



2014 HALF YEARLY REPORT

(based on the consolidated unaudited financial statements prepared in accordance with IFRS)

REGARDING THE ECONOMIC-FINANCIAL ACTIVITY OF SC DFEE ELECTRICA SA

according to art. 227 from Law 297/2004 and to annex no.31 to CNVM Reg no.1/2006

for the six month period ended June 30, 2014

IDENTIFICATION DETAILS ON REPORT AND ISSUER

Report date: August 14, 2014

Name of the Issuer: SC DFEE ELECTRICA SA

Headquarter: no. 9 Grigore Alexandrescu Street, 1st District, Bucharest, Romania

Telephone/fax number: +4021.208.5002; +4021.208.5004

Fiscal Code: RO13267221

Trade Registry No: J40/7425/2000

Subscribed and paid in share capital: RON 1.687.511.850 (see Note 1)

Main characteristic of issued shares: 168.751.185 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: As at 30 June 2014 the Company's securities were not admitted to trading on a regulated market (see Note 2)

Note 1

Pursuant to the registration certificate no. 2340001 and the resolution no. 78473/ 02.07.2014 issued by the National Trade Registry Office, the share capital was increased by 1,771,887,440 RON, following the successful completion of the process of underwriting new shares issued by the Company in the initial public offering. As at the date of the current report the subscribed and paid up capital of SC Electrica SA is 3,459,399,290 RON.

Note 2

Following the completion of initial public offering, the Company's securities were admitted to trading on the Bucharest Stock Exchange (BSE) under the trading symbol EL and on the London Stock Exchange (LSE) under the trading symbol ELSA on July 3, 2014.



HIGHLIGHTS

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

Electrica's distribution segment operates through its subsidiaries Electrica Distributie Muntenia Nord, Electrica Distributie Transilvania Nord, Electrica Distributie Transilvania Sud and Electrica Serv and is geographically limited to Northern Muntenia, Northern Transylvania and Southern Transylvania. The Group holds exclusive Distribution Licences for these regions which have a remaining term of 13 years and may be extended.

Electrica's supply segment operates through its subsidiary Electrica Furnizare and supplies electricity to consumers both on the regulated electricity market (in the regions where the distribution subsidiaries of the Group operate) and the competitive electricity market (throughout Romania). The Group also holds two supply licenses covering the whole of Romania, which have a remaining term of 7 and 8 years respectively and which may be renewed.

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

A summary of the main indicators is described below:

- During the six month ended 30 June 2013 the Group distributed approximately 8 TWh and supplied approximately 5 TWh of electricity representing approximately to approximately 3.57 million end consumers over the same period. The Group operates in highly populated and industrialised areas of Romania, with approximately 3.6 million users across its distribution network.
- Revenue from the distribution segment increased by RON 12 million, or 1.5%, to RON 1,033 million in the six month period ended 30 June 2014
- Revenue from the supply segment decreased by RON 364 million or 15%, to RON 2,063 million in the six month period ended 30 June 2014
- The contributions to Electrica's revenue in the six month period ended 30 June 2014 by Electrica's distribution and supply segments were 33% and 66%, respectively
- Operational profit increased in the first half 2014 to RON 254 million, by RON 31.3 million, or 14% as compared to the same period in 2013
- During the first half 2014 EBITDA reached 466 RON million, an 11% increase or 45.5 RON million, as compared to the first half 2013
- The contributions to Electrica's EBITDA in the six month period ended 30 June 2014 by Electrica's distribution and supply segments were 84% and 31%, respectively

ORGANIZATIONAL STRUCTURE

The Company is a holding company for the Group, which comprises four subsidiaries in its distribution segment, Electrica Distributie Muntenia Nord, Electrica Distributie Transilvania Nord, Electrica Distributie Transilvania Sud and Electrica Serv, and one subsidiary, Electrica Furnizare, in its supply segment. The Group also includes five service entities owned by Electrica, i.e. Servicii Energetice Muntenia, Servicii Energetice Banat, Servicii Energetice Dobrogea, Servicii Energetice Moldova and Servicii Energetice Oltenia. Servicii Energetice Oltenia is under insolvency proceedings and Servicii Energetice Banat, Servicii Energetice Dobrogea , Servicii Energetice Moldova are currently subject to dissolution and liquidation.

