



# **Directors' Report**

## **for the year 2015**

**based on audited financial statements prepared in accordance with OMFP 1802/2014**

**for S. FDEE Electrica Distribuție Transilvania Sud SA**

## IDENTIFICATION DETAILS ON REPORT AND ISSUER

**Report date:** 10 March 2016

**Name of the Issuer:** S.FDEE ELECTRICA DISTRIBUTIE TRANSILVANIA SUD SA.

**Head Office:** BRASOV, Str. Pictor Luchian, Nr.25,

**Telephone/Fax:** +40268.305.999; +40268.305.004

**Fiscal Code:** RO14493260

**Trade Registry No:** J08/238/05.03.2002

**Share capital:** RON 423,967,400 subscribed and paid in consisting of 42,396,740 shares with a nominal value of 10 lei.

## STATEMENTS

During the year 2015 S FDEE ELECTRICA DISTRIBUTIE TRANSIVANIA SUD SA complied with all its financial obligation.

Also, there are no factors of uncertainty that could affect the company's liquidity. In this period there were no changes with effect on the share capital of the company .

In terms of management of the company, in the year 2015 there were significant changes both in delimiting the respective prerogatives of the executive management and non-executive component regarding the Board members as follows:

As from the 25 of March, when the Director-General was revoked from his executive position by the General Assembly, there was complete separation of the duties of the executive management of lead non-executive, so that from that date, in fact, the board is made 5 non-executive members including: Two are employees of the majority shareholder and three are independent according to the Law 31/1990. In terms of formal, memorandum of the company was not changed as restricting the right of appointing the director general of the board members, the board of palliative remains valid.

In December 2014, following the resignation of the independent administrator Claudiu Coman, was appointed as manager of the company Mrs. Alexandra Borislavschi, so in the first quarter activity board was for about 1 month carried composed of 4 members and for the remaining two months in complete formation of five members.

In March 2015, mr. Dobre Ion was replaced from his executive position in the General Assembly by mr. Lazar Mihai, accoding to General Assembly resolution.

During the year 2015, 31 meetings of the Board of Directors took place and 31 resolutions were issued.

Attached to this report are the Financial Statements ended 31 Decembre 2015, prepared in accordance with OMPF 1802/2014 and audited by the independent auditor KPMG Audit Bucuresti.

## HIGHLIGHTS

S FDEE ” Electrica Distribution Transilvania Sud” SA is a Romanian legal entity, having as main activity electricity distribution, transit of electricity through their networks, electricity dispatching carrier distribution, modernization and upgrading of energy facilities existent, further automation and research and design within its activity.

The branch S FDEE Electrica Distribution Transilvania Sud SA, located in Brasov, works in the current structure since August 2007, according to GD 675/2007.

By reorganizing FDFEE Electrica Transilvania Sud to the provisions of Law 13/2007 of electricity, which transposes Directive 2003/54/EC and in accordance with GD 675/2007, resulted two distinct entities: electricity distribution company, S FDEE Electrica Distribution Transilvania Sud SA and electricity supply company S FFEE Electrica Furnuzare Transilvania Sud .

S FDEE Electrica Distribution Transilvania Sud SA, distributes electricity to an area of 34100 km<sup>2</sup>, service through six distribution branches(SDEE), without legal status as follows:

SDEE Alba	SDEE Covasna
SDEE Brasov	SDEE Sibiu
SDEE Harghita	SDEE Mures

A summary of the main indicators is described below:

- During 2015 the company distributed energy to approximately 1,1 million users. Based on Distribution License, the Company provides services in an area of approx. 34,100 km<sup>2</sup> in the center of Romania.
- In the twelve month of 2015 revenue from the distribution service increased by RON 22 million, or 4% compared compared to the same period of 2014.
- In 2015 operating expenses decreased by 21 million RON, respectively by 3% compared to the last year, driven by decreased by 20 million RON of operating expenses .Between these, the most significant decrease is recorded in expenses with parties which decreased by 9 million or 7% from the same period of the last year. In 2015, personnel expenses decreased by 1% compared to the same period of 2014. In 2015 company started a staff reduced program based on a agreement with union. This program generated additional personnel expenses of 4.2 million RON, plus relating expenses amounting 1 million RON.
- Acquisition expenses of purchase energy for cover energy losses in networks (CPT) decrease by 0.43% in 2015 compared to 2014, respectively RON 0.7 million. Decrease of this type of expense was influenced by the reduction of the amount purchased, and on the other hand by lower average purchase price of electricity to cover networks losses.
- In the years 2015, operating benefit has grown to 178 milion RON, with 56.7 milion RON or 46.6% , compared to 2014.
- In 2015 was achieved EBITDA of 318 milion RON, up by 24% compared to 2014.
- The investments costs increased by RON 18 million, or 8.9%, to RON 218 th compared to 2014, while the capitalized repairs decreased RON 2.9 milion .

## RISKS AND UNCERTAINTIES

### 1. Regulatory risks

We present the following possible regulatory risks generated by the emergence of regulatory proposals with significant impact to the Company's activity, with implications on cash flows.

European or national regulatory impact	Description of potential impact	Policy options and measures	Deadlines for actions
1. Approval of the national calendar of implementation of smart metering systems	With approval by ANRE the national calendar for implementation of SMI for the years 2017-2018 in the third period of regulation will be identified financing sources for these projects and efforts will be made to ANRE to clarify the accounting for assets resulted BAR	<ul style="list-style-type: none"> <li>- Identifying where these projects will be implemented ;</li> <li>- Identification of financing sources ;</li> </ul>	The terms shall be determined in accordance with the stipulated regulations (most likely the end of 2016 )
2. Changing the Standard of performance for the electricity distribution service	By changing within a regulatory period of performance Standard, a document that was submitted to public debate in two phases, creates the premises OPEX and CAPEX cost growth over early indicator values based regulatory period	Identifying needs for implementing information systems for recording interruptions, automatic payment of compensation	End of 2017 ( noting that this term is conditioned and possible changes of deadlines imposed by ANRE)
3. The appearance of the procedure for approving and tracking DO's investments	In the event of application this procedure in the middle of regulation period, given that the investment plans already approved by DO's and ANRE, the company will have to develop applications for tracking indicators of efficiency of investments ex- ante and ex-post	Needs for development of Tracking investments applicatons	30 June 2016
4. Implementation of binomial tariff	Experimental implementation in 2018 of the binomial tariff , with implications for the company's activity in terms of access to networks , assuming a sustained campaign for update ATR/CR	More allocation of human and material resources in order to update and issuance CR/ATR free for all users connected to the IT and MT levels	30 June 2017

