



Societatea Filiala de Distribuție a Energiei Electrice
ELECTRICA DISTRIBUTIE TRANSILVANIA NORD S.A.

ADMINISTRATORS' REPORT FOR THE YEAR 2015

REPORT IDENTIFICATION DETAILS

Report date: March 4, 2016

Company name: SOCIETATEA FILIALA DE DISTRIBUȚIE A ENERGIEI ELECTRICE „ELECTRICA DISTRIBUTIE TRANSILVANIA NORD”- S.A., subsidiary of Societatea de Distribuție și Furnizare a Energiei Electrice „Electrica” S.A;

Head office: Cluj-Napoca, 28A Ilie Măcelaru Str, post code 400380

Telephone/fax: +40264.205.002; +40264.205.004

Fiscal Code: RO 14476722

Trade Registry number: J12/352/2002;

Share capital: RON 371.264.060 lei subscribed and paid in.

The share capital is divided into 37.126.406 nominative shares of 10 RON nominal value.



*Societatea Filiala de Distribuție a Energiei Electrice
ELECTRICA DISTRIBUTIE TRANSILVANIA NORD S.A.*

STATEMENTS

During 2015, Societatea FDEE “Electrica Distributie Transilvania Nord” has fulfilled all its financial obligations.

We are not aware, at this time and given the available information, of any potential factors that could affect the company's liquidity. During this period there were no changes that would affect the company's equity.

In terms of company management, significant changes have taken place both as regards the delimitation of the attributions of responsibility of the executive management and non - executive management and the component in terms of Board members as shown below:

Starting March 25 A.C. by dismissal, by the General Meeting of Shareholders, the General manager of the position of administrator, and so the separation of the duties of the executive management of non - executive management was substantially complete, so since that time , in fact, the board consists of five non-executive members out of which: 2 are representatives of the company’s major shareholder, one represents Fondul Proprietatea and 2 are independent. Formally speaking, the company’s articles of association were not amended so as to restrain the right of appointing the general manager from the board members, this attribute of the board remaining valid.

Mr. Emil Merdan was replaced as Chairman of the Board of Directors by Mr. Ioan Rosca, on March 25, 2015, in accordance with Resolution no. 2 of March 25, 2015 of the Board of Directors.

The Board of Directors issues 21 resolutions during 2015, their fulfillment being reported to the Board during the February 24, 2016 session.

The General Meeting of Shareholders was convened by the Board of Directors and issued 11 resolutions during 2015, their fulfillment being reported to the Board during the February 24, 2016 session.

Annexes to the hereby report – Financial Statements drafted at December 31, 2015, in accordance with the Ministry of Public Finance Order no. 1802/2014, with subsequent amendments and audited by the external auditor KPMG Bucuresti.

HIGHLIGHTS

The main activity of Filiala de Distribuție a Energiei Electrice “Electrica Distribuție Transilvania Nord” SA is represented by the distribution of electricity, according to CAEN code no. 3513, based on license no 453/2002 valid for 25 years.

Electrica Distribuție Transilvania Nord concluded a concession agreement in 2005 with the Ministry of Economy and Trade (as concession provider) for 49 years, with the option of extension for a term of at least half of the period. The agreement was updated in 2008 by an addendum.

Electrica Distribuție Transilvania Nord is a distribution operator activating in North-Western Transylvania, on a natural monopoly. Besides this, the company may carry out other ancillary activities for the purpose of supporting its main activity.

Electrica Distribuție Transilvania Nord S.A. comprises six power distribution branches, without legal personality: Cluj, Oradea, Baia Mare, Satu Mare, Bistrita and Zalau.

The company's operating area, according to the Concession Agreement and in compliance with the distribution licenses granted by the Regulatory Authority for Energy (ANRE) is **34.160 km²** in North-Western Transylvania and the company provides services for **1.232.610** consumption places as at December 31, 2015.

The distribution network owned by the company as at December 31, 2015 comprises:

- 34.271 km AEL
- 8.631 km UEL
- 121 transformer stations etc

Regulated asset base:

- 31.12.2014 (including inflation, according to ANRE correspondence): RON 1.335 million;
- 31.12.2015: RON 1.436 million.

The mission of Electrica Distribuție Transilvania Nord is to deliver long term value to the shareholders by distributing electricity and providing exceptional services to the customers in a safe, reliable, affordable and sustainable manner.