SHAREHOLDER STRUCTURE

As at 30 June 2014 the share capital of Electrica SA is 100% owned by the Romanian State, represented by the Ministry of Economy – Department for Energy.

BOARD OF DIRECTORS STRUCTURE

The Company is a joint-stock company having a management structure organized in a one-tier system. The Board of Directors comprises executive members (the “Executive Directors”) and non-executive members (the “Non-Executive Directors”). The members of the Board are appointed and revoked by the general meeting of shareholders. The Board of Directors elects one of its members as chairman of the Board of Directors. The members of the Board of Directors can be appointed for a term that cannot exceed four years.

The members of the Board of Directors, who have been appointed following the selection procedure in accordance with the applicable legal provisions through the decision of the general meeting of the shareholders no. 40 dated 21 June 2013 and no. 5 dated 13 February 2014 except for the interim member, appointed through the decision of the Board of Directors no. 9/2014 until the selection of a new member for the vacant position, are the following:

Name	Date of birth	Position
Ioan Rosca	19 March 1962	General Manager, Executive Director
Marius Eugen Untescu	13 October 1962	Member, Non-Executive Director (Chairman)
Niculae Plesa	18 June 1967	Member, Non-Executive Director
Constantin Dinescu	22 July 1977	Member, Non-Executive Director
Rares Ion Popescu	29 August 1978	Member, Non-Executive Director (interim)

BALANCE SHEET HIGHLIGHTS

Selected financial information from the consolidated balance sheet

	30-Jun-14	31-Dec-13	Var.
ASSETS			
Non-current assets			
Property, plant and equipment	5,967,937	5,932,771	1%
Intangible assets	54,053	58,913	-8%
Deferred tax assets	71,833	85,361	-16%
Other non-current assets	5,205	1,118	366%
Total non-current assets	6,099,028	6,078,163	0%
Current assets			
Trade receivables	743,388	1,087,545	-32%
Receivables from public offering of shares	1,943,015	-	
Other receivables	19,899	62,987	-68%
Restricted cash	129,902	-	
Cash and cash equivalents	1,006,385	650,835	55%
Inventories	28,358	33,809	-16%
Prepayments	12,309	6,378	93%
Income tax receivable	19,660	36,510	-46%
Assets held for distribution	-	2,243,494	
Total current assets	3,902,916	4,121,558	-5%
Total assets	10,001,944	10,199,721	-2%
EQUITY AND LIABILITIES			
Equity			
Share capital	2,042,355	2,509,413	-19%
Prepaid share reserve	1,943,015	-	
Additional contributions from shareholders	-	47,657	
Revaluation reserve	666,323	1,080,704	-38%
Other reserves	204,295	612,490	-67%
Retained earnings	804,186	1,597,810	-50%
Total equity attributable to the owners of the Company	5,660,174	5,848,074	-3%
Non-controlling interests	809,865	811,296	0%
Total equity	6,470,039	6,659,370	-3%

	30-Jun-14	31-Dec-13	Var.
Liabilities			
Non-current liabilities			
Finance lease	41	290	-86%
Financing of property, plant and equipment	108,253	129,827	-17%
Deferred revenue	1,444,885	1,421,596	2%
Deferred tax liabilities	254,565	255,968	-1%
Employee benefits	213,188	213,187	0%
Other payables	58,381	66,376	-12%
Total non-current liabilities	2,079,313	2,087,244	0%
Current liabilities			
Bank overdrafts	25,808	79,684	-68%
Finance lease	493	498	-1%
Financing of property, plant and equipment	122,300	142,584	-14%
Trade payables	472,389	627,619	-25%
Other payables	460,924	261,390	76%
Current income tax liability	15,956	15,183	5%
Deferred revenue	102,701	89,223	15%
Employee benefits	171,669	152,191	13%
Provisions	80,352	84,735	-5%
Total current liabilities	1,452,592	1,453,107	0%
Total liabilities	3,531,905	3,540,351	0%
Total equity and liabilities	10,001,944	10,199,721	-2%