European or national regulatory impact	Description of potential impact	Policy options and measures	Deadlines for actions
5. The risk of unexpected change of the regulatory framework	Changes of the methodology for setting tariffs for distribution service (modifications brought during the third regulatory period, both in 2014 and 2015) in terms of reducing the RoR of assets, resulting pullback of about 2 % in regulated revenue annually and eliminate negative variation ceiling tariffs for distribution that was initially set at a maximum of 7 % of the average income earned	Action in the justice of ANRE whether these changes are contrary to the law. EDTS is currently before the courts to challenge actions / cancellation of several ANRE Orders : 146/2014; 156/2014; 165/2015; 171/2015 ;	At publication of Orders
6. Changing legislation on public procurement	It is possible that approval of new legislation to induce delay for deadlines of procurement process, considering new rules that will be applied, with implications for the timing of the investments plan	Mobilization of additional resources in order to align internal procedures	30 June 2016
7. Amending of Electricity and gas Law 123/2012	It is possible that by changing the normative act, which basically regulates the level of primary legislation all the company's activities, to bring changes regarding the licensing of other distribution operators in our distribution area		At publication of the Law changes

The risks outlined above impact the company's activity on the following :

- The need to allocate additional financial resources, resources that were not foreseen in funding cost at the beginning of the regulatory period, including increase actual costs for implementing the measures imposed and their financing costs;
- The need for additional human resources;
- The risk delayed of some deadlines stipulated by the new regulations, deadlines overruns that could result in penalties in the form of adjustments on investment plans, sanctions from the authorities.

## 2. Risk management

In 2015 this risk was reduced given that the Company is managed by a Board of Directors comprised of 5 directors including 3 independent with a mandate period of four years, 2015 being the 3rd year financial period mandate. However, there were two changes in the positions of management, one independent and one generated by the administrator of the appointment of a representative of the shareholder as administrator by revoking from the post of administrator the General Director of the Company. The independent administrator appointed by General Shareholder Meeting was based on a proposal from majority shareholder and minority shareholder accepted. The executive management was provided by the Director General which was found in 2015 in the third year of mandate. The company has signed contracts with the directors, with each administrator and general manager, and a management plan approved by General Shareholder Meeting, plan that includes financial and non-financial indicators till the year 2017.

### 3. Interest rate risk

The risk of interest rate risk is the risk that the value of a financial instrument will fluctuate due to changing market interest rates compared with the interest rate applicable in that security. The risk of cash flow interest rate is the risk that interest cost will fluctuate over time. The Company has interest bearing debt represented a credit line in the amount of 43,126,897 RON at 31 decembre 2015. The Company believes that interest rate risk is low, correlated with interest rate.

### 4. Currency risk

Company used domestic currency Romanian leu (RON). The company has debts to suppliers of fixed assets, partially divested some banks denominated in foreign currency, whose equivalent in RON at 31 December 2015 amounted to 105,631,708 RON. The Company does not use hedging instruments against exchange risk. Although, the Company it does not have loans denominated in foreign currencies, the Company has a currency risk resulting from investment contracts, equipment and supply contracts that have payment terms refer to periods longer than one year are set with reference values in a foreign currency, respectively EUR.

### 5. Risks in dealing with business partners

Trade receivables are presented decreased by adjustments for doubtful. The Company has a significant concentration of credit risk with licensed supply companies. In 2015, the Company proceeded to implement the measures ordered by the Court of Auditors' Report issued in 2013. The company proceeded to establish the extent of damage caused as a result of the performance in 2010-2014 to service, mandate and representation contracts concluded with Electrica SA and billed to Electrica the amount of 7,964,039 RON, amount that Electrica SA did not recognize it to pay.

Therefore, in 2015 they were born risks of non-recovery of receivables mentioned above. The probability of recovery in a short time is small because, most likely the recovery will take place after the initiation of proceedings.

### 6. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in fulfilling obligations related to financial liabilities that are settled by the transfer of cash or another financial asset. Company policy regarding liquidity management is to maintain, to the extent possible, sufficient liquid resources to pay its obligations as they matured under normal and stress to avoid unacceptable losses.

As liquidity risk management policy is to maintain the Company's credit lines available to use both short-term loans, and loans for acquisition of property and equipment provider.

### 7. Legislative Risks

Romania's fiscal and legislative framework to implement practical change frequently and subject to different interpretations by various Ministries of Government. The Romanian Government has a number of agencies that are authorized to carry out checks on Romanian companies, as well as on foreign companies that operate in Romania. These controls are similar in nature to tax audits performed by tax authorities in many countries,

but may focus not only on fiscal issues, but also on other legal or regulatory items of interest to the agency said. In addition, the agencies conducting these controls appear to be much less regulated and subject control company that seems to have far fewer practical ways of protection than in many other countries.

Tax inspections are common in Romania, consisting thorough check of records kept by the taxpayer. Such checks sometimes occurs after months or even years to determine the additional tax payment obligations. Consequently, companies may owe taxes and fines. In addition, tax legislation is subject to frequent changes, and authorities often manifest inconsistency in interpretation of legislation. However, the Company's management believes that adequate reserves were established for all significant tax liabilities.

Income tax statements are subject to revision and correction of the fiscal authorities, generally for a period of five years after their completion date.

Management believes that properly recorded tax liabilities in the accompanying financial statements; However, there is a risk that tax authorities could take differing positions about the interpretation of these issues.

