

ELECTRICA FURNIZARE SA

Directors' Report on the financial period ended on December 31, 2015

March 2016

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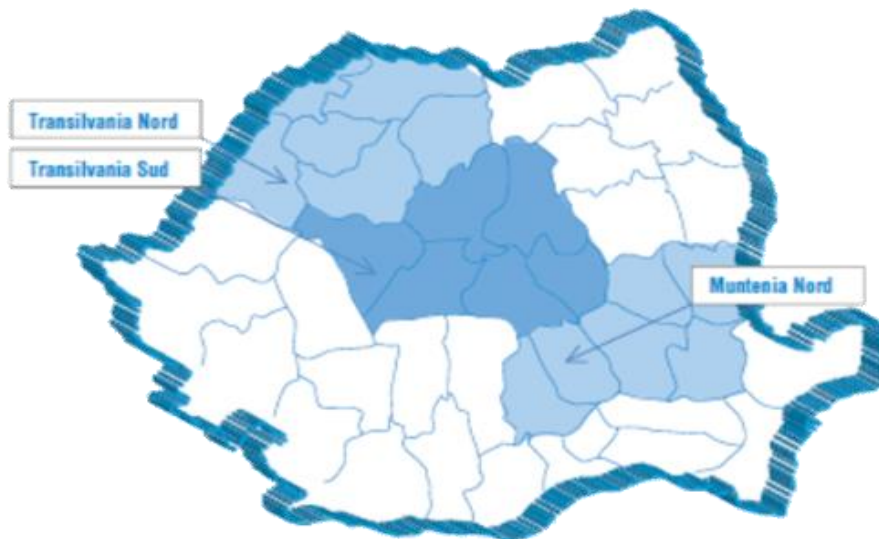
1. Identification information of the report and issuer

| | |
|------------------------------|--|
| Report drafted on | March 2016 |
| Issuer's name | Electrica Furnizare SA |
| Registered office | Bucharest, Sos. Ștefan cel Mare nr. 1A, parter partial, etaj 1, etaj 2 și etaj 3 parțial, sector 1 |
| Tax Registration Code | RO28909028 |
| Share capital | Lei 62,109,560 on July 22, 2011 according to the information registered with the Trade Registry Office |

2. Company overview

- Joint stock company, branch of Electrica Group
- Incorporated on July 22, 2011 by merger of three former branches
- Main object of activity – trade of electricity
- Holds the Electric Power Supply License valid until 2021
- Largest electric power supplier on the Romanian market: 21.39% market share – September 2015
- Applies the principles of corporate governance
- Management body: General Meeting of Shareholders
- Directed by a Board of Directors made up of 5 members
- Company management delegated to the General Manager
- Company supplies electric power
 - to 18 Romanian counties in exchange of regulated tariffs
 - to whole Romania in exchange of negotiated tariffs

The image below indicates the areas Electrica Furnizare SA covers as supplier of last resort.



Electrica Furnizare S.A. operates in 18 Romanian counties according to the Electric Power Supply License no. 1028/ August 18, 2011. It is entitled to supply electric power to whole Romania by three electric power branches that each have six agencies:

- ***Muntenia Nord Electric Power Supply Branch – Ploiesti***, with office located in B-dul Republicii nr. 1 A, 10008 Ploiesti, judetul Prahova, having the next Electric Power Supply Agencies:
 - Ploiesti Electric Power Supply Agency
 - Focsani Electric Power Supply Agency
 - Buzau Electric Power Supply Agency
 - Braila Electric Power Supply Agency
 - Galati Electric Power Supply Agency
 - Targoviste Electric Power Supply Agency.