Fixed assets

Electrica's fixed assets in the six month periods ended 30 June 2014 and 2013 increase by RON 20 million, from to RON 6,099 million and RON 6,078 million, respectively. The increase in fixed assets resulted from the increase in construction in progress, represented mainly by the following investment works:

- Implementation of the SAD-Rural system throughout the branches of the Muntenia Nord distribution subsidiary, Step IV vol. 1 – 33,761 th RON
- Implementation of the SAD-Rural system throughout the branches of the Muntenia Nord distribution subsidiary, Step IV vol. 2 – 18,986 th RON
- Modernisation of the substation 110 kV Liesti, Jud Galati – 8,426 th RON
- Upgrading and expansion of the Sibiu telemanagement system – 6,423 th RON
- Systematisation of the MV grid RED PH-DB (Sinaia substation - PC Grup Scolar section), Prahova county – 6,404 th RON
- Smart-metering pilot project, SDEE Satu Mare – 5,154 th RON

- Modernisation of the 110 kV switchgears from transformation stations – Step II - volume1 + volume2 – 5,005 th RON
- Connection to the RED CHEMP Elsid SA Valea Prahovei, sect. Sinaia, Breaza, Comarnic – 4,331 th RON
- Modernisation through repairs Alba – 4,157 th RON
- 20 kV distributor between the HIPODROM transformation station and Port, Mun Braila transformation station – 3,990 th RON
- Migration of the MV grid to 20 kV in Satu Mare municipality, Step 1 - old town area – 3,065 RON
- Increasing the security and continuity in supply for consumers from the municipality Marghita – 2,916 th RON
- Modernisation of the distribution network through assembly of measurement and protection blocks for public lighting (BMPPIP) – 2,790 th RON
- Modernisation of the 20 kV LEA Salonta – Tamasda – 2,484 th RON
- Modernisation of the connections and expansion of the telemanagement blocks Targoviste, Micro VI Dambovita – 1,604 th RON
- Modernisation of the metering system in Iernut city, Mures county – 1,583 th RON
- Improvement of the technical conditions for the supply of electricity for consumers in the central area of the municipality Braila, Braila county – 1,335 th RON

During the first semester in 2014, the largest transfers from constructions in progress to property, plant and equipment are the result of setting into operation the following investment objectives:

- Modernisation of the 110/29/6 kV substation Blaj, Alba – 10,010 th RON
- Substation 110/20 Biharia – 9,941 th RON
- 20 kV Distributor between Hipodrom substation and Port substation, municipality Braila – 4,300 th RON
- Modernisation of the SDEE's measurement groups – 4,209 th RON
- Modernisation of the low voltage lines SDEE Cluj, Bistrita, Baia Mare, Oradea (14 works) – 4,032 th RON
- Switching to 20kV Stei – 2,422 th RON
- Modernisation of the 110 kV switchgears from transformation stations - Step 2 – 1,708 th RON
- Ferneziu substation - 20 KV Modernisation – 1,472 th RON
- Switching to 20kV Velenta Oradea Step 1 – 1,468 th RON
- Modernisation of the Lukoil distributor in Nufarul substation – 1,322 th RON
- Increasing security in the area Rodna Valea Ilvelor – 1,242 th RON
- Modernisation through repairs Sibiu – 1,178 th RON
- Modernizare of the 25MVA-110/22/10.5KV transformer – 1,144 th RON
- Optimisation and integration of existing network into SCADA – 1,050 th RON
- Module for SAP-ISU for interface + modernisation of the manual reading equipment – 1,025 th RON
- INT LEA j.t. Lisnau, areas PTA1,PTA2, comm. Ozun, Covasna county – 997 th RON
- ICTAEE for the consumers in Unirea, Braila county; 0,46 km LEA 20 kV; 1 PTA 100 kVA; 14 km LEA 0,4 kV; 242 pieces FDCS 1-4; 1 BMPT; 428 subscribers – 962 th RON
- Modernisation of the network in Vanatori-Metro area, Braila county – 808 th RON

Trade receivables

Trade receivables decreased by RON 352 million, 16%, to RON 743 million in the six month period ended 30 June 2014 from RON 1,088 million as at 31 December 2013. This decrease was mainly attributable to the collection by Electrica Furnizare SA subsidiary of the overdue receivables from the National Railway Company - Compania Nationala Caile Ferate Romane CFR SA ("CFR") (a state-owned company). On 13 May 2013 the Group collected the value of electricity invoiced as at 31 December 2013 of RON 221 million.