All activities and personnel that support the accomplishment of this major objective will abide by the regulations in quality standards. We are sure that this long-term strategy will ensure our competitiveness on the market and our capacity to provide our clients with the expected comfort.

FDEE Electrica Distribuție Transilvania Nord S.A. continued to create added value by increasing performances and efficient investments. It implemented solutions for reducing costs and network loss while assuring the customers’ satisfaction by providing quality services and diminishing outages and downtime. At the end of 2015, the company has **the following results**:

Turnover increased by 6,7% as compared to 2014, reaching RON 675.406 thousand as compared to RON 632.987 thousand as at December 31, 2014;

Operating results increased by 56% as compared to 2014, to RON **186.613** thousand as compared to RON **119.651** thousand as at December 31, 2014;

EBITDA (Earnings before interest, taxes, depreciation and amortization) increased by 22,8% as compared to last year, to RON 313.545 thousand as compared to RON 255.389 thousand as at December 31, 2014;

EBITDA margin increased by 14,9% as compared to last year, reaching 43,6% as compared to 37,95%, as at December 31, 2014.

Investments

As at December 31, 2015 the investments in the distribution network amount to RON 213.295 th, as compared to RON 139.999 th at December 31, 2014.

The company manages around 268 distribution contracts for 1.232.610 consumption places (as compared to 1.218.831 as at December 31, 2014), with 62 power suppliers, for a quantity of 4.929 GWh, which is peak of the latest years.

Own technical consumption cost for covering network losses (CPT) is monitored based on the company’s operational procedures as well as on the regulators’ specific models. The yearly targets are stated in the efficiency strategy in accordance with the amounts approved by ANRE. The own technical consumption of 2015 was accomplished 11,08% as compared to 11,34% at the end of 2014.

Labour productivity in units of account per average total personnel, calculated as a ratio between the operating revenues and the average number of employees, increased by 8,08% reaching RON 361,7 thousand/person at the end of 2015 as compared to RON 334,7 thousand at the end of 2014, while the salary expenses for a RON 1000 income, decreased by 10,8%.

RISK MANAGEMENT

Risk management is an element of Internal Control System by which significant risks are managed, the ultimate goal being to maintain these risks to an acceptable level. Risk management is a continuous and cyclic process, which includes coordinated activities aiming to direct and control the entity in identifying risks which could harm the objectives and the management thereof.

The company’s management is highly preoccupied with the employees’ awareness on the important role of the risk management within the company and the necessity of direct involvement in the risk management process; the alignment to the best practices on national and international level, by following legislation in place, standards and related norms.

RISKS AND UNCERTAINTIES

Price risk (regulatory)

The distribution tariffs are regulated by ANRE orders.

The table below shows potential regulatory risks with relevant impact on the company’s activity, with repercussions on the cash flow

European or national regulations with an impact	Potential impact description	Strategy options and measures	Deadlines for action
1.Approval of the national calendar of implementation of intelligent metering systems	Through ANRE approval of national calendar of SMI (intelligent metering systems) implementation for the years 2017-2018 in the third regulation period, funding sources must be identified for these projects and efforts will be made to clarify how ANRE should recognize these assets in BAR.	Identifying the areas where these projects will be implemented ; identifying financing sources;	Due dates shall be determined in accordance with the stipulated regulations (most likely the end of 2016)

2.The adjustment of the performance standard for electricity distribution service	By changing, within a regulatory period, of the performance standard, document that was submitted to public debate in two phases, the prerequisites were created for higher costs both in OPEX and in CAPEX of DO, costs that were dimensioned at the level of the year 2013, costs for implementation of the information systems	Identifying the needs for the implementation of the interruptions recording systems, automatic payment of compensation;	Due date 2017 (with the proviso that the term is conditioned of possible changes to the negotiated terms with ANRE)
3. The issue of the procedure for approving and tracking investment	In the event that this procedure will apply in the third period of reglementation, given that the investment plans are already approved by OD and the authority, the company will need to develop applications for tracking the efficiency indicators for investments before and after.	Implementation of investment tracker applications	30-Jun-16
4.Implementation of binomial tariff	The experimental implementation of the binomial tariff is envisioned for 2018, with an impact on the company’s activity, concerning mainly the network connection process and implying a campaign of connection certificate replacement.	Material and human resources required for the replacement of connection certificates and issue of certificates for HV and MV users.	30-Jun-17
5. The risk of an unannounced alteration of the regulatory framework	There is a risk of new amendments, given those to the methodology for the distribution tariffs (during the third regulatory period, both in 2014 and in 2015) concerning the diminishing of the rate of return on assets leading to negative corrections of cca 2% of the annual regulated revenue, as well as the elimination of the negative variation limit of the distribution tariff, initially settled at 7% of the average revenue.	Filing legal actions against the regulator if these amendments are inconsistent with legal stipulations. At the moment, EDTN has filed annulment actions for several ANRE Orders: 146/2014; 155/2014; 165/2015;	When the law is issued
6. Modification of the public supply legislation	The approval of the legislative document may result in delays in public supply procedures, given the new norms to be applied, with repercussions on the investment plan time limits.	Additional resources required for updating internal procedures.	30-Jun-17
7. Amendment of the Electricity and Natural Gas Law No. 123/2012	The amendment of the law that rules as primary legislation the entire activity of the company, may result in core changes related to granting distribution licenses to other distributors in the concessionaires’ operating areas.		When the law is issued

