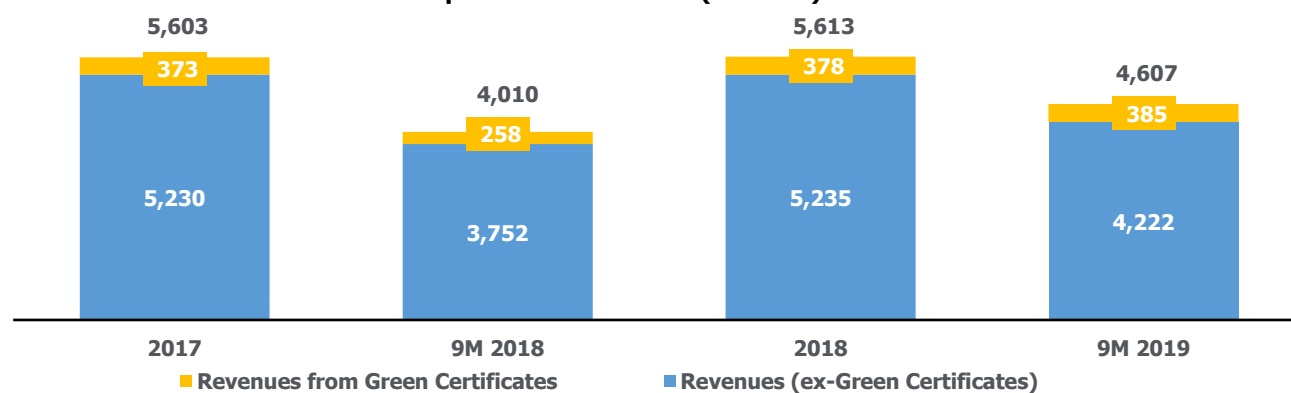
- **Revenues: RON 4.6 bn**, a 14.9% y-o-y increase;
- **EBITDA: RON 549.4 mn**, a RON 156.1 mn decrease compared to same period of last year;
- **EBIT: RON 193.7 mn**, a RON 190.3 mn decrease compared to 9M 2018;
- **EBT: RON 194.6 mn**, a RON 195.4 mn y-o-y decrease;
- **Net result: profit of RON 160.9 mn**, a RON 154 mn y-o-y decrease.

Revenues and other income

Electrica's revenues and other income in the nine month period ending 30 September 2019 and 30 September 2018 amounted to RON 4,723.2 mn and RON 4,126.3 mn, respectively, representing an increase of approx. RON 596.9 mn, or 14.5%; the variation is generated mainly by the revenues' evolution, the other operating income recording only a slight decrease of RON 0.6 mn.

Revenues

Figure 5: Revenue for 9M 2019 and comparative information (RON mn)



Source: Electrica

The revenues increased by RON 597.5 mn, or 14.9%, being the net effect of the following main factors:

- external revenue (outside the Group): the electricity and gas sales towards third parties decreased by RON 65.5 mn, having an unfavorable impact on the consolidated revenue;
- RON 74.5 mn increase of the distribution segment's revenues;
- increase of RON 599.6 mn on the supply segment.

In the nine month period ending 30 September 2019, the revenue from the electricity distribution segment increased by approx. RON 74.5 mn, or 3.9%, to RON 1,980.7 mn, from RON 1,906.2 mn in the nine month period ending 30 September 2018, as a result of the following factors:

- the total distributed quantity increased by 0.5% (on voltage levels: high voltage -1.4%, medium voltage -0.5%, low voltage 1.9%), generating a favorable effect on the total revenues from electricity distribution;
- the evolution of the distribution tariffs also had a positive effect on the energy revenues, the analyzed period being influenced by two successive tariff increases, of approx. 2.3% each, the first one applicable from 1 March 2019, and the second one applicable from 1 July 2019;
- 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, which recorded an increase of RON 23.1 mn in 9M 2019 as compared with 9M 2018.

In the nine month period ending 30 September 2019, the revenue from the electricity supply segment increased by RON 599.6 mn, or 20.4%, to RON 3,531.9 mn, from RON 2,932.4 mn in the same period of the previous year.

The variation of the supply segment revenue is mainly driven by the 5.6% retail sale price increase and the 8.7% increase in the supply of electricity on the retail market; the development of the natural gas supply activity had also a positive impact on the segment revenues.

The green certificates value included in final consumer invoice, set by ANRE, increased from RON 49.1/MWh in the nine month period ended 30 September 2018 to RON 59.1/MWh in the nine month period ended 30 September 2019.