Trade receivables from CFR amount to RON 4,810 thousand as at 30 June 2014 and RON 240,632 thousand as at 31 December 2013.

Receivables from public offering of shares

Between 11 and 27 June 2014 the Company organised an IPO, which referred to an offering of 142,007,744 shares and 8,795,250 GDRs, each GDR representing four shares. The underwritings amounted to RON 1,556,095 thousand and USD 120,143,115. Consequently, the Group recognised prepaid share reserve and receivables from public offering for the total amount of the underwritings of RON 1,943,015 thousands.

The transfer of ownership rights on the new shares and the collection of the cash by the Company took place on 2 July 2014. At the same date the increase in share capital was recorded in the Trade Register.

Cash and equivalents

Cash and equivalents increased by RON 355 million, 55%, to RON 1,006 million in the six month period ended 30 June 2014 from RON 651 million as at 31 December 2013 mainly due to the collection in 13 May 2014 by Electrica Furnizare SA subsidiary of the overdue receivables from the National Railway Company - Compania Nationala Caile Ferate Romane CFR SA ("CFR") (a state-owned company) in total amount of RON 221 million.

Restricted cash

Following the spin-off, as at 30 June 2014 the Group has restricted cash of RON 129,902 thousand, representing cash received from the above transaction with E.On, less the directly attributable costs (legal costs and taxes), and a liability to transfer this cash to Societatea de Administrare a Participatiilor in Energie SA. This liability is classified in Other current payables as at 30 June 2014

Share capital

On 25 February 2014 an increase of share capital of 188,264 ordinary shares was registered in the Trade Registry. The shares were issued in respect of land contributed by the shareholder in previous periods.

On 10 April 2014 Bucharest Court approved the spin-off by Electrica SA through transfer of part of its assets (investments held by Electrica SA in other entities – see Note 5) to a new company „Societatea de Administrare a Participatilor in Energie SA”, owned by the Romanian State, represented by the Ministry of Economy – Department for Energy. Following this transaction, the share capital decreased by 43,123,780 ordinary shares.

On 16 May 2014 an increase of share capital of 3,846,797 ordinary shares was registered in the Trade Registry. The shares were issued in respect of land contributed by the shareholder in previous periods.

On 2 July 2014 the increase of share capital by 177,188,744 ordinary shares was recorded in the Trade Register, following an IPO.

Dividends

Dividends for the year ended 31 December 2013, in amount of 22,475,225 RON, were declared on the basis of individual annual statutory financial statements.

The dividends in respect of the year ended 31 December 2013 were approved by OGMS of the Company no. 29 on 28 May 2014 and were paid on 28 July 2014.

RESULTS OF OPERATIONS

Selected financial information from the consolidated income statement

	H1 14	H1 13	Var.
Revenues	2,307,288	2,618,141	-12%
Other income	7,394	71,297	-90%
Electricity purchased	(1,134,363)	(1,454,402)	-22%
Green certificates	(149,799)	(207,399)	-28%
Salaries and other employee benefits	(369,848)	(359,366)	3%
Repairs, maintenance and materials	(47,817)	(55,474)	-14%
Depreciation and amortization	(212,262)	(198,260)	7%
Reversal of impairment of property, plant and equipment, net	371	480	-23%
Reversal of impairment of trade and other receivables, net	8,651	32,157	-73%
Other operating expenses	(222,007)	(224,364)	-1%
Operating profit	254,154	222,810	14%
Finance income	13,864	13,026	6%
Finance costs	(11,598)	(14,925)	-22%
Net finance income/(cost)	2,266	(1,899)	-219%
Share of profit or loss of equity-accounted investees, net of tax		31,480	
Profit before tax	256,420	252,391	2%
Income tax expense	(59,279)	(43,232)	37%
Profit for the period	197,141	209,159	-6%
Profit for the period attributable to:			
- owners of the Company	131,322	161,542	-19%
- non-controlling interests	65,819	47,617	38%
Profit for the period	197,141	209,159	-6%