The risks stated above impact on the company’s activity as follows:

- Additional required financial resources which were not included in the cost substantiation at the beginning of the regulatory period; besides actual costs for the imposed measures, there are also the financing costs;
- Additional human resources;
- The impossibility of meeting the dead-lines stipulated by the new regulations, over-passings which may result in penalties in the form of corrections to investment plans and sanctions imposed by authorities.

Management risk

Is covered by the company by a set of performance contracts for the entire management team; they define the performance indicators to be achieved by the management and determine the increase/decrease of management compensations.

Interest rate risk

It refers to the fluctuation of a financial instrument value due to amendments in the interest rates on the market, as compared to the interest rate applicable to that financial instrument.

The interest cash flow risk refers to fluctuations of the interest costs in time. The company does not have any significant interest credits, consequently, the interest rate risk is insignificant.

Exchange rate risk

The currency employed on the domestic market in the RON, while financing expenses are in foreign currencies. As a consequence, the credits in foreign currency are subsequently denominated in RON, at the end of the year's rate. The differences are stated in the profit/loss account and do not impact the cashflow until the repayment of the credit. The company does not own significant foreign currency amounts, therefore, the currency risk is low.

Business partners risk

The reported trade receivables are lowered due to the amendments for receivables impairment. The company bears a significant credit risk with Electrica Furnizare SA, a member of the Group.

Liquidity risk

Liquidity risk refers to potential difficulties with paying financial liabilities which are settled through its cash transfer to a different financial asset. The company's policy regarding liquidity risk is to maintain sufficient liquidities to meet its obligations as they fall due, under normal and stressful conditions, in order to avoid unacceptable loss.

Ca management al riscului de lichiditate, politica Societatii este de a mentine linii de credit disponibile si de a utiliza atat imprumuturi pe termen scurt, cat si credite furnizor pentru achizitia de imobilizari corporale.

Fiscal risks

The Romanian legal and fiscal framework and its translation in practice are frequently adjusted and interpreted in very diverse manners by Government Ministries. The Romanian Government employs several agencies authorized to monitor Romanian companies as well as foreign companies operating in Romania. The monitoring activity is very similar to tax audit in many countries, but they may focus on other aspects besides the fiscal ones, e.g. legal, regulatory, which are of interest for the agency. Moreover, the agencies conducting the monitoring activities

seem to be much less regulated, while the company subjected to the process seems to own fewer protection measures than in other countries.

Fiscal monitoring activities are very frequent in Romania and represent detailed verifications of the accounting books. In some cases, such activities take place months or years after the payment due date. Therefore, the company may owe taxes and fines. Moreover, the fiscal legislation is subject to frequent amendments and the authorities are often inconsistent in interpreting the law. However, the management believes that sufficient reserves are in place for all fiscal obligations.

The income tax statements are revised and corrected by fiscal authorities, usually for a 5-year time span after being submitted.

Transfer price

The fiscal assessment of a transaction with affiliated parties is based on the market price thereof, in accordance with fiscal legislation. Based on this concept, the transfer prices must be amended so as to be consistent with the market prices accepted between entities with no affiliation relation, acting independently, on “normal market conditions”.

Fiscal authorities will probably conduct transfer price verifications in the future, in order to assess whether the prices abide by the “normal market conditions” and the tax base of the Romanian taxpayer is distorted.