Electricity purchased

In the nine month period ending 30 September 2019, the expense for electricity purchased increased by RON 590.1 mn, or 31.8%, to RON 2,445.7 mn, from RON 1,855.6 mn in the comparative period.

This variance is mainly generated by the rise in the electricity purchase prices in 9M 2019, compared with the same period of the previous year, being the effect of the electricity market evolution - experienced both in the supply and distribution segment, but also by the increase of the quantity of electricity purchased on the supply segment.

The cost of the electricity purchased for supply and balancing (including transmission and system services) increased by RON 505 mn, or 34.2%, to RON 1,981.4 mn in the first nine months of 2019, from RON 1,476.4 mn recorded in the same period of 2018, being the cumulative effect of higher electricity purchase price and the increase in the quantity of electricity purchased.

Regarding the distribution segment, in the nine month period ended 30 September 2019, the cost of the electricity purchased to cover network losses increased by RON 85.1 mn, or 22.4%, to RON 464.3 mn, from RON 379.2 mn, the evolution being generated by the increase in the electricity purchase prices (negative effect of RON 91.6 mn), effect slightly diminished by the reduction in the quantity of electricity needed to cover network losses (positive impact of RON 6.6 mn).

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

Nine month period ending 30 September (RON million)	2019	2018
Electricity purchased to cover network losses ¹	464.3	379.2
Electricity purchased for supply and balancing ²	1,785	1,305.6
Transmission and system services related to supply and balancing activities	196.4	170.7
Total electricity purchased	2,445.7	1,855.6

Source: Electrica

1. the distribution segment - the regulatory framework has undergone significant changes between the two compared periods, 2019 and 2018, thus in 2019 the ex-ante price recognized and approved by ANRE is approx. 243 RON/MWh in nominal terms, significantly different from the actual purchase price of the distribution companies of Electrica Group; according to the new methodology, there is the possibility to recover through the 2021 tariffs the difference between the actual NL electricity price of each DSO and the ex-ante price set by ANRE, provided that the average actual price is lower than or equal to the average of the actual 2019 prices of the network operators (DSO and the transmission and system operator - TSO). In case of exceeding the average, the difference between the average and the ex-ante price approved by ANRE will be recovered at most. According to a draft law for the amendment of the methodology, is under discussion the recognition in the 2020 tariffs of the difference between the realized price and the reference price for H1 2019 calculated by ANRE, of RON 270 RON/MWh (electricity cost only, without additional costs).

2. supply segment: considering the tariffs approved by ANRE, the price recognized for January - February 2019 on the regulated segment does not cover the actual electricity purchase price (the purchase price recognized by ANRE for January and February 2019 on the regulated segment was set based on the reference prices of transactions realized on the centralized market during March-April 2018, according to ANRE Order no. 39/2018); through GEO no. 114/2018, was set the legal framework for recovering the losses from the purchase of electricity on the regulated segment in the future periods, starting from 1 March 2019 and until 28 February 2022 (the difference between the actual price and the ANRE recognized price for 2018 and 2019).

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 influenced by GC amount that the Group has to purchase for the current year and GC purchase price on the centralized market. The green certificates cost is a pass through cost.

In the nine-month period ended at 30 September 2019, the cost of GC increased by RON 126.2 mn, or 48.9%, to RON 383.9 mn, from RON 257.8 mn in the same period of the prior year.

The increase was mainly influenced by:

- higher supplied volumes, for which there is an obligation to purchase green certificates, by 8.4% (negative impact of RON 24.6 mn);
- 1.27% increase in the average purchase price from RON 134.8/GC in the nine-month period ended at 30 September 2018 to RON 136.5/GC in the nine-month period month ended at 30 September 2019, cumulated with the increase in GC average regulated quota imposed to electricity suppliers by ANRE at 0.433 GC/MWh supplied from 0.346 GC/MWh supplied in the nine-month period ended at 30 September 2019 (negative impact of RON 64.5 mn);
- the regularization impact – negative variance of RON 37 mn, reflected in both revenue and expenses, therefore having no impact on the margin.

Construction costs

In the nine month period ending 30 September 2019, the costs related to concession agreements increased by RON 22.7 mn, or 4.6%, to RON 515.2 mn, from RON 492.5 mn in the comparative period. This increase is attributable to the realized investments related to the Regulated Asset Base.

