



ENDORSED

CHIEF EXECUTIVE OFFICER

Ioan Rosca



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**REVIEW OF THE KEY ELEMENTS OF THE BUDGET
FOR THE YEAR 2016
SDFEE ELECTRICA SA**

1. GENERAL PRESENTATION

SDFEE Electrica SA, incorporated with the Trade Register under no. J40/7425/2000, sole registration number 13267221 and having as main scope of business the “Business and other management consultancy activities” - NACE code 7022, with the scope of coordination and efficient control of participation interests in subsidiaries that carry out electricity distribution and supply activities as well as energy services.

The company also provides services on the electricity balancing, import and export and trading market.

The subsidiaries of Electrica SA, and the participation interests held in them are:

| Subsidiary | Activity | Unique registration code | Headquarters | % stake as of 31 December 2015 |
|--|---|--------------------------|--------------|--------------------------------|
| Electrica Distributie Muntenia Nord S.A. | Electricity distribution in North Muntenia geographical area | 14506181 | Ploiesti | 78.0000021% |
| Electrica Distributie Transilvania Nord S.A. | Electricity distribution in Northern Transylvania geographical area | 14476722 | Cluj-Napoca | 77.99999% |
| Electrica Distributie Transilvania Sud S.A. | Electricity distribution in Southern Transylvania geographical area | 14493260 | Brasov | 78.0000019% |
| Electrica Furnizare S.A. | Supply of electricity | 28909028 | Bucharest | 77.99997% |
| Electrica Serv S.A. | Services in the energy sector (maintenance, repair, construction) | 17329505 | Bucharest | 100% |
| Servicii Energetice Muntenia S.A. | Services in the energy sector (maintenance, repair, construction) | 29384120 | Bucharest | 100% |
| Servicii Energetice Moldova S.A.* | Services in the energy sector (maintenance, repair, construction) | 29386768 | Bacau | 100% |
| Servicii Energetice Oltenia S.A. | Services in the energy sector (maintenance, repair, construction) | 29389861 | Craiova | 100% |

**Electrica SA estimates the control of Servicii Energetice Moldova to be lost during 2016 due to the commencement of subsidiary bankruptcy proceedings*

2. Presentation of methodology for drafting the Income and Expenses Budget

The Income and Expenses Budget represents the company's main instrument for scheduling incomes and expenses related to the activities carried out on the electricity market, aiming to ensure the internal financial balance for carrying out the activity under profitability conditions.

In the current context, companies pay a great attention to the effective management of resources and use the income and expenses budget for this purpose – as financial management instrument, at company level and at the level of the main types of activities of the company.

The income budget represents the financial estimate of services provided by the company while the expenses budget represents the financial estimate of consumption of resources necessary to meet the company's objectives.

The budget is an efficient instrument of control over the activity of the company. It establishes target results, allowing a better supervision of expenses, and offers a realistic view of the future and assures the continuity of business on the short, medium and long term.

The substantiation by the company of the draft income and expenses budget for the year 2016 was performed based on "prudence" and "continuity of activity" principles, in conditions of economic efficiency in the sizing of financial resources necessary for funding the entire activity.

According to the Articles of Association of the company, the income and expenses budget is approved by the General Meeting of Shareholders after its endorsement by the Board of Directors

The objectives considered in preparing the budget were:

- Minimizing operating costs and direct them to the activities involved by the development and reorganization strategy
- Maximizing revenues from services provided by the company
- Maximize company profit to reach at least the level required to cover the amount representing 85% of consolidated net profit attributable to Electrica's shareholders and paid by the holding company.

3. OPERATING RESULTS

Selected financial information of the budgeted profit and loss account prepared in accordance with OMF 1286/2012