#### *The transfer price*

In accordance with tax legislation, tax revaluation of transactions carried out with related parties is based on the concept of market price for that transaction. Based on this concept, transfer prices must be adjusted to reflect market prices that would have been made between entities that there is a relationship between affiliate and acting independently on the basis of "normal market conditions".

It is likely that verification of transfer prices to be achieved in future by the tax authorities to determine whether these prices comply with the principle of "normal market conditions" and that the taxpayers' taxable base is not distorted.



## RISK MANAGEMENT

Risk Management System in the S FDEE Electrica Distributie Transilvania Sud SA It has been implemented since 2011 as part of the internal management control system, in order to comply with the provisions of Order no. 946/2005, as further amended and supplemented and, in particular, the Standard 11 "Risk Management".

The responsibilities on risk management at entity organizational / branch / direction / society are established by decision of the Director General of FDEE Electrica Distribution Transilvania Sud and mode for implementing and maintaining ,risk management is documented in the procedure "Risk management" code DTS-PO-05-03 adopted at the company.

A major concern of top management is the awareness of employees to the importance of risk management within the organization and the need for direct involvement in the development process of risk management and align to best practices in the field of national and international level, having regard to legislation, standards and norms related.

During the year 2015 the evaluation continued periodically (quarterly) risk being analyzed and reassessed their risks, specific objectives and activities of each organizational entities within FDEE Electrica Distribution Transilvania Sud and established responses to risk. The identified risks, the estimates of probabilities and their impacts, how to control the risks identified, those responsible for implementing measures to address the risk and deadlines for application are recorded in the Risk Register.

## BALANCE SHEET HIGHLIGHTS

Selected financial information from the balance sheet in th.RON

Indicator	31 December 2015	31 December 2014	Variation (%)
A. NON CURRENT ASSETS			
I. INTANGIBLE ASSETS	6,922	10,304	(32.82)
II. TANGIBLE ASSETS	1,912,278	1,820,135	5.06
III. FINANCIAL ASSETS	418	415	0.72
TOTAL NON CURRENT ASSETS	1,919,618	1,830,854	4.85
B. CURRENT ASSETS			
I. STOCKS	912	4,328	(78.93)
II. TRADE RECEIVABLES	155,707	159,515	(2.39)
III. SHORT TERM INVESTMENTS			
IV. CASH AND BANK ACCOUNTS	105,065	16,085	553.19
TOAL CURRENTS ASSETS	261,684	179,928	45.44
C. PREPAYMENTS	4,923	3,861	27.51
The amounts resumed over a period of up to one year	4,923	3,861	27.51
LIABILITIES:AMOUNTS TO BE PAID OVER A PERIOD OF UP TO ONE YEAT	240,636	190,421	26.37
LIABILITIES:AMOUNTS TO BE PAID OVER A PERIOD OF MORE THAN ONE YEAR	66,120	56,350	17.34
PROVISIONS	96,591	101,102	(4.46)
REVENUE IN ADVANCE	550,566	504,426	9.15
1. Subsidies investments	29,688	22,458	32,19
The amounts resumed over a period of up to one year	1,997	1,251	59.63
The amounts resumed over a period of more than one year	27,691	21,207	30.57
2. Revenue recorded in advance	255	192	32.81
The amounts resumed over a period of up to one year	255	192	32.81

Indicator	31 December 2015	31 December 2014	Variation (%)
3. Revenue in advance related to assets received through transfer from customers	520,624	481,775	8.06
The amounts resumed over a period of up to one year	33,499	34,498	(2.89)
The amounts resumed over a period of more than one year	487,125	447,277	8.91
CAPITAL and RESERVES			
I. CAPITAL	423,967	423,967	0.00
1. SHARE CAPITAL	423,967	423,967	0.00
II. REVALUATION RESERVES	375,111	402,246	(6.75)
III. RESERVES	105,200	82,167	28.03
IV. REPORTED PROFIT OR LOSS BALANCE	184,403	160,015	15.24
V. PROFIT OR LOSS AT THE END OF RAPORTED PERIOD			
PROFIT FOR THE PERIOD	152,569	100,119	52.39
DISTRIBUTION OF PROFIT	8,940	6,170	44.89
<b>TOTAL EQUITY</b>	<b>1,232,310</b>	<b>1,162,345</b>	<b>6.02</b>

## Fixed Assets

Comparing 31 December 2015 with 31 December 2014, assets increased a net worth of RON 88.76 million, respectively by 5%. During 2015, the largest transfers of tangible assets in progress to tangible assets are represented mainly by the commissioning of investment objectives. The most representative values for the investments and the commissioning are shown in Appendix 1. At the end of 2015, the asset performance ROA was 6.98%, up 40% compared to 2014.

## Stocks

At 31 December 2015 compared to the same period of 2014, stocks fell by RON 3.42 million, respectively by 78.93%, mainly due to the reduction of inventories of spare parts that are registered in meters. The significant reduction is caused by changes in accounting policies drafted under OMPF 1802/2014, according to which the company recognizes tangible aggregate value of tangible assets meters (measuring devices and control), purchased in order to fulfill legal obligations of energy metering.

## Trade Receivables

At the end of 2015, total receivables decreased by RON 3.8 million, compared to 2014. The receivables related to core business recorded an increase of RON 5.4 million, receivables with related parties decreased by RON 4.2 million and other receivables of the company decreased with RON 5 million; the duration of the debt recovery term was reduced from 84 days to 79 days.

## Cash and Bank Accounts

At 31 December 2015, both the cash and cash equivalents increased. Overall, the company's cash position was improved by RON 89 million, from RON 16 million (at 31 December 2014) to RON 105 million at 31 December 2015, but RON 29 million of this amount represents the connection fee in balance.

## Prepayments

At the end of 2015, prepaid expenses increased to RON 1.06 million, compared to 31 December 2014. This increase is due to maintenance services at Microsoft licenses acquired in late June 2015, as well as energy purchased in 2015 for during 2015-2016, the energy needed to cover losses in RED, worth RON 4.4 million.