Employee benefits

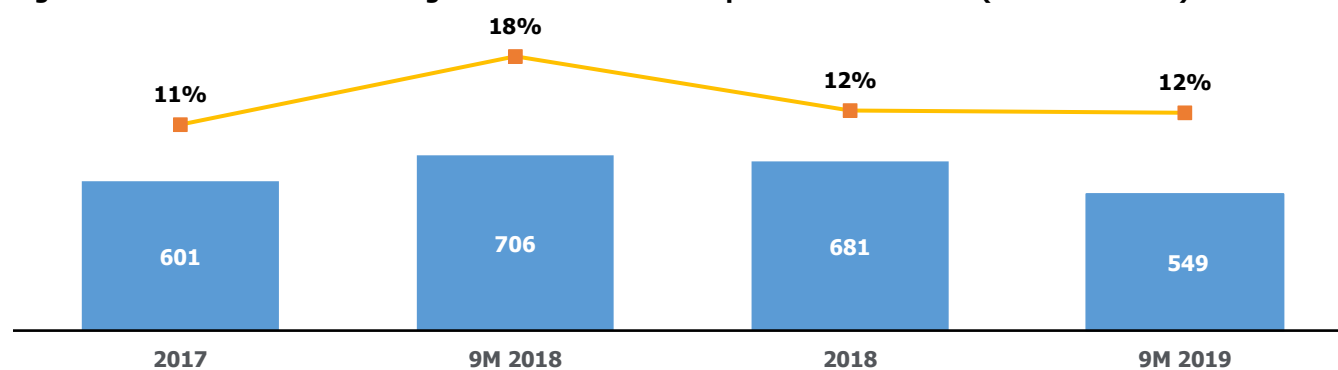
The expenses for salaries and employee benefits increased by RON 15.5 mn, or 3.3%, to RON 484.9 mn in the nine month period ending 30 September 2019, from RON 469.4 mn in the same period of the previous year, following the changes in the structure of the benefits granted to the Group's employees.

Impairment of trade and other receivables

The net impairment of trade and receivables had a positive impact at the end of 9M 2019, of RON 1.4 mn, being mainly the net effect of the impairment adjustments recognized for receivables and sundry debtors and the reversal of impairment adjustments, as a result of the analysis of the receivables and other receivables' structure as of 30 September 2019, and finding an improved receivables collection rate y-o-y.

EBITDA and EBITDA margin

Figure 6: EBITDA and EBITDA margin for 9M 2019 and comparative information (RON mn and %)



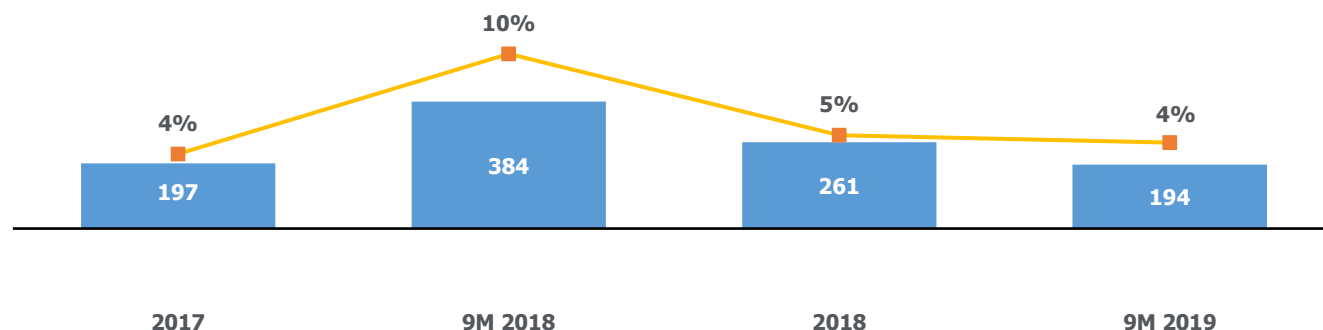
Source: Electrica

Operating result

The Group EBIT decreased by approx. RON 190.3 mn y-o-y, adding to the EBITDA evolution:

- the impact of the depreciation and amortization, an increase by RON 35.3 mn, or 10.9%, as a result of the reclassifications under IFRS 16 'Leases', but also of a higher level of investments' commissioning, and
- the positive impact of impairment adjustments of tangible and intangible assets (RON 1.4 mn variation)

Figure 7: EBIT and EBIT margin for 9M 2019 and comparative information (RON mn and %)