BALANCE SHEET HIGHLIGHTS

Selected financial information from the Annual Financial Statements

Indicator [RON th]	01.01.2015	31.12.2015	Variation (%)
NON-CURRENT ASSETS-Total	1.758.111	1.894.500	107,76%
Intangible assets	9.601	10.580	110,20%
Property, plant and equipment	1.748.510	1.883.920	107,74%
Financial assets	0	0	
CURRENT ASSETS - Total	157.607	167.111	106,30%
Inventories	1.567	2.814	179,51%
Receivables	138.670	145.746	105,10%
Treasury	17.370	18.551	106,80%
ACCRUED EXPENCES	64	186	290,94%
TOTAL ASSETS	1.915.782	2.061.797	107,62%
LIABILITY	201.170	241.949	120,27%
Liabilities falling due in less than one year	187.924	233.882	124,46%
Liabilities falling due in over one year	13.246	8.013	60,49%

RISKS AND EXPENSES PROVISIONS	68.785	69.047	100,38%
ACCRUED INCOME	492.920	515.043	104,49%
EQUITY			
Subscribed paid in capital	371.264	371.264	100,00%
Revaluation reserves	496.496	461.314	92,91%
Reserves	30.496	53.196	174,44%
Profit/loss carried forward	165.338	200.520	121,28%
Profit/Loss of financial period	95.331	158.821	166,60%
Profit allocation	6.018	9.303	154,58%
EQUITY - Total	1.152.907	1.235.812	107,19%
TOTAL EQUITY	1.152.907	1.235.812	107,19%
TOTAL LIABILITY	1.915.782	2.061.797	107,62%

Non-current assets

Non-current assets increased by RON 136.389 th or 7,76% at December 31, 2015 as compared to December 31, 2014. During 2015, the most significant transfers from tangible assets in progress to tangible assets are mainly investment commissioning projects. At the end of 2015, the return of assets ROA was 7,7%, 55% higher than in 2014.

Current assets

Current assets increased by cu 6,30% due to an increase of receivables and bank availability.

Receivables

Receivables as at December, 2015 amount to RON 145.746 th. falling due in less than one year.

Adjusted trade receivables amount to RON 140.315 th, out of which RON 105.354 th, or 75,08% represent receivables from companies owned by the Group, mainly Societatea Electrica Furnizare.

Other receivables amounting to 5.431 th. RON, are mainly VAT receivable and connection fees.

Cash at bank and in hand

La data de 31 decembrie 2015, a crescut atat numerarul cat si echivalentele de numerar. In ansamblu, pozitia de cash a societatii s-a imbunatatit de la 17.370 mii lei la 31 decembrie 2014 la 18.551 mii lei la 31.12.2015, respectiv cu 1.181 mii lei, respectiv cu 6,8%.

Both cash and cash equivalents increased as at December 31, 2015. In general terms, the company's cash position improved from RON 17.370 th as at December 31, 2014 to RON 18.551 th, or by RON 1.181 th, namely 6,8%.

Accrued expences

At the end of 2015, deferred expenses were of 186 thousand lei, mainly from IT services

Liability

Liability increased by 20,24%. Short term loans raised from 24,46% due to a new credit facility of RON 50.000 th, while short-term trade loans increased by RON 27.985 th. Long term loans decreased by 39,51% as a result of supplier-credit decrease.

Dividends

2014 dividends amounting to RON 75.916 th were stated in the company's yearly financial statements drafted in accordance with Ministry of Public Finance Order no. 3055/2009. Dividends distribution was approved by Board of Directors Resolution no. 4 of May 12, 2015 and they were fully paid. Dividends to the shareholder S. DFEE Electrica SA amounted to RON 59.215 th and those to Fondul Proprietatea were in the amount of RON 16.701 th.

Accrued income

As at December 31, 2015, the closing balance is RON 515.043 th, mainly diferred revenues from clients for connection investments.

Deferred revenue increased by 4,49% due to commissioning of investments from the network connection fee.

Share capital

The nominative share capital subscribed as at December 31, 2015, consists of 37.126.406 nominative shares of 10 RON nominal value, owned as follows:

- Societatea „Electrica” – S.A. 28.958.593 shares;
- Societatea „Fondul Proprietatea” – S.A. 8.167.813 shares.

The company acknowledges the adjustments in the share capital only after being approved by the General Meeting of Shareholders and registered in the **Trade Registry**.

At the end of 2015, ROE was 12,85%, increasing by 56% as compared to 8,27% in 2014.