Electrica's revenue in the six month periods ended 30 June 2014 and 2013 amounted to RON 2,307 million and RON 2,618 million, respectively. The decrease of revenue by RON 310 million, or 11.9% in the six months period ended 30 June 2014 as compared to the six months period ended 30 June 2013 resulted mainly from the factors related to key line items included in revenue discussed below.

The contributions to Electrica's revenue in the six month period ended 30 June 2014 by Electrica's distribution and supply segments were 33% and 66%, respectively; and in the six month period ended 30 June 2013 were 29% and 69%.

Revenue from the distribution segment increased by RON 12 million, or 1.5%, to RON 1,033 million in the six month period ended 30 June 2014 from RON 1,028 million in the six month period ended 30 June 2013. This increase was mainly attributable the increase of the average regulated distribution tariff.

Revenue from the supply segment decreased by RON 364 million or 15%, to RON 2,063 million in the six month period ended 30 June 2014 from RON 2,427 million in the six month period ended 30 June 2013. This decrease was mainly attributable to a 5% decrease in the average supply tariff and to 36% decrease in the value of Green Certificates included in the invoice to the final consumer from 51.29 RON/MWh in the six month ended 30 June 2013 to 32.84 RON/MWh in the six month period ended 30 June 2014, in accordance with the ANRE regulation. Additionally, the quantities supplied decreased by 6% due to a decrease in electricity consumption nationally as a consequence of market liberalisation.

Electricity purchased

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

The expense for electricity purchased decreased by RON 320 million, or 22%, to RON 1,134 million in the six month period ended 30 June 2014 from RON 1,454 million in the six month period ended 30 June 2013. This decrease was primarily attributable to the decrease in the cost of the electricity purchased for supply and trading by RON 297 million, or 25%, to RON 885 million in the six month period ended 30 June 2014 from RON 1,182 million in the six month period ended 30 June 2013. The decrease was mainly attributable to the decrease in the average electricity acquisition price as well as to a decrease in quantities supplied.

The cost of the electricity purchased to cover network losses decreased by RON 23 million, or 8%, to RON 249 million in the six month period ended 30 June 2014 from RON 272 million in the six month period ended 30 June 2013. The decrease was mainly attributable to the decrease in the electricity acquisition price as well as to a decrease in the quantity of electricity acquired to cover the network losses.

Six month period ended 30 June (RON million)	2014	2013
Electricity acquired to cover network losses	249	272
Transmission and system services	129	117
Electricity purchased for supply and trading	756	1,065
Total electricity purchased	1,134	1454

As a percentage of revenue, the cost of electricity purchased was the main cost of the Group, representing 49.2% in the six month period ended 30 June 2014 and 55,5% in the six month period ended 30 June 2013.

Green Certificates

Green Certificates are accrued in the profit and loss based on the quantitative quota determined by the regulator representing the amount of the Green Certificates that the Group has to purchase for the year and based on the price of Green Certificates on the centralised market. The cost with the acquisition of Green Certificates is a pass through cost.

The cost with the acquisition of the Green Certificates decreased by RON 57.6 million, or 28%, to RON 150 million in the six month period ended 30 June 2014 from RON 207 million in the six month period ended 30 June 2013. This decrease was mainly attributable to the 39% reduction in the price of Green Certificates from RON 229 per Green Certificate in the six month period ended 30 June 2013 to RON 138.6 per Green Certificate in the six month ended 30 June 2014. In 2014, the regulatory Green Certificates quota imposed to the electricity suppliers by ANRE increased to 0.237 Green Certificates per MWh supplied from 0.224 Green Certificates per MWh supplied for the six month period ended 30 June 2013.

As a percentage of revenue, the cost with the acquisition of Green Certificates represented 6.5% in the six month period ended 30 June 2014 and 7.9% in the six month period ended 30 June 2013.