- ***Transilvania Nord Electric Power Supply Branch – Cluj-Napoca***, with office located in Cluj-Napoca Str. Memorandumului nr.27. județul Cluj, having the next Electric Power Supply Agencies:
 - Cluj Napoca Electric Power Supply Agency
 - Satu Mare Electric Power Supply Agency
 - Baia Mare Electric Power Supply Agency
 - Oradea Electric Power Supply Agency
 - Bistrita Electric Power Supply Agency
 - Zalau Electric Power Supply Agency

- ***Transilvania Sud Electric Power Supply Branch – Brasov***, with office located in Brasov, Str. Pictor Ștefan Luchian nr. 25. bl. 30, județul Brasov, having the next Electric Power Supply Agencies:
 - Brasov Electric Power Supply Agency
 - Sibiu Electric Power Supply Agency
 - Alba Electric Power Supply Agency
 - Mures Electric Power Supply Agency
 - Covasna Electric Power Supply Agency
 - Harghita Electric Power Supply Agency

3. **Shareholding structure**

On December 31, 2015 the share capital of Electrica Furnizare SA was RON 62,109,560 representing 6,210,956 registered shares of RON 10 each and was held as it follows:

- Electrica S.A. held 4,844,544 shares representing 77.9999730 % of the share capital;
- Fondul Proprietatea S.A. held 1,366,412 shares representing 22.0000270% of the share capital.

4. Corporate governance

For Electrica Furnizare S.A. company, corporate governance is a key element of its business success, thus meeting shareholders' expectations, integrating values, principles and rules in a strong organizational system, which ensures operation in an accountable, transparent and specific way.

The organization and functioning of Electrica Furnizare S.A. company comply with the provisions of Law no. 31/1990 on companies, republished, as amended and supplemented from time to time.

The company Electrica Furnizare S.A. has adopted the following principles:

- Principles of leadership and managerial performance:
 - Setting clear and precise guidelines in terms of policy, strategy and objectives
 - Management and use of resources oversight
- Principle of delegation and accountability:
 - The Board of Directors delegates authority for the efficient fulfillment of management objectives, accountability clearly defining both the the rights and roles of managers
- Principles of communication and transparent information:
 - Integrity of data collection process
 - Effectiveness of information is accompanied by financial accuracy and accountability
- Principles of honesty by:
 - Supporting long-term relationships with internal, external customers and third parties
 - Promotion of a business environment characterized by integrity, ethics and professionalism
 - Promotion of sustainable development and environmental protection
- Principles of training and growth:
 - Contribution to the development of human resources
 - Promotion of the need for innovation.

5. Electrica Furnizare SA Board of Directors

During the 2015 financial year, the Board of Directors of Electrica Furnizare S.A. Company was composed of:

In the period from 01.01.2015 to 25.03.2015:

- Mr. Ioan Roșca – Chairman of the Board of Directors – Non-Executive Director
- Mr. Mircea Pătrășcoiu – Executive Director
- Mrs. Victoria Lupu – Non-Executive Director
- Mrs. Oana-Valentina Truța – Non-Executive Director
- Mr. Marcel-Valentin Ionescu – Non-Executive Director

In the period from March 25, 2015 to December 31, 2015, according to the Ordinary General Assembly of Shareholders Decision no. 1/25.03.2015:

- Mr. Ioan Roșca – Chairman of the Board of Directors - Non-Executive Director
- Mrs. Victoria Lupu – Non-Executive Director
- Mrs. Oana-Valentina Truța – Non-Executive Director
- Mr. Marcel-Valentin Ionescu – Non-Executive Director
- Mrs. Ramiro-Robert-Eduard Angelescu – Non-Executive Director,

By the Board of Directors Decision no. 26/12.11.2012, point 2, the Board of Directors approves **the composition of advisory committees within the Board of Directors** as below:

- a) **Members of the Audit Committee** – Mrs. Victoria Lupu, Mrs. Oana-Valentina Truța, Mr. Ioan Roșca;
- b) **Members of the Nomination and Remuneration Committee** – Mrs. Victoria Lupu, Mrs. Oana-Valentina Truța, Mr. Ioan Roșca, Mr. Marcel-Valentin Ionescu.

During 2015 the Board of Directors of the company Electrica Furnizare S.A. has been operating by meeting on the occasion of 21 assemblies to decide on existing points on the Agenda of each meeting.

Thus, there were submitted to the Board of Directors of the company Electrica Furnizare S.A.:

- 59 substantiation notes - approvals;
- 36 information notes.