## Liabilities

At 31 December 2015 the Company overall debt increased with a net worth of RON 60 million, registering growth of both short-term debt RON 51 million and those on medium and long term with RON 9 million. In the company's debts and the corresponding liability reflects the credit line, worth 43 million RON, concluded with ING and BRD bank consortium.

## Dividend

Dividends for the year ending 31 December 2014, in amount of RON 79.86 million were declared on the basis of individual annual statutory financial of Company according to OMFP 3055/2009.

Distributions AGOA was approved by Decision no. 5 of 5 May 2015, and their payment was made in 03 July 2015, S. DFEE dividends paid to the shareholder Electrica SA amounted to RON 62.29 million, while those paid to shareholders of Fondul Proprietatea were RON 17.56 million.

## Deferred income

The balance account at 31 decembre 2015 in amount of RON 550.56 millions mostly contains the deferred income received from clients to made investments from connection fee (in amount of RON 520.62 millions ) and investment subsidies (in amount of RON 29.94 millions) for achievements on grants related to projects co-financed from EU funds, POS – CCE-2007-2013, priority axis 4 “Increasing energy efficiency and security of supply in the context of combating climate change”.

## Share Capital

The issued share capital in nominal terms consists of 42,396,740 ordinary shares at 31 December 2015 with a nominal value of RON 10 per share and its was held:

- Societatea „Electrica” – S.A.a total of 33,069,458 shares hold:
- Societatea „Fondul Proprietatea” – S.A.a total of 9,327,282 shares hold.

The Company recognizes the changes in share capital only after their approval by the General Meeting of Shareholders and registration with the Trade Register.

At the end of the year 2015, return on equity ROE was 12.38%, up 43.74% compared to the similar period of year 2014, when it was 8.61%.

## RESULTS OF OPERATIONS

Indicator	31-Dec-15	31-Dec-14	Variation (%)
Net turnover	720,637	690,956	4.30
Production sold			
Revenues from the production of tangible and intangible assets	1,918	1,63	17.67
Other operating revenues:	46,567	40,933	13.76
-of which, income from investment subsidies	35,53	35,749	(0.61)
<b>TOTAL OPERATING REVENUE</b>	<b>769,122</b>	<b>733,519</b>	<b>4.85</b>
a) Raw material costs and consumables	172,266	172,486	(0.12)
b) Other expenses (energy and water)	10,713	8,968	19.46
c) Personal expenses	118,881	118,226	0.55
-Wages and salaries	96,214	93,001	3.45
-Expenses for insurance and social protection	22,667	25,225	(10.14)
d) Value adjustments on tangible and intangible assets	139,989	120,778	15.91
e) Value adjustments on current assets	8,026	-64	(12,640.63)
f) Other expenses	147,379	161,175	(8.56)
- Expenses on external services	126,415	135,071	(6.41)
- Other taxes, taxes and similar: representing expenses and contributions due under special regulations;	18,441	23,444	(21.34)
- Other expenses	2,811	2,639	6.52
g) Adjustments for provisions	-4,511	28,753	(115.69)
<b>TOTAL OPERATING EXPENSES</b>	<b>590,999</b>	<b>612,068</b>	<b>(3.44)</b>
<b>OPERATING PROFIT OR LOSS</b>	<b>178,123</b>	<b>121,451</b>	<b>8</b>
<b>FINANCIAL PROFIT OR LOSS</b>	<b>679</b>	<b>1,947</b>	<b>(49.75)</b>
<b>TOTAL REVENUE</b>	<b>775,288</b>	<b>739,327</b>	<b>4.86</b>
<b>TOTAL EXPENSES</b>	<b>596,486</b>	<b>615,929</b>	<b>(3.16)</b>
<b>GROSS PROFIT OR LOSS</b>	<b>178,802</b>	<b>123,398</b>	<b>44.90</b>
Income tax	26,234	23,28	12.69
<b>NET PROFIT OR LOSS OF THE REPORTING PERIOD</b>			
- Net profit	152,568	100,118	52.39

## Operating revenue

- In 2015, S.FDEE Electrica Distribution Transilvania Sud SA posted operating revenue worth RON 769 th which represents an increase of RON 36 th or 5% compared to 2014.
- In 2015, revenues from distribution service of electrical energy increased by RON 22 th or 4%. Factors that influence the evolution of revenues distribution service are next:

	-Th. RON -	
Influence revenues from distributed energy, which::	+ 22,499	-
- influence the amount of energy distributed	+31,562	-
- influence the average distribution price	-	-9,064

## Electricity purchased (the indicator of other material expenses)

In the period ended 31 December 2015, the cost of electricity purchased to cover network losses decreased by RON 0.7 th, or 0.43% to RON 162.7 million from RON 163.4 million in the period ended 31 December 2014. This decrease was driven by lower amount of electricity purchased to cover losses network, as well as reducing the average acquisition price, as follows:

	- Th. RON -	
Influence expenditure with electricity purchased, which:		-703
- influence the amount of energy purchased		-143
- influence the average acquisition price		-560

The table below shows the structure of expenditure with electricity purchased for the periods indicated.

Period (th. RON)	2015	2014
Electricity purchased to cover losses network	139,107	141,677
Transmission and system services	23,563	21,696
<b>Total expenditure with electricity purchased</b>	<b>162,670</b>	<b>163,373</b>

The cost of electricity purchased in 2015 is the main cost of the Company, representing 21% of revenue as in 2014.

## Wages and salaries

In the period ended 31 December 2015, the cost of Wages and salaries increased by RON 0.7 million, or 0.55% compared to 2014. This increase was due mainly to the compensation package payments as a result of the Individual Employment Contract termination agreement of the parties, cf. Addendum no. 1 to the Collective Labour Agreement, amounting to RON 5.2 million. As a percentage of operating revenues, expenses Wages and salaries of employees represented 15.46% (in 2015) compared to 16.11% in 2014

CEO remuneration worth RON 644 thousand and related contributions were in the amount of RON 141 thousand.