Salaries and employee benefits

Expense for salaries and employee benefits increased by RON 10.5 million, or 2.9%, to RON 369.8 million in the six month period ended 30 June 2014 from RON 359.4 million in the six month period ended 30 June 2013. This increase was attributable to lay-offed employees that enforced their claims against the assets of SE Moldova, in insolvency.

As a percentage of revenue, the expense for salaries and employee benefits represented 16% in the six month period ended 30 June 2014 and 13.7% in the six month period ended 30 June 2013.

Repairs, maintenance and materials

Repairs, maintenance and materials expenses decreased by RON 7.7 million, or 14%, to RON 47.8 million in the six month period ended 30 June 2014 from RON 55.5 million in the six month period ended 30 June 2013. This decrease was primarily attributable to a decrease of activity of the services companies of the Group performing external electricity network maintenance, as well as to the decrease in expenses with network maintenance of the distribution companies. As a percentage of revenue, the expense for repairs, maintenance and materials represented 2% in the six month period ended 30 June 2014 and 2.1% in the six month period ended 30 June 2013.

Other operating expenses

Other operating expenses remained relatively constant in the six month period ended 30 June 2014 and 2013. As a percentage of revenue, other expenses represented 9.6% in the six month period ended 30 June 2014 and 8.6% in the six month periods ended 30 June 2013.

Operational profit

As a result of the factors described above, the operational profit increased by RON 31.3 million, or 14% to RON 254 million in the six month period ended 30 June 2014 from RON 223 million in the six month period ended 30 June 2013.

Profit before tax

The profit before tax increased by RON 4 million, or 2 % to RON 256 million in the six month period ended 30 June 2014 from RON 252 million in the six month period ended 30 June 2013. Profit before tax as of 30 June 2013 was impacted by an one-off transaction, consisting in recognition the share of profit or loss of equity accounted investees of RON 31 million.

Income tax

The income tax increased by RON 17 million, or 141.7%, to RON 29 million in the six month period ended 30 June 2014 from RON 12 million in the six month period ended 30 June 2013. This increase was primarily attributable to the tax paid in connection to the sale of shares held in in E.On Moldova Distributie and E.On Energie Romania.

Net profit for the period

For the reasons discussed above, net profit for the year decreased by RON 12 million, or 86.1%, to RON 197 million in the six month period ended 30 June 2014 from RON 209 million in the six month period ended 30 June 2013.

Cash Flow

In the six month period ended 30 June 2014, net cash from operating activities amounted to RON 655 million. The profit before tax for the period was RON 139 million. The key adjustments were: (i) adding depreciation and amortisation in the amount of RON 212 million, a net change in trade and other receivables of RON 108 million (mainly due to a decrease in the trade receivables collection period in the first quarter of 2014 compared to 2013), and other adjustments resulting mostly from a net change in deferred revenues of RON 36.8 million related mainly to connection fees paid by customers, and (ii) deducting a change in trade and other payables of RON 66 million and a change in employee benefits and provisions of RON 15 million. Income tax and interest paid amounted to a total of RON 35.7 million.

In the six month period ended 30 June 2013, net cash from operating activities amounted to RON 486 million. The profit before tax for the period was RON 158 million. The key adjustments were: (i) adding depreciation and amortisation in the amount of RON 198 million, a change in trade and other payables of RON 246 million (mainly due to an increase in the VAT payable), a net change in deferred revenues of RON 90 million (related mainly to connection fees paid by customers), and (ii) deducting a net change in trade and other receivables of RON 209 million (mainly due to an increase in receivables from CFR), the share of profit of equity-accounted investees in the amount of RON 31.5 million related to the minority stakes held by Electrica in the privatised electricity distribution and supply companies Enel Distributie Banat, Enel Distributie Dobrogea and Enel Energie) and a change in employee benefits and provisions of RON 5 million. Income tax and interest paid amounted to a total of RON 35.4 million.