During 2015, the Board of Directors of the company Electrica Furnizare S.A. convened the General Assembly of Shareholders, which was convened under:

- 7 ordinary meetings;
- 4 extraordinary meetings.

6. Organisation and Operation of Advisory Committees within the Board of Directors

The Board of Directors of the company Electrica Furnizare S.A. has established two advisory committees, respectively the Nomination and Remuneration Committee and the Audit Committee.

By the Board of Directors Decision no. 26/12.11.2012, point 2, The Board of Directors approves the composition of the advisory committees within the Board of Directors, as follows:

- c) **Audit Committee** – Mrs. Oana-Valentina Truța - Chairman, Mrs. Victoria Lupu - member and Mr. Ioan Roșca - member;
- d) **Nomination and Remuneration Committee** – Mrs. Oana-Valentina Truța - Chairman, Mrs. Victoria Lupu - member, Mr. Ioan Roșca - member and Mr. Marcel Valentin Ionescu - member.

During 2015, the Nomination and Remuneration Committee has met in four sessions and analyzed:

- the degree of cumulative fulfillment of the key performance indicators and performance objectives of the CEO, for the year 2014 and the year 2015.
- Financial Statements, Directors' Report, Distribution of profit for 2014
- views on the applicability of the provisions of art. 38 of the G.E.O. no. 51/2013 amending and supplementing the Government Emergency Ordinance no. 109/2011 regarding corporate governance of public enterprises on the provisions of the Contract of Mandate concluded between Electrical Furnizare and Mr. Mircea Pătrășcoiu,
- the applicability of the provisions of art. 37 of the G.E.O. no. 51/2013 amending and supplementing G.E.O. no. 109/2011 regarding corporate governance of public enterprises on the provisions of the Contract of Mandate concluded between Electrica Furnizare and non-executive members of the Board of Directors.

During 2015, the Audit Committee has met in three sessions and analyzed:

- registration of expenses related to provisions for doubtful debts and other provisions
- the internal audit report on cost estimates and recommendations of the IT Business Solutions study and requested the executive management to develop an operational procedure governing the drafting, endorsement, approval of pre-feasibility, opportunity and feasibility studies.
- the proposal for a revised Accounting Policy on recording in the accounting the adjustments of impairment of receivables, recommending the Board of Directors to delay approval of this point and to ask the executive management to submit the Accounting Policy completely revised and

adapted to new legislative provisions, the new business context of the company and the best international practices in the field, within 30-60 days.

7. Remuneration of administrative and executive management members

The Director of Mandate payroll expense in the period from January 1 to December 31, 2015 was 756,420 lei gross, of which:

- value of fixed compensation is 243,276 lei gross
- value of variable compensation is 513,000 lei gross

Gross remuneration of Board members in 2015 was worth 219,201 lei, as follows:

| | | |
|----------------------------------|--|------------|
| - Ioan Roșca | Board of Directors member compensation | 68,028 lei |
| - Victoria Lupu | Board of Directors member compensation | 68,028 lei |
| - Marcel Valentin Ionescu | Board of Directors member compensation | 68,028 lei |
| - Mircea Pătrășcoiu | Board of Directors member compensation | 15,117 lei |
| - Oana-Valentina Truța | Board of Directors member compensation | 0 lei |
| - Ramiro-Robert-Eduard Angelescu | Board of Directors member compensation | 0 lei |

Expenses with wages of directors with individual labor contract were in the amount of: 5,457,041 lei.

8. Presentation of development and activity performance

8.1. Regulation environment

The electric power market is divided into regulated market and competition market. On both markets, electric power can be sold / purchased wholesale or retail.

Regulated market

As consequence of implementing the Second Energy Market Package of EU, the liberalization of electric power market began on January 1, 2007 in Romania. The Electric Power Supply tariffs to non-household customers have been completely liberalized and only the tariffs for supplying electric power to household customers are still subject to ANRE (Regulatory Authority for Energy) approval. Household customers are free to change their electric power supplier but they would still be able to benefit of regulated tariffs for Electric Power Supply until that market segment will be fully liberalized in 2018. Since January 1, 2014, the tariffs for Electric Power Supply to non-household customers have been determined by the market and freely negotiated.