1. OPERATING RESULTS

Selected financial information from the profit and loss account of December 31, 2015

Indicator [RON th]	2014	2015	Variation[%]
Net turnover	632.987	675.406	6,7%
Non-current production	2.969	2.117	-28,7%
Revenue from operating subsidies	46	25	-45,7%
Other operating revenues	37.033	41.560	12,2%
Total operating revenues	673.035	719.108	6,8%
Expenses with raw materials and consumables	6.853	6.997	2,1%
Expenses with electricity purchased	129.162	134.031	3,8%
Other external expenses (electricity and water consumption)	3.909	5.289	35,3%
Expenses with salaries and social security	127.195	121.030	-4,8%
Correction of tangible and intangible assets’ value	135738	126932	-6,5%
Expenses related to external services	132.972	117.279	-11,8%
Expenses with taxes and assimilated payments	21.254	17.213	-19,0%
Other operating expenses	-3.699	3.724	-200,7%
Total operating expenses	553.384	532.495	-3,8%
Operating result– profit	119.651	186.613	56,0%
Financial profit or loss	713	-550	-77,1%
Gross profit or loss	120.364	186.063	54,6%
Income tax	25.033	27.242	8,8%
Net profit	95.331	158.821	66,6%

2. Operating revenues

In 2015, the **operating revenues** of Filiala de Distribuție a Energiei Electrice ”Electrica Distribuție Transilvania Nord” S.A. amount to RON **719.108** th, as compared to RON 673.035 th in 2014. The increase of RON 46.073 th is mainly attributable to an increase of the distribution tariffs approved by ANRE for 2015, as compared to those approved for 2014.

The **turnover** increase derives from the distribution service, as well as from other activities: rents, services to third parties (connection fees, research studies, other information activities and call center), traded goods:

Indicatorul [RON th]	2014	2015	Variation [%]
Revenues from electricity distribution:	596.837	635.749	6,50%
- <i>Active energy revenues</i>	568.613	601.873	5,80%
- <i>Reactive energy revenues</i>	26.902	32.327	20,20%
- <i>Redistributed energy</i>	1.322	1.549	17,20%
Rents	26.791	27.619	3,10%
Services to third parties	8.750	11.253	28,60%
Revenues from sold goods	609	785	28,90%
Net turnover	632.987	675.406	6,70%

Other operating revenues consist of investment subsidies representing the amortization of assets financed from connection fees and EU funds.

The operating expenses decreased by 3,8% as compared to the 6,8% increase of operating revenues.

3. Operating expenses

The expenses with the energy purchased for own technical consumption (CPT) amount to RON **134.031**th, increasing by 3,8 % as compared to 2014, as a result of the increase of the quantity purchased, from 621.211 MWh in 2014, to 631.934 MWh 2015, or 1,72 %.

Employee and social security expenses

The salary and social security expenses decreased in 2015, by RON 6.165 th, to RON 121.030 th from RON 127.195 th in 2014, as a consequence of a decrease in the number of employees, by 102

persons, due to voluntary cession of activity in accordance with the Agreement between the FDEE Electrica Distribuție Transilvania Nord management and FNSE Univers, as well as to the stipulations of Law no 123/2014 and the reduction by 5% of the social security rate paid by the employer starting October 1, 2014.

Number of employees at the end of 2015:

	2014	2015	Difference	%
Number of employees at the end of the financial year	2.011	1.880	131	-6,51%

During November 1, 2015 – December 31, 2015, 102 employees ceased activity, according to the Agreement between the company’s management and FNSE Univers. The compensatory package paid from the salary fund, amounts to RON 5.177 th, plus related expenses of RON 1.182 th.

The maintenance and repair expenses decreased significantly, by 19,27%, reaching RON 49.169 th, from RON 58.644 th at the end of 2014, due to cost efficiency measures and to the capitalization of a part of assets repair works, in accordance with the stipulations of the Minister of Public Finance Order no 1.802/29.12.2014 for the approval of Accounting regulations regarding annual individual financial statements and annual consolidated financial statements, in effect from January 1, 2015.

Expenses regarding corrections to tangible and intangible assets value decreased by RON 8.806 th or 6,5%, due to the impact of assets revaluation in 2014. Assets amortisation increased by 2,26% in 2015 as compared to 2014, as a result of an increase in the assets value through commissioning, reaching RON 127.008 th from RON 124.200 th at the end of the previous year.

Expenses with other taxes and assimilated payments decreased following the stipulations of Law no 11/2015, namely the rate regarding special constructions tax decreased from 1,5% to 1%.