Subsequent events

On 2 July 2014 the transfer of ownership rights on new shares issued by public offering and the collection of cash by the Company. At the same date the Trade Register approved the increase of the Company's share capital by 177,188,744 ordinary shares with a nominal value of RON 10 per share, which represents cash contribution from shareholders of RON 1,771,887 thousand, following the IPO arranged between 11 and 27 June 2014. As a result of this transaction, on 2 July 2014 the interest of the Romanian State in the Company was diluted to 48.78%.

Concluded contracts

Contracts concluded during first semester of 2014 reported according to art. 225 of Law 297/2004:

- SC Filiala de Intretinere si Servicii Energetice „Electrica Serv” SA - C54/28-02-2014 – Auto transport services - value: 2.996 th RON
- SC FDEE Electrica Distributie Muntenia Nord SA - C59/28-02-2014 – Management and advisory services – value: 953 th RON
- SC FDEE Electrica Distributie Transilvania Nord SA - C60/28-02-2014 – Management and advisory services - value: 953 th RON
- SC FDEE Electrica Distributie Transilvania Sud SA - C61/28-02-2014 – Management and advisory services - value: 953 th RON

Key factors, drivers and significant market trends affecting the results of Electrica's operations

Directors believe that the following factors, drivers and market trends significantly affected the results of the Group's operations for the periods covered by the Consolidated Financial Statements, and expects that they will continue to have a significant impact on the results of the Group's operations in the future. Directors distinguishes between key factors, drivers and significant market trends it cannot control and those that it can (albeit often only to a limited degree) control. Key factors, drivers and significant market trends that Directors cannot control include:

- (i) the general regulatory and legal framework under which the Group operates, including ANRE's policies;
- (ii) distribution and electricity supply tariffs set by ANRE;
- (iii) the cost of electricity purchased;
- (iv) macroeconomic trends in the Romanian economy; and
- (v) demand for electricity. Key factors and drivers that Directors can at least partially control include the Group's capital expenditures and operating expenses.

Directors believe that the Group's performance will be particularly influenced by:

- (i) the continued deregulation of the electricity supply market (particularly in relation to households) which may result in increased competition and churn in this segment but may

- also create an opportunity through the expansion of the Group's supply segment targetable market, and
- (ii) future changes in the regulatory targets for calculating tariffs on electricity distribution, including in particular any changes to the permitted regulated rate of return or any changes to efficiency targets such as network losses, other operating expenditures and changes to approved capital expenditure plans.

Directors believe that in the mid- to long-term the continued growth of Romania's real GDP, and of the Romanian economy generally, will have some positive impact on electricity consumption in Romania, which, in turn, will have a positive effect on Electrica's business (in particular its supply segment) and its results of its operations.

In particular, Directors believe that as long as Romanian economic growth continues to outpace that of the EU, per capita electricity consumption in Romania is likely to continue to rise. Conversely, a significant slowdown in the growth of Romania's GDP and of the Romanian economy in general could have some negative effect on energy consumption in Romania and, in turn, on Electrica's business (in particular with respect to its supply segment) and its results of operations.

A core part of Directors's business strategy includes implementing an investment plan principally in its distribution segment. Electrica's operations require significant capital expenditures mostly connected with its operations in the electricity distribution segment. Directors plans to invest RON 6,271 million in the 2014 - 2018 period. Furthermore, Electrica's assets require periodic renovation and modernisation in order to improve operational efficiency. Any delays in the implementation of the investment programme, amendments to it or any overspending in relation to it may have a material impact on Electrica's capital expenditures in the future, and on Electrica's operations, financial condition and development prospects.

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

Electrica's capital expenditures in the six month periods ended 30 June 2014 and 2013 amounted to RON 228 million and RON 260 million. The volume of capital expenditure had a material impact, and according to Electrica's expectations, will continue to have an impact, on the results of Electrica's operations, Electrica's indebtedness, and future cash flows.

STATEMENTS

During the first six month period ended 30 June 2014 SC DFEE ELECTRICA SA complied with all its financial obligation. Also, there are no factors of uncertainty that could affect the company's liquidity.

Attached hereto are the consolidated non-audited interim financial statements for the six month period ended on 30 June 2014 prepared in accordance with the International Financial Reporting Standards.

Chairman of the Board of Directors,

Marius Eugen Untescu



General Manager,

Ioan Rosca