Right now, Electrica is “Supplier of last resort” for approximately 3.52 million customers. According to the Law of Energy, supplier of last resort is a supplier designated by the regulatory authority for providing the global Electric Power Supply service in specifically regulated conditions.

Until 2018, when liberalization of household customers segment is scheduled to end, tariffs applied to household customers must be approved by ANRE each year, based on the reported cost categories and the regulated profit margin. Tariffs are calculated thus that they cover the cost of electric power (including transport expenses, grid services, distribution expenses and a regulated profit margin). The previous ANRE methodology (ANRE Order no. 82/ 2013) provisioned a maximum limit for the profit per electric power unit sold to the customers in exchange of regulated tariffs and in exchange of CPC tariffs of Lei 4 / MWh and an operation supply price of Lei 4 / customer / month. Electrica registers supply expenses that comprise concluding agreements, invoicing, invoiced amounts collection, database management and IT and telecommunication infrastructure expenses.

The new methodology (ANRE Order no. 92/ 2015) provisions a percentage value of profit of 1.5% of the total cost (purchase, transport, distribution, system services, market operation, and supply) of the activity of Electric Power Supply and an acknowledged operation supply cost of Lei 4.5/ customer/ month in 2015 and Lei 4.7 / customer / month in 2016. According to the new methodology, ANRE can increase the supply activity cost by a share of the random costs registered by Electrica Furnizare as consequence of some special situations (such as re-contracting based on ANRE Order no. 88/ 2015, modifying IT systems for observing new regulations, receivables loss, etc.).

In 2015, the household customers were invoiced based on a schedule of eliminating regulated tariffs with tariff made up of mixture of regulated tariff component and “competition market component” (CPC). The non-household customers benefitting of global service were invoiced at CPC tariffs, respectively non-household customers not benefitting of the global service were invoiced at LR tariffs for 100% of their consumption.

Tariffs for electric power supplied to household and non-household customers benefitting of the global service (GS) in 2015 are those set out by ANRE Order no. 157/ 2014 and ANRE endorsements no. 58/ 2014 and no. 21/ 2015.

Electric power supplied in exchange of regulated tariffs is purchased by regulated contracts, with quantities and prices set out by ANRE decision.

The electric power supplied CPC tariffs is purchased by bilateral contracts concluded as consequence of the tender processes developed on PCSU, respectively by bilateral contracts concluded on the competition market for supplying electric power at LR tariffs.

Any difference between the income made and the expenses plus profit deemed substantiated by the activity of supplying electric power in exchange of regulated tariffs / CPS tariffs / LR tariffs, during the previous

periods of eliminating regulated tariffs, is rectified in the next phase of substantiating tariffs applied to customers in the regulated market.

The expense categories of the supplier of last resort are registered in tariffs applied to end customers but up to a level that ANRE deems to be substantiated.

Competition market

Trading on competition wholesale market is transparent, public, centralized and non-discrimination. Prices can be freely negotiated by the parties on the retail competition market. Participants in the wholesale market can engage in trading on the electric power market based on bilateral contracts concluded on the dedicated centralized market. Since July 19, 2012, the Law of Energy has been forbidding the conclusion of sale-purchase contracts on wholesale electric power outside centralized markets unless energy import / export contracts were concerned.

8.2. Key events in 2015

The key events in 2015 in connection to the main activity:

- Electrica Furnizare concluded important contracts with large electric power consumers, among which Metrorex SA (whole year 2015), ALRO S.A., KAUFLAND ROMANIA S.C.S (additional quantities), ELSID S.A., CN CFR SA and portfolio costumers such as BRD Groupe Societe Generale and POSTA ROMANA;
- The price liberalization schedule went on. ANRE approved the Methodology for setting out the tariffs applied by suppliers of last resort to end customers (Order no. 92/ 2015) and that set out, beginning on 2nd quarter of 2015 the phases and calculus principles of tariffs applied by suppliers of last resort to end customers;
- Beginning on 2nd quarter of 2015, electric power meant to cover the electric power consumption invoiced at a CPC tariff is purchased by simultaneous tender processes with a decreasing price on the Centralized Market for Global Service administered by OPCOM;
- On December 17, 2014, European Commission adopted the Commission Implementing Regulation (EU) no. 1348/ 2014 on data reporting, for applying article 8 paragraphs (2) and (6) of Regulation (EU) no. 1227/ 2011 of European Parliament and Council on integrity and transparency of electric power wholesale market. Regulation created additional obligations for market participants, among which the obligation to report details on wholesale energy products made on organized markets, including standard contracts and trading orders, be they correlated and uncorrelated to the Agency for Cooperation of Energy Regulators (ACER). Obligation to report data allowed for trading on specialized platforms of organized markets has entered in force on October 7, 2015, while the obligation to report non-standardized contracts on energy wholesale market will enter in force on April 7, 2016;
- Entering in force of first exemption agreements for large electric power consumers according to Government Decision no. 495/ 2014. Out of 37 companies benefitting of state aid regulated by Government Decision no. 495/ 2014, ALRO SA, ELSID SA, HIPAC Romania SRL, and Carmeuse Holding SRL were customers of Electrica Furnizare on the competition market in 2015.
- Modification of primary (modification of Law no. 220/ 2008 by Law no. 122/ 2015) and secondary legislation (ANRE Order no. 101/ 2015) on promotion system of energy production from renewable sources and state aid scheme on exempting some end customers of applying Law no. 220/ 2008.

8.3. Key financial indicators

Vital data (ANRE report of September 2015)

- Supply market is made up of the competitive segment and the regulated segment;
- Regulated segment comprises 5 suppliers of last resort;
- Competitive segment comprises 94 suppliers (including the suppliers of last resort acting on the competition segment of PAM), out of which 86 are relatively small (<4% market share).

Electrica Furnizare is market leader on the regulated market and on the competitive market, with a market share of 37.98% and 14.13% in 2015 (ANRE report of September 2015). By comparison to 2014, Electrica Furnizare had a regulated market share of 38.28% and a competition market share of 11.7% (ANRE report of December 2014).

In 2015, the total electric power quantity supplied by Electrica increased by approximately 9.3% as against 2014.

The company went through a 38% increase of electric power quantity sold on the competition market, as cumulated effect of attracting new customers by convenient price offers correlated with energy market conditions and own customers going from the regulated market to the competition market.

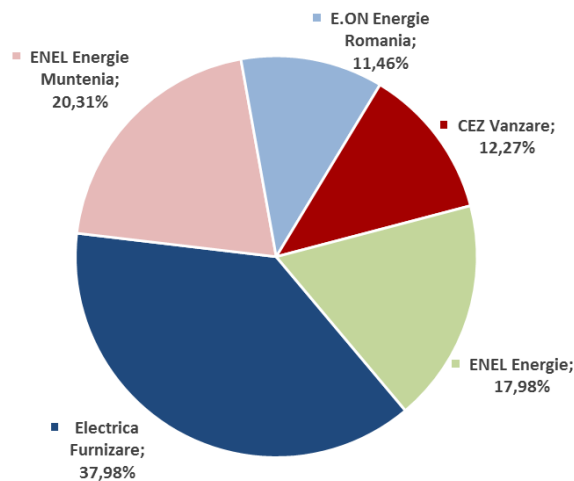
The supply market is made up of the regulated market and the competition market.

The regulated market has 5 companies integrated in the same group, as corresponding distribution operators.