Source: Electrica

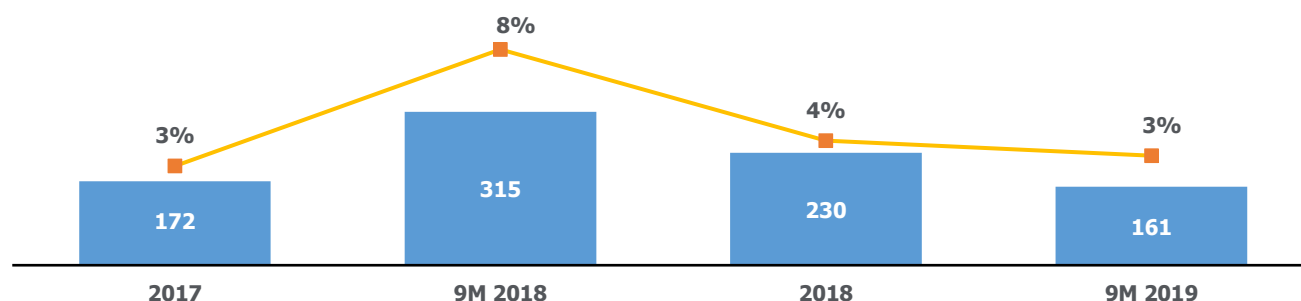
Net finance result

The net finance income at group level decreased by 84.4% over the nine month period ended 30 September 2019 compared to the similar period in 2018, as a result of the increase in finance cost, affected by the application of IFRS 16, Leasing Contracts', whereas the financial income remained at approximately the same level as 9M 2018.

Net profit for the period

As a result of the above described factors, in the nine month period ended 30 September 2019, the net result decreased by RON 154 mn, reaching RON 160.9 mn, from RON 314.9 mn in the comparative period.

Figure 8: Net profit and Net profit margin for 9M 2019 and comparative information (RON mn and %)



Source: Electrica

6. Outlook

Given the energy policies developed at both EU and national level, as well as the international context of energy markets, it is expected that the local electricity market will be characterized by the below presented medium and long term trends.

Evolution of energy consumption

- It is estimated that fully electric vehicles and light commercial vehicles will lead to an increase in electricity consumption in the transport 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, electrical appliances, motor drives, heat pumps etc.).

Technological development

- Significant reduction in the costs of photovoltaic technologies represents a development opportunity for small-scale generation projects, especially in the domestic area;
- The development of the transmission and distribution infrastructure and the long-distance interconnection will become a necessity. The electricity market target model, which implies the development of Europe's internal electricity market, will continue to evolve and be in line with future trends and challenges in the energy industry.

Supply segment

- The competition between the players in the electricity supply market is growing at national level, especially regarding the diversification of the products' portfolio for customers (e.g. integrated offers for electricity and natural gas or telecommunications, insurance, energy audit, value-added energy solutions) and digital services offered (e.g. mobile applications, online invoices and payments, robotization/chat solutions, etc.);
- For the clients who have the right to benefit from regulated tariffs or universal service and do not want to migrate to the eligible segment, the supply of electricity under regulated conditions will be ensured in accordance with the legal provisions;
- The new secondary legislation, that reintroduced provisions related to regulated contracts and changed the pricing methodology for household customers, as well as the methodology for designation of the optional Suppliers of Last Resort (SoLR), will also influence the electricity market and the future strategies of the SoLRs regarding the portfolio management.

Distribution segment:

- In the electricity distribution area, the regulatory tendencies are to remunerate the distribution operators' activity taking into account both the quality of the services offered, as well as the costs and the efficiency of the operations, based on comparative analyzes between the DSOs;
- The technologies of distributed electricity generation will determine the distribution operators to adapt their processes and strategies regarding the networks' development and modernization and to offer solutions to the independent producers, considering the emergence of prosumers, active participants in the electricity market; in this context, significant investments are necessary to improve the infrastructure, both transport and distribution;
- The implementation of smart metering will offer complex tariffs options to the consumers, detailed information regarding the consumption profile, which might lead to increased flexibility and peak demand reduction. Thus, the consumers shall be better informed and involved in the decision-making process, as active participants.