Other operating expenses comprise value corrections related to current assets impairment, corrections to risk and expenses provisions, environment expenses and expenses with disposed assets.

Operating profit

The operating profit increased in 2015 as compared to 2014, by RON 66.962 th, reaching RON 186.613 th from RON 119.651 th, due to operating revenues and efficient expenses strategies.

The financial result is negative, in the amount of RON -550 th, as a consequence of the exchange rate evolution.

The gross result at the end of 2015 is RON **186.063 mii** th, 54,6% higher than in 2014.

Income tax expenses at the end of 2015, following tax impact, amount to RON 27.242 th, 8,8% higher than in 2014.

Net profit is RON **158.821 th** at the end of 2015, 66,6% higher than the previous year's result.

ECONOMIC AND FINANCIAL RATIOS

Row no.	Indicator	Formula	31.12.2014	31.12.2015	variation 2015/2014(%)
LIQUIDITY RATIOS					
1	Current Ratio	Current assets / Current liabilities	0,839	0,715	-14,80%
2	Quick Ratio	(Current assets- Inventories) / Current liabilities	0,83	0,702	-15,40%
RISK INDICATOR					
1	Indebtedness	Loans / Shareholders' equity * 100	1,15%	0,65%	-43,60%
OPERATIONAL INDICATORS					
1	Days Inventory Outstanding - DIO	Inventory /cost of inventories * 365 zile	88	114	29,90%
2	Days Sales Outstanding – DSO	Account Receivable / Turnover * 365 zile	60	60	-0,10%
3	Days Payables Outstanding – DPO	Short term trade debt/Cost of goods sold * 365 zile	97	126	30,20%
4	Fixed Assets Turnover Ratio	Turnover /Fixed assets	0,36	0,36	-1,00%
5	Assets Turnover Ratio	Turnover /Total assets	0,33	0,33	-0,70%
KEY PERFORMANCE INDICATORS					
1	Return on capital employed	Earnings Before Interest & Tax / Total equity * 100	10,44%	15,11%	44,70%

2	Gross margin on sales	Gross operating profit / Turnover *100	18,90%	27,63%	46,20%
RATES OF RETURN					
1	ROA (return on assets)	Net Profit / Total assets	4,98%	7,70%	54,80%
2	ROE (return on equity)	Net Profit / Shareholders' equity	8,27%	12,85%	55,40%
3	EBITDA (Earnings before interest, taxes, depreciation, amortization)	operating profit - depreciation and amortization	255.389	313.545	22,80%
4	EBITDA margin	EBITDA/Operating income as IFRS	37,95%	43,60%	14,90%

RESEARCH AND DEVELOPMENT ACTIVITIES

The company does not conduct any research activities.

ENVIRONMENTAL CONSIDERATIONS

The company has an Integrated Quality, Environment, Occupational Health and Safety management system, implemented in EDTN and its 6 branches. The system consists of 132 operational procedures available to all employees.

In 2005, the company continued the pollution monitoring and reduction program in all equipment, in accordance with the environment management system, as stipulated in SR EN ISO 14001/2005.

The expenses were mainly related to the prevention of water and soil pollution, as well as land protection and recovery. Equipment containing PCB was replaced with ecologic ones, in accordance with current legislation. This activity is part of a modernization program for 110kV stations.

Societatea FDEE Electrica Distributie Transilvania Nord S.A. abides by the applicable legislation concerning: waste management, used oils, use and management of dangerous substances, air, water and soil protection, as well as preservation of biodiversity.

SUBSEQUENT EVENTS

This is not the case.

CAPITAL EXPENSES

1. Planned investments expenses

Nr. Crt	Explanation	Annual plan (RON th)	Accomplished 2015(RON th)	Percentage of accomplishment of the annual plan (%)
1	Own sources	140,405	140,405	100%
2	Supplier credit/deferred payments	7,135	7,125	99.9%
3	Structural funds	240	240	100%
4	Other sources	125,220	65,525	52.3%
	Total	273,000	213,295	-

The 2015 investment plan was approved by the Board of Directors Resolution no1 of January 15, 2015, for the amount of RON 210.000 th.

The GMS Resolution no 8 of August 21, 2015 approved the increased investment plan of RON 273.000 th, from the initial approved value of RON 210.000 th, in order to correlate the EDTN investment plan with the group’s consolidated plan.

Capitalisable expenses with maintenance investments in accordance with the Ministry of Public Finance Order no. 1802/2014.