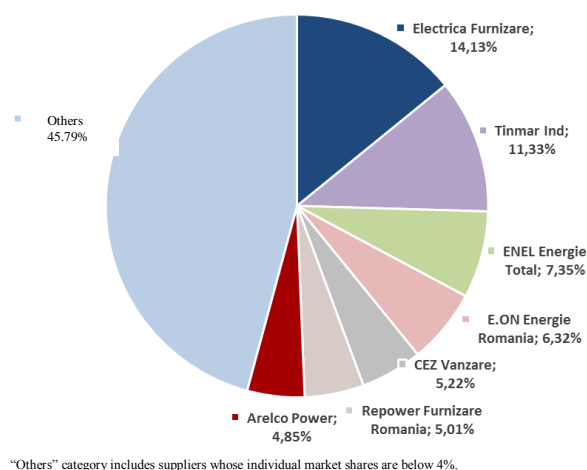
The competition market has 94 suppliers (including the suppliers of last resort acting on the competition segment of PAM), out of which 86 are relatively small (<4% market share).

The image below indicates the market shares of Electrica for the supply activity:

Regulated market in 2015



Competition market in 2015

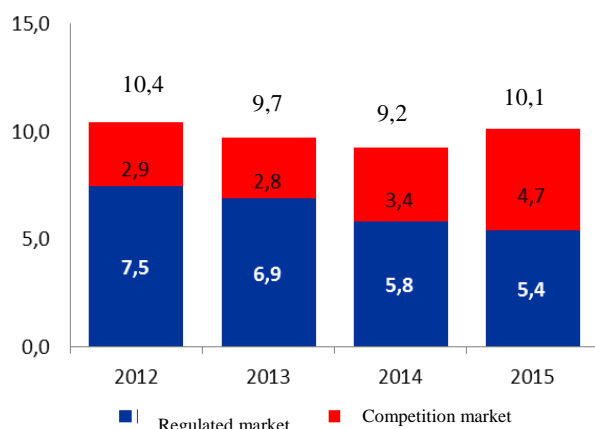


Source: ANRE (monthly report of September 2015)

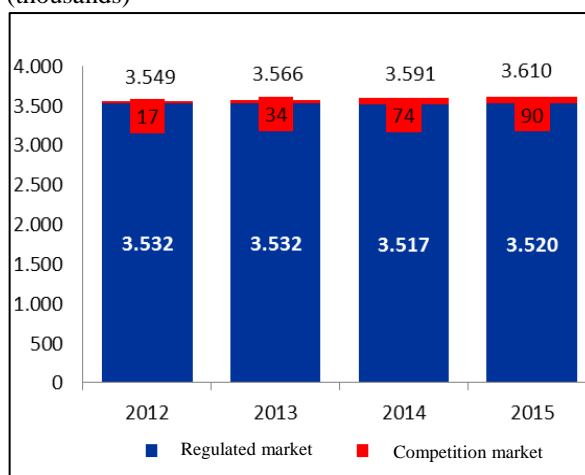
Source: ANRE (monthly report of September 2015)

Number of consumption places was 3.61 million in 2015, and the sale points were 149.

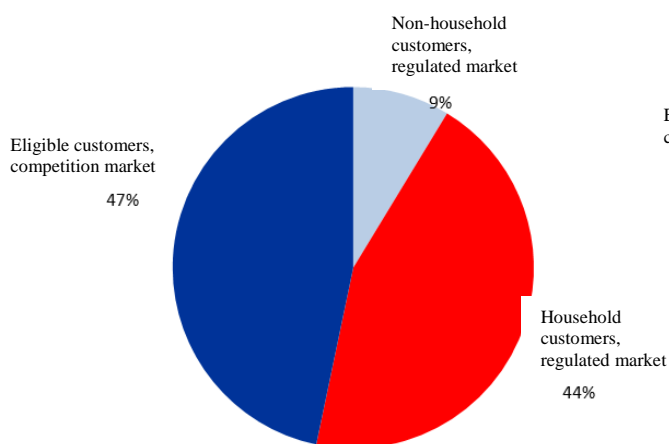
Quantity of electric power supplied on the retail market (TWh)