The smart metering implementation pace depends on the implementation timetable to be adopted at national level;

- Common norms of the electricity market - legislative package no. 4 of the EC (Clean Package) - The European Parliament adopted on 26 March 2019 the proposal for a Directive of the European Parliament and of the Council on common rules for the internal market in electricity. The proposal is to be submitted for approval by the European Council, the strategic directions for distribution being:
 - Smart metering - if the installation of the smart metering systems benefits from a positive evaluation, at least 80% of the end users must have smart meters within seven years from the date of their positive evaluation or until 2024, in the case of the Member States that have initiated the systematic introduction of smart metering systems before the date of entry into force of the Directive;
 - Incentives for the use of flexibility in distribution networks - the regulatory framework ensures that the distribution operators can purchase services from entities that offer distributed production, dispatchable consumption or electricity storage services and promotes energy efficiency measures;
 - Integration of electro-mobility in the electrical network - the regulatory framework facilitates the connection of private and public access recharging points to the distribution networks; distribution operators are not allowed to own, develop, manage or operate recharging points for electric vehicles, unless distribution operators have private recharging points exclusively for their own use. Derogations are allowed only if certain conditions are cumulatively fulfilled;
 - Ownership of energy storage facilities by distribution operators - distribution operators do not own, develop, manage and operate energy storage facilities. Derogations are allowed only if certain conditions are cumulatively fulfilled.

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	The economic growth is a factor that determines the electricity demand. Although there is not a one-to-one relationship between GDP growth rate and electricity demand growth rate, 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. Intensification of electricity consumption is a major trend in Romania. Over 2010 - 2018, there was a significant increase in consumption, as opposed to a decrease of the gas consumption over the same period, mainly due to the curtailment of heavy industry production.	Electricity consumption
Demographic evolution and technology development	Despite the demographic decline recorded at EU and Romanian level, 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.	Electricity consumption
Changes in regulations	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 an European Energy Union, which highlights the need for integration and cooperation amongst member states. In 2019, the 4th Regulatory Period started and ANRE approved significant changes in the methodology for all tariff elements (regulated rate of return, regulated assets base, network losses, operating expenses, TOU distribution tariffs starting from	Electricity prices

Key driver	Description	Impact on
	2020). Also for the supply segment important changes are forecasted in the purchase strategies and the sales to final customers, considering the legislative impact regarding the regulated contracts for the household customers, the designation methodology for optional SoLR and the methodology of eligible household customer returning to regulated tariffs. The change in the amount of the contribution to be paid to ANRE from 0.1% to 2% of the turnover generated by licensed activities could lead in time to the restructuring of the activities of the players in the electricity market.	
Technological development	Smart grids and smart meters will create benefits for the end consumers, distributors and suppliers in terms of energy efficiency, resource optimization and 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 their impact management.	Electricity prices and consumption
Increase in environmental awareness	Romania has adopted the EU 20-20-20 targets, aiming to reduce greenhouse gas emissions, improve energy efficiency and raise the share of renewable energy. Moreover, the 2030 Framework increases these targets and therefore more efforts are needed from governments and market players to achieve them.	Electricity prices and consumption, regulatory framework

Source: Electrica

The regulatory framework perspective and the impact on the energy market

The energy regulatory framework has experienced major changes in the past decade, including market liberalization, unbundling and support scheme implementation for renewable energy, and the changes brought by GEO no. 114/2018 and GEO no. 19/2019 led to new market rules and could lead in time to the possible reorganization in the activities of energy market players.

For the **distribution area**, the most significant changes in the Romanian legislation are presented in *chapter 2.1*.

The changes to the Romanian legislation with relevant impact for the **supply segment** are the following:

- The amendments to the Electricity and Natural Gas Law no. 123/2012 introduce the obligation of the electricity suppliers to purchase electricity to ensure the coverage of their customers' consumption, with priority for the customers of the Universal Service in their own portfolio. The provision affects the electricity purchase strategy of the SoLRs, with impact on the functioning of the entire market in the short and medium term. In addition, the supplier does not have the right to unilaterally terminate the electricity supply contracts with the final customers;
- GEO no. 114/2018 and GEO no. 19/2019 have major influence on the supply area also, through the new provisions for the electricity market, respectively the reinsertion of the regulated tariffs for household segment and of the electricity purchase contracts at regulated prices, as well as the premises for the recovery of the purchase losses generated in the period 2018 - 2019. In addition, the two GEOs impacted the natural gas market by the capping the sale price. Another major impact is represented by the increase of the amount of annual contributions related to the organization and functioning of ANRE;
- The new secondary legislation, approved by ANRE at the beginning of 2019, reintroduces the regulated contracts with producers and changes the tariff methodology for the regulated segment of customers. These changes have the potential to bring significant changes in market participants' strategies for the next period;
- The increase from 1 July 2019 of the regulated tariff for distribution and transmission, of the regulated tariffs

used by OPCOM, of the high efficiency cogeneration contribution, as well as the increase of the electricity price in the regulated contracts concluded by SoLRs with the electricity and heat power producers in high efficiency cogeneration will lead on the short term (H2 2019) to the increase of electricity prices for final consumers on the competitive market. The tariffs for household consumers remain unchanged, which will lead to the decrease in profit or even to losses for SoLRs, which could be recovered in the future through the correction component considered in the methodology in force.