Remuneration of the Board members were in the amount of RON 649 thousand and remuneration of Board Secretary were in the amount of RON 68 thousand. Related contributions were in amount of RON 12 thousand.

In October 2015 it was signed and recorded Addendum no. 1 to the Collective Labour Agreement the parties have agreed completion art.4.90 with paragraph (4) which reads as follows:” Between employer and employees, definition by law, can intervene cease-individual employment contract by agreement of the parties, the compensation package, according to the agreement negotiated no. 9900/19146/09.09.2015

Individual employment contract termination will be made at the employee's request and only with the approval, depending on strategy development and reorganization of the company and the multiannual plan on the number of personal evolution. The Company reserves the right to refuse termination of individual employment contract, based on the agreement signed between the Administration and representatives of the National Federation of Unions of Electricity UNIVERSE.

The situation of employment contracts ceased by agreement of the parties for 2015 is as follows:

→ 104 employees have applied for cease of individual employment contract by agreement of the parties under the Agreement negotiated no. 9900/19146 / 09.09.2015.

→ 90 applications were approved, the situation thereby presenting counties

- ✓ Alba: 15 approved applications
- ✓ Brasov: 21 approved applications
- ✓ Covasna: 7 approved applications
- ✓ Harghita: 10 approved applications
- ✓ Mures: 22 approved applications
- ✓ Sibiu: 10 approved applications
- ✓ Branch central unit: 5 approved applications

→ the situation of employment contracts ceased by agreement of the parties, the professional category and gender is as follows:

	Manager	Administrative	Worker	TOTAL
Female	1	11	1	13
Male	6	16	55	77
	7	27	56	90

The compensation package worth RON 4,229 thousand and related contributions were in the amount of RON 965 thousand.

## RED maintenance program

In period ended 31 december 2015, the costs of implementing the program of maintenance RED (current maintenance and capitalized) decreased by RON 0.2 million, or 0.3%, to RON 64.9 million, from RON 65.1 million in 2014.

As a percentage of operating revenue, maintenance costs RED represented 8% in 2015 and 8.9% in 2014.

## Operating Profit

As a result of the factors discussed above, in 2015, operating profit increased by RON 56.7 million or 46.66% compared with the achievements of the 2014.

## Financial result

The financial result recorded a negative evolution in the 2015, recording a decrease from 2014 RON 1.3 milion due to increased financial expenses financial income while diminishing due to exchange rate developments affecting the debt assessment the reference currency.

## Income tax expense

On 31 december 2015, income tax expense increased by RON 3 million, or 13% compared to the 2014.

## Net profit for the period

As a result of the factors discussed above, in the 2015, net profit increased by RON 52.45 million, or 52.39% compared to 2014.



## FINANCIAL RATIOS

	2014	2015	Calculation formula
<b>1 Liquidity ratios</b>			
Current ratio	0,95	1,09	Current assets / Current liabilities
<b>2 Risk indicators</b>			
Level of indebtedness	4,85	5,37	Non current liabilities / Shareholders' equity *100
<b>3 Activity indicators</b>			
Days Sales Outstanding	84	79	Receivables Balance / Turnover * 365
The average duration of payment of current liabilities	101	122	Current liabilities / Turnover * 365
The average duration of payment of commercial current liabilities	58	89	Current commercial liabilities / Turnover *365
Non current assets turnover ratio	0,37	0,37	Turnover / Non current assets
Total assets turnover ratio	0,34	0,37	Turnover / Total assets
<b>4 Profitability indicators</b>			
Return on capital employed	10,44%	14,45%	Operating profit / Net Worth*100
Sales gross margin	17,58%	24,72%	Operating profit / Turnover * 100

## ACTIVITIES OF RESEARCH AND DEVELOPMENT

The Company conducts no research.

### Environmental aspects

In 2015, S.FDEE Electrica Distribution Transilvania Sud SA, in terms of environmental management, continued actions to maintain state certification for compliance with ISO 14001 and the operational plan, implementation of measures reducing pollution, in all its activities and facilities.

The main spending on environmental protection were made for realization of measures on: prevention of soil pollution, reduce air emissions, water pollution prevention, forest fire prevention, collection / recovery / disposal of hazardous waste non-hazardous and hazardous. In 2015, total expenditure for environmental protection was 700,360 RON.

According to HG. 173/2000 regarding the management and control of polychlorinated biphenyls, amended and completed by HG.291/2005 and HG 975/2007, S.FDEE Electrica Distribution Transilvania Sud SA can use capacitor banks with PCB, in operation by the end of their life cycle. On 31.12.2015, were temporarily stored in warehouses specially designated a total of 23 PCB capacitor banks in order to eliminate them through an authorized economic operator. At this time, S.FDEE Electrica Distribution Transilvania Sud SA has a total of 535 in operation capacitor PCB, which will be eliminated gradually, as their removal from service.

They were prepared and were made to all agencies Territorial Environmental prosthetic plans to eliminate PCB equipment updated.

HG .124 / 2003, amended and completed by HG .734 / 2006 and HG. 210/2007 establishes restrictions on the sale and use of asbestos and asbestos products, in order to protect health and pollution control asbestos. According to these regulations, as of 01.01.2007, trade and use of asbestos is prohibited.

According to HG. 734/2006 and products containing asbestos that have been installed or were in operation before 01.01.2005 may be used until the end of their life cycle.

In the S.FDEE Electrica Distribution Transilvania Sud within asbestos removal areas was conducted, in most cases, since 2007, continuing in coming years, according to environmental management programs and annual works programs.

At this time, there are a small number of asbestos cement roofing, only within SDEE Alba and SDEE Covasna, which are to be phased, as their removal from service.

S.FDEE Electrica Distribution Transilvania Sud SA . comply to applicable legislation concerning: waste management, waste oil management, use and management of hazardous substances, atmosphere protection, water protection, soil protection and biodiversity conservation.

## SUBSEQUENT EVENTS

Dose not apply.