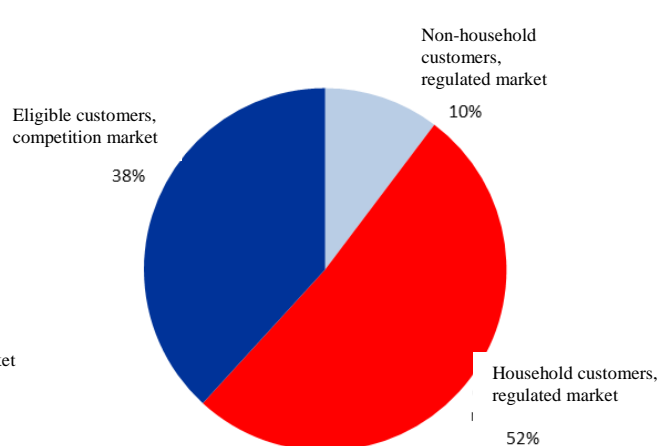
Number of customers constantly increasing (thousands)



Customers as volume level in 2015



Customers as volume level in 2015



Exposure connected to major customers

Electrica has no significant exposure to a certain customer or group of customers, which might meaningfully impact its activity.

Nevertheless, according to the legislation of Romania, customers to which the insolvency law apply can benefit of its protection against creditors, so possibly against electric power suppliers too. Due to that, Electrica Furnizare must supply electric power to them even if they are insolvent.

8.4. Financial information

8.4.1. Balance sheet on December 31, 2015

| | Indicator name | Balance on December 31, 2014 | Balance on December 31, 2015 |
|------|---|------------------------------------|------------------------------------|
| | 1 | 2 | 3 |
| A. | Fixed assets | | |
| I. | Intangible assets | 8,001,566 | 12,232,575 |
| II. | Tangible assets | 70,212,569 | 77,731,924 |
| III. | Financial assets | 366,144 | 18,978 |
| | Fixed assets - Total | 78,580,279 | 89,983,477 |
| B. | Current assets | | |
| I. | Stocks | 48 | 1,014 |
| II. | Receivables | 660,288,220 | 684,029,685 |
| III. | Short term financial investments | - | - |
| IV. | Cash at hand and in banks | 403,483,774 | 337,908,915 |
| | Current assets - Total | 1,063,772,042 | 1,021,939,614 |
| C. | Accrued expenses | 57,256,495 | 32,099,659 |
| D. | Debts that must be paid in one year | 770,624,074 | 750,984,459 |
| E. | Net current assets / Net current debts | 350,403,027 | 296,813,725 |
| F. | Total assets less current debts | 428,983,306 | 386,797,202 |
| G. | Debts that must be paid in a period over one year | 41,943,006 | 43,067,834 |
| H. | Provisions | 41,739,160 | 41,312,279 |
| I.. | Deferred income | 1,436 | 6,241,089 |
| J. | Capital and reserves | | |
| I. | Capital | 62,109,560 | 62,109,560 |
| II. | Share premiums (criterion 104) | - | - |
| III. | Reassessment reserves (criterion 105) | 40,790,448 | 40,587,730 |
| IV. | Reserves | 36,758,448 | 67,468,576 |
| V. | Profit or loss reported | 908,496 | 1,111,214 |
| VI. | Profit or loss of the financial year | 204,734,188 | 131,140,009 |
| VII | Profit distribution (criterion 129) | - | - |
| | Total capitals | 345,301,140 | 302,417,089 |

8.4.2. Profit and loss account on December 31, 2015

| Indicator name | Financial year ended on December 31, 2014 | Financial year ended on December 31, 2015 |
|--|---|---|
| 1 | 2 | 3 |
| Exploitation income | 4,050,460,495 | 4,201,761,065 |
| Net turnover | 4,011,621,961 | 4,177,341,470 |
| Other exploitation income | 38,838,534 | 24,419,595 |
| Exploitation expenses | 3,826,715,617 | 4,058,685,587 |
| | | |
| Profit or loss from exploitation: | 223,744,878 | 143,075,478 |
| | | |
| Financial income | 4,908,197 | 3,895,231 |
| Financial expenses | 48 | 3,222 |
| Financial profit or loss: | 4,908,149 | 3,892,009 |
| | | |
| Current profit or loss: | 228,653,027 | 146,967,487 |
| | | |
| Total income | 4,055,368,692 | 4,205,656,296 |
| Total expenses | 3,826,715,665 | 4,058,688,809 |
| Gross profit or loss: | 228,653,027 | 146,967,487 |
| | | |
| PROFIT TAX (criterion 691-791) | 23,918,839 | 15,827,478 |
| | | |
| Net result of financial year: | 204,734,188 | 131,140,009 |