Considering the legislative and regulatory changes, Electrica Group has revised its strategy for the period 2019-2023. Thus, the Board of Directors approved the new strategic directions for the areas of distribution and supply of electricity:

1. Expansion in related fields and obtaining synergies with the areas in which we are currently active;
2. Improving the operational performance in order to continuously increase the quality of the services provided to the customers;
3. Continuing the investments in order to improve the infrastructure's reliability;
4. Increasing the performance and enhancing the sustainability of the economic results.

In the distribution area, the focus also falls on the operational efficiency in the following period, by reducing technological and commercial losses and by optimizing internal processes. The investments will continue, in order to modernize the networks (including through automation and the implementation of smart grid and smart metering technologies), aiming the improvement of the quality of services.

In the supply area, risk management has been expanded in the field of electricity procurement in order to optimize the market position and the prices for the customers. The optimization of the processes, especially through the use of automation/digitization, is continued, along with the extension of the portfolio of products and services and the modernization of sales and interaction channels with customers.

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 the operational efficiency.

Electrica's capital expenditures in the nine month periods ending 30 September 2019 and 30 September 2018 amounted to RON 534.6 mn and RON 503.5 mn, respectively.

The volume of investments in the distribution network increased by approx. RON 22.7 mn y-o-y (as presented in chapter 5), this increase being 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 such 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 recognized in the Regulated Asset Base by ANRE and considering the rate of return approved by the regulatory authority.

8. Statements

Based on the best available information, we confirm that the interim condensed consolidated financial statements not reviewed or audited for the nine month period ended 30 September 2019 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 2019, comprises accurate and real information regarding the Group's development and performance.

Chair of the Board of Directors,

Valentin RADU

Chief Executive Officer,

Corina Georgeta POPESCU

Chief Financial Officer,

Mihai DARIE

9. Annexes

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

In 2019 up to date, eight current reports were issued with regard to the agreements concluded according to art. 82 of Law 24/2017:

- Current report from 16 January 2019:
 - Services agreement no. 8/16 January 2019 with Societatea de Distributie a Energiei Electrice „Transilvania Sud”: Rendering of services using AMR system
- Current report from 26 March 2019:
 - Services agreement no. 46/26 March 2019 with Societatea de Distributie a Energiei Electrice „Muntenia Nord”: Rendering of services using AMR system
- Current report from 6 May 2019:
 - Services agreement no. 54/25 April 2019 with Societatea de Distributie a Energiei Electrice „Transilvania Nord”: Rendering of services using AMR system
- Current report from 29 July 2019:
 - Services agreement no. 87/26 July 2019 with Societatea de Distributie a Energiei Electrice „Transilvania Sud”: Rendering services of metering systems installation
- Current report from 29 August 2019:
 - Services agreement no. 101/28 August 2019 with Societatea de Distributie a Energiei Electrice „Transilvania Nord”: Rendering services of metering systems installation
- Current report from 6 September 2019:
 - Addendum no. 1 to the services agreement no. 46/26 March 2019 with Societatea de Distributie a Energiei Electrice „Muntenia Nord”: Rendering of services using AMR system – extension of the duration of the contract by 2 months
- Current report from 16 October 2019:
 - Services agreement no. 114/14 October 2019 with Societatea de Distributie a Energiei Electrice „Transilvania Nord”: Rendering of services using AMR system
- Current report from 4 November 2019:
 - Addendum no. 2 to the services agreement no. 46/26 March 2019 with Societatea de Distributie a Energiei Electrice „Muntenia Nord”: Rendering of services using AMR system – extension of the duration of the contract by 2 months

9.2. Economic and financial indicators of Electrica Group as of 30 September 2019 according to Annex 13/ASF Regulation no. 5/2018

Indicator	Formula	Value
Current liquidity ratio	Current assets/Current liabilities	1.3
Capital Gearing Ratio	Debt/Equity * 100	6.6%
Trade receivables turnover	Average balance trade receivables/ Turnover * 270	50 days
Non-current asset turnover ratio	Turnover/Non-current assets	0.8