No.	Explanation	Annual plan (RON th)	Accomplished 2015 (RON th)	Percentage of accomplishment of the annual plan (%)
1	Reparatii cu capitalizare	500	532	106.4
2	Total	500	532	-

The 2015 investment plan is structured on financing sources - own resources, supplier credit, non-refundable sources and other sources – and focuses in several guidelines, such as:

- refurbishment and modernization of 110 kV lines and stations;
- refurbishment of MV and LV equipment;
- increasing distribution safety;
- improving electricity quality;
- automatisaton of MV distribution;
- launching smart metering projects in rural and urban areas;
- implementation of SCADA equipment in stations;
- purchasing independent and operational safety equipment.

2. Accomplishment from non-refundable sources

As at December 31, 2015 the values of non-refundable sources EU co-financed projects, amounted to RON 240 th, 100% of the approved plan for this year.

Capital investments in the distribution network will have the predicted positive impact on the operating results of the company provided they are recognized in the Regulated Asset Base (RAB), by ANRE and considering the ANRE approved rate of return. ANRE Order no 146/2014 adjusted the rate of return 8,5% to 7,7%.

3. 2015 commissioning

RON th, VAT not included

Plan / Achievement of commissioning plan	Planned value	Achieved values	Percentage
2013 real price values	184.000	184.799	100,4%
Current price values	193.689	194.530	

The data in the table above comprises only assets from own resources or loans.

In addition to this, there is the rate for amounts repaid from structural funds (total repayments RON 708,9 th – “financial contributions”- not recognized in RAB) – total value of achievement of 2015 investment plan, actual prices RON 195.239,2 th.

ACHIEVEMENT OF INDICATORS AND PERFORMANCE OBJECTIVES

The performance criteria stated according to the stipulations of article 7.21 of the Management Contract approved by Resolution no. 10/09.23.2013 of the company's GMS, as well as to the provisions of the 2015 Balance Sheet, set the following quarterly target indicators for 2015:

Objectives and criteria		Performance indicators	Indicator	U	Yearly	Program	Achieved	Yearly weighting	Degree of indicator achievement	Degree of achievement of objective
0		1	2	3	4	5	6	7	8=6/5	9=7*8
Increasing financial performance	Increasing turnover	Turnover	According to the 2015 income and expenses budget	mii lei	X	642675	675406	10%	105,09%	10,51%
	Increasing rate of return	Operating profit	According to the 2015 income and expenses budget	mii lei	X	146073	186613	15%	127,75%	19,16%
		Total expenses for RON 1.000 income	According to the 2015 income and expenses budget	mii lei	X	789,2	741,7	10%	106,40%	10,64%
	Increasing ROA	Net profit/Total Assets	According to the 2015 income and expenses budget and balance sheet		X	5,1	7,7	15%	150,98%	22,65%
	Increasing ROE	Net profit/Equity	>10%		X	8,28	12,85	10%	155,19%	15,52%
Increasing service quality	Ensuring electricity continuity and quality	SAIDI	According to the performance standard		X	598,02	598,02	20%	100,00%	20,00%
		SAIFI	According to the performance standard		X	3,82	3,82	20%	100,00%	20,00%
		TOTAL						100%	118,48%	

Thus, based on the indicators set and the weight of each indicator, the yearly performance indicator was calculated; it reflects the degree of achievement of objectives and performance criteria; at the end of 2015, it reaches 118,48%.

COMPANY PREDICTIBLE GROWTH

Regulatory environment

Predicted adjustments of the regulatory framework for 2016 refer to the amendment of Law no.123/2012 on Electricity and Natural Gas, which may regulate the distribution license granting for other operators, in other areas than those where concession holders cannot provide the service, in license areas where, under the current stipulations, the company is exclusive.

The adjustments of the secondary and tertiary regulation framework for 2016 include setting a timetable for *Smart Metering Systems*, the revision of the *Performance Standard for the Distribution Service*, implementation of a procedure for commissioning plans approval and following thereof, implementation of bi-nom tariffs; their impact on the activity as shown in chapter *Regulatory risks* will be an increase of required resources, both material and human, and identifying financing sources.