th. RON

| INDICATORS | 2015 Budget | 2016 Budget | B. 2016 vs. B. 2015 (diff.) | B. 2016 vs. B. 2015 (%) |
|---|-----------------|-----------------|-----------------------------------|-------------------------------|
| Revenues | 240,139 | 343,043 | 102,904 | 43% |
| Other income | 31,914 | 1,725 | (30,189) | -95% |
| Purchased electricity | (226,500) | (321,301) | (94,801) | 42% |
| Salaries and other employee benefits | (28,394) | (26,884) | 1,510 | -5% |
| Repairs, maintenance and materials | (1,474) | (1,404) | 70 | -5% |
| Depreciation and amortization | (14,000) | (24,000) | (10,000) | 71% |
| (Impairment)/Reversal of impairment of property, plant and equipment, net | 0 | 0 | - | - |
| Reversal of impairment of trade and other receivables, net | 0 | 0 | - | - |
| Other operating expenses | (67,775) | (38,625) | 29,150 | -43% |
| Change in provisions, net | | 0 | - | - |
| Operating profit / (loss) | (66,090) | (67,446) | (1,356) | 2% |
| Financial revenues | 380,986 | 389,022 | 8,035 | 2% |
| Financial expenses | (4,662) | (5,000) | (338) | 7% |
| Net financial revenues / (expenses) | 376,324 | 384,022 | 7,697 | 2% |
| Profit / (loss) before tax | 310,234 | 316,576 | 6,341 | 2% |
| Income tax expense | (10,138) | (539) | 9,599 | -95% |
| Profit for the year | 300,096 | 316,037 | 15,940 | 5% |

Revenues

Main operating revenue in 2016 are earned from trading and services provided as balance responsible party (BRP) on the energy market. In 2016 these revenues are estimated to be 333,103 th. RON compared to 240,139 th. RON budgeted in 2015, due to an increased estimated volume of balancing and trading activity.

Other operating revenue are obtained from AMR system measurement data presentation services, technical approval services, providing certain information on meter reading, etc.

Other income

Compared with 2015 when RON 31,914 th. were estimated, representing a non-recurring revenue from provision reversal, in 2016 are estimated RON 1,725 th. other income from rental and other services.

Purchased electricity

The electricity costs estimated for the year 2016 are increased compared to 2015 Budget, from 226,500 th. RON to 321,301 th. RON, related to costs for the energy acquisition necessary for the balancing and trading activity.

The balancing and trading activity margin for 2016 is estimated in 2016 at 11,800 th. RON, increasing from 10,300 th. RON in 2015, in line with the 2015 commercial performance.

Salaries and other employee benefits

The salaries and other employee benefits decrease by 5% in 2016, to 26,884 th. RON compared to 28,394 th. RON in 2015 Budget.

The variation is due to the salaries increase by 3.5% offset by the decreasing of the lay-off expense, RON 2,450 th. in 2016 (related to 35 persons) compared to RON 7,828 th. in 2015.

These expenses also include the indemnities of the Board of Directors members and managers with mandate contracts, according to the remuneration policy established by the General Meeting of Shareholders, respectively by the Board of Directors.

Depreciation and amortization

The depreciation expenses are estimated for 2016 at 24,000 th. RON, increasing from the 2015 Budget level, respectively 14,000 th. RON, due to the put in function from the investment program (AMR system, etc.).

Other operating expenses

In 2016 the company estimates a decrease of these expenses, to 38,625 th. RON compared to 67,775 th. RON in 2015 budget, which is generated mainly by the evolution of the third party services expense, that are estimated at 31,151 th. RON compared to 60,251 th. RON in 2015.

Financial revenue

The most significant part of Electrica SA revenue is the financial revenue, mainly from the dividends distributed by its subsidiaries.

The revenue from the dividends distributed by subsidiaries in 2016 estimated to amount to 358,516 th. RON, compared to those earned in 2015, respectively 352,192 th. RON, recording an increase by 2%.

Financial expenses

In 2016, the company estimates a level of financial expenses at 5,000 th. RON compared to 4,662 th. RON in 2015, these expenses resulting from exchange rate differences for cash at bank in foreign currencies.

In the budget elaboration an exchange rate of 4.45 RON/EUR was considered.

Net profit

The operating activity generates a loss amounting to 67,446 th. RON, slightly higher than 2015 budget value of RON 66,090 th., which is balanced by the profit from the financial activity, increasing by 7,697 th. RON, from 376,324 th. RON in 2015 to 384,022 th. RON in 2016, as a result of the coordination and the efficient control of participation interests held in its subsidiaries.

Thus, for 2016 the Company estimates a net profit amounting to 316,037 th. RON compared to 300,096 th. RON in 2015 Budget.

CFO

Iuliana ANDRONACHE