## CAPITAL EXPENDITURES

### 1. Expenditure planned investments

Nr. Crt	Explanations	Annual program (thousand lei)	Accomplished 2015 (thousand lei)	Percentage achievement of the annual program (%)
1	Own sources	127,800	87,765	68.67
2	Supplier credits/delayed payment	119,085	55,674	46.75
3	Connection fee	-	68,022	-
4	Developers, public interest	-	764	-
5	Structural Grant funds	6,115	6,109	99.90
6	<b>Total</b>	<b>253,000</b>	<b>218,334</b>	-

Investment Plan for 2015, initial version was drafted in December 2014 and afterwards it was approved by the Decision nr.2/28.01.2015 of Board of Directors for the amount of 195 millions RON.

With the Decision nr.24/09.10.2015 was approved the increase of the initial version of Investment Plan, so the amount value reached 253 millions RON.

Investment expenditure with maintenance work capitalized in accordance OMPF 1802/2014

Nr. Crt	Explanations	Annual program (thousand lei)	Accomplished 2015 (thousand lei)	Percentage achievement of the annual program (%)
1	Repair capitalization	5,264	7,632	144.98
2	<b>Total</b>	<b>5,264</b>	<b>7,632</b>	-

Structured on sources of financing - own sources, foreign sources (supplier credit), grant funds, connection fee, developers, investment plan for the 2015 program was oriented towards several main directions such as:

- updating and modernizing the 110 kV lines and substations
- retrofitting, modernization MV and LV electrical installations
- power supply the new consumers
- improving the quality of electricity distributed and suppliers;
- reducing its own technological consumption
- MV distribution automation

- promoting smart metering works in urban and rural areas;
- SCADA achievement for transformer stations;
- purchase independent machinery and equipment safety.

## 2. Achievements based on “Grant funds”

Until 30 December 2015, achievements on grants related to projects co-financed from EU funds were worth 6,109 th RON, representing 99.90% of the approved plan on grants this year.

The volume of investments had a material impact, and according to S FDEE Electrica Distributie Transilvania Sud SA expectations will also continue to have an impact on operating results of the company, the indebtedness and future cash flows.

Capital investments in the distribution network will have the expected positive impact on operating results to the extent that are recognized by ANRE BAR, and considering the rate of return approved by the regulator. We mention the ANRE Order nr.146/2014 regulated rate of return was lowered from 8.5% to 7.7%.

## 3. Commissioning works Situation, for the year 2015 is presented below:

Nr. Crt.	Explanations	Annual Program ANRE 2015 (thousand lei)	Accomplished C S 2015 (thousand lei)	Percentage achievement of the annual program (%)
1	Own sources	94,692	134,872	142.43
2	Supplier credits	82,370	40,851	49.59
3	Connection fee	-	48,749	-
4	Structural funds	7,154	7,154	100
5	Developers fund	-	22	-
6	Repairs funded	5,263	8,216	156.11
	<b>TOTAL</b>	<b>189,479</b>	<b>239,864</b>	<b>126.59</b>

Main commissioning works are presented in Appendix 1.

## DEGREE OF PERFORMANCE INDICATORS

The performance criteria as determined in accordance with Article 7.21 of the Administrative Contract approved by the Company's General Meeting Decision no. 10 / 09.23.2013 and in accordance with the income and expenses for 2015 following indicators quarterly target set for 2015:

Objectives and criteria		Key Performance Indicators	U.M.	Share	TARGET 2015	of which:			
						Trim. I	Trim. II	Trim. III	Trim. IV
Increasing operational performance	Making investment program	Investment Program	th lei	20%	253,000	29,250	39,000	48,750	136,000
	Ensuring optimal operation and maintenance	Achievement PAM physical and value	th lei	20%	52,800	12,829	13,584	13,414	12,973
	Effective management of distributed energy	Achievement CPT	%	40%	11.4	14.92	10.04	7.94	12.2
Increased labor productivity	Increase productivity and staff performance	Salary costs 1000 lei income (Salary expenses / Total revenues)	lei	20%	117.41	113.52	100.04	141.01	119.75
<b>Degree of accomplishment at the end</b>			<b>100%</b>						

All quarter achievements are presented below:

### 1. First quarter

Objectives and criteria		Key Performance Indicators	U. M.	Share	Plan Trim I 2015	Accomplished Trim I 2015	Degree of fulfillment [%]	Degree of achievement [%]
Increasing operational performance	Making investment program	Investment Program	th lei	20%	29,250	28,275	97	19.33
	Ensuring optimal operation and maintenance	Achievement PAM physical and value	th lei	20%	12,829	12,271	96	19.13
	Effective management of distributed energy	Achievement CPT	%	40%	14.92	14.59	102.26	40.90
Increased labor productivity	Increase productivity and staff performance	Salary costs 1000 lei income (Salary expenses / Total revenues)	lei	20%	113.52	107.33	105.77	21.15
Degree of accomplishment at the end				<b>100%</b>				<b>100.52</b>

### 2. Second quarter

Objectives and criteria		Key Performance Indicators	U. M.	Share	Plan Trim II 2015	Accomplished Trim II 2015	Degree of fulfillment [%]	Degree of achievement [%]
Increasing operational performance	Making investment program	Investment Program	th lei	20%	39,000	26,005	67	13.34
	Ensuring optimal operation and maintenance	Achievement PAM physical and value	th lei	20%	13,584	16,727	123	24.63
	Effective management of distributed energy	Achievement CPT	%	40%	10.04	8.75	114.74	45.90
Increased labor productivity	Increase productivity and staff performance	Salary costs 1000 lei income (Salary expenses / Total revenues)	lei	20%	100.04	121.54	82.31	16.46
Degree of accomplishment at the end				<b>100%</b>				<b>100.32</b>