Given the regulator's habitual unexpected amendments of legislation, which were a risk both in 2014 and 2015, the company filed legal actions claiming the annulment of norms lacking legislative transparency; there are current trials demanding the annulment of the following documents:

1. *ANRE Order no 146/2014 on the establishment of the regulated rate of return applied to the approval of tariffs for electricity distribution service provided by concessionaires distribution operators as of 1 January 2015 and repealing art. 112 of the Methodology for setting the tariffs for the electricity distribution service, approved by Order 72/2013*
2. *ANRE Order no.155/2014 – for the approval of the specific tariffs for electric energy distribution service and of the price for reactive electrical energy for the concessionaire distribution operator S.C. FDEE Electrica Distribuție Transilvania Nord S.A. ;*
3. *ANRE Order no. 165/2015 for modification of the Methodology for establishing the tariffs for electric energy distribution service, approved by ANRE's president Order No. 72/2013*

Evolution of distribution tariffs

Tarifele de distribuție aprobate prin Ordin ANRE pentru anul 2016, comparativ cu 2015, au fost diminuate cu 5,55%-7,68%, scădere datorată în principal:

The ANRE approved tariffs for 2016 are 5,55%-7,68% lower than those of 2015, mainly due to:

Tariffs by voltage level:

Order no. 173/12.14.2015			Order no. 155/12.15.2014		
January 1-December 31 2016			January 1-December 31 2015		
High voltage	Medium voltage	Low voltage	High voltage	Medium voltage	Low voltage
19,93	44,27	103,54	21,10	47,34	112,15

Despite a significant decrease in the approved distribution tariffs, due to the 5% increase of distributed electricity as compared to the quantity of 2015, the predicted revenues for 2016 are expected to increase by 2%.

Based on the investment plan, EDTN predicts a decrease in the own technical consumption expenses, as follows:

Own technical consumption	Achieved 2014	Regulatory 2015	Budget 2015	Achieved 2015	Regulatory 2016	Budget 2016
HV	0,98%	1,08%	1,12%	1,13%	1,04%	1,04%
MV	4,69%	4,50%	4,50%	4,56%	4,30%	4,30%
LV	12,22%	12,16%	12,27%	11,69%	11,60%	11,80%
Total	11,34%	11,48%	11,31%	11,08%	10,96%	10,96%

Predictible evolution of the number of employees

Employees at the end of 2015	1.880	
Amendments to the number of employees	-100	-5,32%
Employees at the end of 2016	1.780	
Average number of employees per year	1.830	

For 2016, the company predicts a 100 persons decrease in the employees’ number, due to voluntary cession of activity, in accordance with the Agreement between the Management and FNSE Univers. Thus, the prediction for the end of 2016 is 1.780 employees.

Evolution of electricity demand

Economic growth is an instrumental factor in the electricity demand. Despite the lack of direct connection between the GDP growth rate and the increase of electricity demand, there is a positive correlation mainly between the industrial demand and economic growth. In the future, the electricity demand in household and industrial users will be impacted by the power efficiency policies.

Investment plan

The company continues the investment plans detailed on targets and financing sources, as follows :

Target	Financed by			RON th
	Own resources	Supplier credit	Other sources	Total
	Switching to a nominal voltage of 20 kV of existing distribution networks operating at other levels of MV	17,017		5,622
Replacing existing transformers (110/MV and MV/LV) with low loss ones	3,843		13,240	17,083
Replacing LV over-head lines	23,384		14,725	38,109
Smart metering	4,720		860	5,580
Refurbishment of metering devices	4,002		4,000	8,002
SCADA-DMS	16,922		16,125	33,047
Refurbishment of 110 kV/MV stations	9,990	2,917	8,222	21,129
Refurbishment/regulation of 110 kV over-head lines	6,987		1,000	7,987
Decentralisation of LV network	5,014		4,216	9,230
Refurbishment of MV and LV networks	23,362		27,438	50,800
Rural electrification, urban extensions and capacities take-overs from third parties according to ANRE Order	1,230		175	1,405
Improvement of safety/MV LV ring closing	10,049		13,844	23,892
Refurbishment of for technological capabilities and offices	-		1,788	0
Security systems for technological capabilities and offices	-		1,732	1,732

Information and Telecommunication System (MIS+Tc)	2,210	638	2,848
Independent equipment	19,358		19,358
Studies and projects for the following years	4,370		4,370
GENERAL TOTAL	152,458	2,917	113,625
			269,000

These investment projects are regularly revised, thus the amounts spent may vary from the ones stated in the table above.

Annexes :

1. Annual financial statements drawn up on December 31, 2015.

Chairman of the Board of Directors,
Ioan Dumbravă