## 3. Third quarter

Objectives and criteria		Key Performance Indicators	U. M.	Share	Plan Trim III 2015	Accomplished Trim III 2015	Degree of fulfillment [%]	Degree of achievement [%]
Increasing operational performance	Making investment program	Investment Program	th lei	20%	48,750	16,446	34	6.75
	Ensuring optimal operation and maintenance	Achievement PAM physical and value	th lei	20%	13,414	14,751	110	21.99
	Effective management of distributed energy	Achievement CPT	%	40%	7.94	7.60	104.47	41.79
Increased labor productivity	Increase productivity and staff performance	Salary costs 1000 lei income (Salary expenses / Total revenues)	lei	20%	141.01	120.16	117.35	23.47
Degree of accomplishment at the end				<b>100%</b>				<b>94</b>

## 4. Fourth quarter

Objectives and criteria		Key Performance Indicators	U. M.	Share	Plan Trim IV 2015	Accomplished Trim IV 2015	Degree of fulfillment [%]	Degree of achievement [%]
Increasing operational performance	Making investment program	Investment Program	th lei	20%	136,000	78,766	58	11.58
	Ensuring optimal operation and maintenance	Achievement PAM physical and value	th lei	20%	12,973	14,069	108	21.69
	Effective management of distributed energy	Achievement CPT	%	40%	12.20	13.21	92.35	36.94
Increased labor productivity	Increase productivity and staff performance	Salary costs 1000 lei income (Salary expenses / Total revenues)	lei	20%	119.75	123.20	97.20	19.44
Degree of accomplishment at the end				<b>100%</b>				<b>89.65</b>

## DEGREE OF ANNUAL PERFORMANCE INDICATORS

Objectives and criteria		Key Performance Indicators	U. M.	Share	Target 2015	Accomplished 2015	Degree of achievement	Degree of fulfillment of performance criteria
<b>Annual Indicators</b>								
Increasing financial performance	Increase turnover	Operating income	th lei	10%	773,027	769,122	99.49	9.95
	Increase profitability	Operating profit	th lei	15%	142,267	178,123	125.20	18.78
		Total expenses 1000 lei income	lei	10%	818	769	106.32	10.63
	Increase ROA	Gross profit /Total assets	%	15%	5.12	6.98	136.30	20.45
	Increase ROE	Gross profit /Equity	%	10%	8.76	12.38	141.33	14.13
Increasing the quality of services	Ensuring the continuity and quality of supply	SAIDI - rural	min/year	10%	768.81	520.00	147.85	14.78
		SAIDI - urban	min/year	10%	269.03	179.58	149.81	14.98
		SAIFI - rural	nr./c./year	10%	5.88	4.02	146.27	14.63
		SAIDI - urban	nr./c./year	10%	3.45	3.02	114.24	11.42
Degree of accomplishment at the end				<b>100%</b>				<b>129.76</b>

## THE ANTICIPATED DEVELOPMENT OF THE COMPANY

## Regulatory environment and the impact of legislative changes on the company's activity

Expected changes in the regulatory framework for 2016 aim amending Law 123/2012, of electricity and gas, the change could regulate the license granted of electricity distribution service for other operators in other areas than those for concessionaire operators can not provide the service, in the license area for that in the current law, society holds exclusivity .

Expected changes in the secondary and tertiary regulatory framework for 2016 setting the timetable for implementation of the Intelligent metering systems, review of performance standards for electric energy distribution service, implementing a procedure for approval of investment plans (commissioning ) and monitoring their achievement, implementation of binomial tariffs, their impact on business, as we have shown in chapter Regulatory Risks, it will increase demand for resources both human and material and identification funding sources.

Considering the practice regulator's unexpected change of legislation, risk materialized in both 2014 and 2015, the company requested the court cancellation the regulations issued without compliance of legislative transparency, having currently lawsuits before courts which called for the annulment following legal acts:

1- ANRE Order 146/2014 – *on setting regulated rate of return applied to the approval of tariffs for electricity distribution service provided by the operators of distribution concessionaires as of 1 January 2015 and*



repeal Art. 122 of the methodology for establishing tariffs for electricity distribution, approved by Order no.72/2013;

2- ANRE Order 156/2014 – approving the specific tariffs for electricity distribution service and price for electricity reactive distribution concessionaire operator S. FDEE Electrica Distribution Transilvania Sud S.A.;

3- ANRE Order 165/2015 on amending the methodology of establishing tariffs for electricity distribution, approved by Order of the President of the National Energy Regulatory no. 72/2013;

4- ANRE Order 171 / 2015 – approving the specific tariffs for electricity distribution service and price for electricity reactive society "Distribution Branch Electrica Distribution Transilvania Sud" - S.A.

## Evolution of electricity distribution tariffs

The specific distribution tariffs approved by ANRE for 2016, compared to the 2015, were decreased by 10 – 13%. The electricity distribution tariffs on voltage levels are as follows:

Order 172/14.12.2015			Order 156/15.12.2014		
1 january-31 december 2016			1 january-31 december 2015		
High voltage	Medium voltage	Low voltage	High voltage	Medium voltage	Low voltage
21.22	42.36	108.44	23.41	46.85	122.39

## Evolution of electricity demand

Economic growth is a determinant of demand for electricity. Although there is no direct relationship between GDP growth rate and the growth rate of electricity demand, there is a positive correlation mainly between electricity demand and growth in the industrial sector. In the future, demand for electricity from households and industry will be influenced by energy efficiency policies.

## Investment program for year 2016

The company understands to continue investments program detailed on investment works and funding sources as follows:

### A. Distribution activity (th RON)

Investment work	Own sources	Other sources	Total
Development centers / production bases and improvement of working conditions for the employees	20	2,980	3,000
Lines and stations 110 kV	-	-	-
Power supply for new consumers (RMJT)	71,492	90,711	162,203
Independent equipment acquisitions and other investment expenses	6,687	-	6,687
<b>Total</b>	<b>78,199</b>	<b>93,691</b>	<b>171,890</b>

**B. 110 kV activity (th RON)**

<b>Investment work</b>	<b>Own sources</b>	<b>Other sources</b>	<b>Total</b>
Development centers / production bases and improvement of working conditions for the employees	-	1,225	1,225
Lines and stations 110 kV	80	38,344	38,424
Refurbishments, 110 kV modernizing installations	16,304	19,900	36,204
Power supply for new consumers (RMJT)	-	-	-
Independent equipment acquisitions and other investment expenses	13,062	-	13,062
<b>Total</b>	<b>29,446</b>	<b>59,469</b>	<b>88,915</b>

These investment projects are reviewed periodically so that the actual amounts spent may differ materially from those estimated above.

**The Board of Directors S. FDEE Electrica Distributie Transilvania Sud SA**

**President: Marian GEANTA**

**Members: Alexandra BORISLAVSCHI**

**Simona FATU**

**Carmen Pirnea**

**Mihai Lazar**

**CEO S. FDEE Electrica Distributie Transilvania Sud SA**

**Ion DOBRE**

**Economic Manager S. FDEE Electrica Distributie Transilvania Sud SA**

**Monica RADULESCU**

## Appendix no. 1: Major investments and commissioning works

**The increase in fixed assets resulted from the increase in construction in progress, represented mainly by the following investment works:**

- Transformer station 110/20 kV Sebes – Industrial Zone, Alba county – 21,219.79 thousand RON
- Transformer station integration belonging to CEM 110 kV Brasov in SCADA DMS system of S. FDEE Electrica Distribution Transilvania Sud S.A. – 17,018.82 thousand RON
- Meter basis modernization of whole FDEE – 9,893.00 thousand RON
- Station 110/20 kV– 2X 25 MVA – Sanpaul, Mures county – 9,219.69 thousand RON
- Upgrade and extention telemanagement system AMR in the Sf.Gheorghe city, Covasna county – 5,654.58 thousand RON
- Solutions to increase energy efficiency by reducing losses in RED – 3,683.00 thousand RON
- Modernization of 35/20 kV Feldioara Station , Brasov county – 3,274.58 thousand RON
- Enlarge capacity distribution (MCD) and modernization RED Rupea, Brasov county – 2,826.11 thousand RON
- Regulation LEA 110 kV d.c. Ghimbav – Cristian and Bartolomeu – FS Rasnov, Brasov county – 2,800.39 thousand RON
- Improve voltage level LEA j.t. Ghidfalau, PTa 1, PTa 2 zone, Covasna county – 2,756.55 thousand RON
- Modernization PTz 40, PTz 44, PTz 55, PTz 15, PTz 22 – Tarnaveni, Mures county – 1,993.88 thousand RON
- Modernization LEA j.t. PTa 1 zone Valea Mare, Covasna county – 1,423.40 thousand RON
- Improve voltage level INT and Modernization LEA j.t. Targu Mures zone str. Viile Dealului Mic, Viile 1 Mai, Piata Republicii, Eden), Mures county– 1,261.92 thousand RON
- Modernization LEA j.t. Racosul de Sus, Covasna county – 1,226.51 thousand RON
- Improve voltage level INT LEA j.t. Herculian, Covasna county – 1,159.93 thousand RON
- Modernization 110/20/6 kV Station Predeal and transition to 20 kV RED Predeal, Brasov county – Object 2: Transition to 20 kV RED Predeal – 1,119.38 thousand RON
- Improve safety Tg. Mures zone – Cristesti, by transition from LEA 20 kV in LES 20 kV, Mures county – 1,062.71 thousand RON
- Improve safety LEA 0.4 kV Bazesti, Alba county – 1,058.85 thousand RON
- Improve voltage level INT LEA j.t. Anghelus, Covasna county – 997.75 thousand RON
- Modernization LEA 0.4 kV Ighiel, Alba county – 976.01 thousand RON

**During the year2015 the largest transfers of tangible assets in progress to tangible assets, are represented mainly by the commissioning of the investment objectives as follows:**

- Upgrade and extention telemanagement system AMR in the Sf.Gheorghe city, Covasna county – 21,859.61 thousand RON
- Transformer station 110 / 20 kV Sebes– Industrial Zone, Alba county – 21,641.80 thousand RON
- Integration of transformer stations in the SCADA DMS Electrica Transilvania Sud SA SFDEE – 20,797.39 thousand RON
- Meter basis modernization of whole FDEE – 9,925 thousand RON
- Regulation LEA 110 kV d.c. Ghimbav – Cristian si Bartolomeu – FS Rasnov, Brasov county – 6,801.70 thousand RON
- Station 110/20 kV– 2X 25 MVA – Sanpaul, Mures county – 6,184 thousand RON
- Station modernization 35 / 20 kV Feldioara, Brasov county – 4,288.95 thousand RON

- Improve voltage level INT LEA j.t. Ghidfalau, PTa 1, PTa 2 zone , Covasna county – 4,286.14 thousand RON
- Solutions to increase energy efficiency by reducing losses in RED – 3,714.00 thousand RON
- Enlarge capacity distribution (MCD) and modernization RED Rupea, Brasov county – 3,377.40 thousand RON
- Modernization PTz 40, 44, 55, 15, 22 Tarnaveni, Mures county – 2,140.31 thousand RON
- Upgrading urban networks Sf.Gheorghe city, Covasna county – 1,957.98 thousand RON
- Modernization LEA l.v. PTa 1zone Valea Mare, Covasna county – 1,573.05 thousand RON
- Modernization LEA l.v. Racosul de Sus, Covasna county – 1,370.17 thousand RON
- Improve voltage level INT and Modernization LEA l.v. Tg. Mures, str. Viile Dealului Mic, str. Viile 1 Mai zone , Piata Republicii, str. Eden, Mures county – 1,369.57 thousand RON
- Improve voltage level INT LEA l.v. PTz 1 si PTa 2 Ilieni zone, Covasna county – 1,362.78 thousand RON
- Modernization LEA l.v. PTz 1 – PTa 2 Bod zone, Brasov county – 1,263.80 thousand RON
- Improve safety LEA 0.4 kV Bazesti, Alba county – 1,233.13 thousand RON
- Improve voltage level INT LEA l.v. Herculian, Covasna county – 1,225.02 thousand RON
- Modernization LEA 0,4 kV Ighiel, Alba county – 1,192.09 thousand RON