8.4.3. Evolution of cash flow

| Name of cash flow item | Fiscal year ended December 31, 2014 | Fiscal year ended December 31, 2015 |
|--|-------------------------------------|-------------------------------------|
| Cash flows from operating activities | | |
| Result before profit tax | 228,653,027 | 146,967,487 |
| Adjustments of impairment of non-cash items: | | |
| Operating expenses related to depreciation and amortization of assets, net | 6,787,024 | 7,436,549 |
| Adjustments of impairment of current assets depreciation, net | (7,224,962) | (27,205,289) |
| Impairments in provisions | 10,359,543 | (426,880) |
| Net financial result | (4,908,149) | (3,892,009) |
| Loss / (gain) from sale of tangible assets | 4,450 | - |
| Operating result before working capital impairments | 233,670,933 | 122,879,858 |
| Impairments of net working capital in: | | |
| Stocks | (16) | (966) |
| Trade receivables and other assets | 163,856,792 | (46,457,056) |
| Suppliers and other debts | 56,279,475 | 64,874,898 |
| Modifications of working capital | 220,136,251 | 18,416,876 |
| Paid interest | (20,503) | (75,682) |
| Paid profit tax | (8,557,831) | (18,176,152) |
| Net cash flow from operating activities | 445,228,850 | 123,044,720 |
| Cash flow from investing activities | | |
| Acquisitions of fixed assets | (7,660,998) | (18,700,285) |
| Receipts from sale of tangible assets | 4,541 | - |
| Collected interest | 5,206,834 | 4,104,766 |
| Net cash flow used in investing activities | (2,449,623) | (14,595,519) |
| Cash flow from financial activity | | |
| Paid dividends | (89,261,747) | (174,024,060) |
| Net cash flow used in financial activity | (89,261,747) | (174,024,060) |
| Increase / decrease in net available cash and assimilated items | 353,517,480 | (65,574,859) |
| Available cash and equivalents at beginning of fiscal year | 49,966,295 | 403,483,774 |
| Available cash and equivalents at end of fiscal year | 403,483,774 | 337,908,915 |

Available cash consists of cash, cash at banks, term deposits for a period of at most three months if they are held in order to meet the need for short-term cash, checks and commercial bills deposited with banks. Overdraft is included in the balance sheet in the amounts owed to credit institutions to be paid over a period of three months.

For the cash flow statement, cash and cash equivalents include cash in hand, cash at banks, short-term financial investments, -, net of overdraft.

8.4.4. Analysis of exploitation result

Net turnover amounting to Lei 4,177,341,470 (Lei 4,011,621,961 lei in 2014) is mainly made up of:

- Income from supplying electric power amounting to Lei 4,149,362,212 (Lei 3,986,856,483 in 2014);
- Income from connection / disconnection fees and fees from paying Radio / TV / Habitat charges amounting to Lei 27,979,258 (Lei 24,765,478 in 2014),

Income from selling electric power refers to

- active electric power supplied to the retail market amounting to Lei 3,695,608,350 (Lei 3,574,264,861

| Indicator | Financial year ended on December la 31, 2014 | Financial year ended on December la 31, 2015 |
|--|--|--|
| Net turnover | 4,011,621,961 | 4,177,341,470 |
| Other exploitation income | 38,838,534 | 24,419,595 |
| Total exploitation income | 4,050,460,495 | 4,201,761,065 |
| Expenses with purchased electric power | 1,851,500,730 | 2,023,417,690 |
| Expenses with purchasing green certificates | 272,264,907 | 346,753,666 |
| Expenses with distribution service | 1,479,664,432 | 1,498,573,320 |
| Expenses for raw materials and supplies | 4,192,022 | 4,237,389 |
| Other external expenses | 858,206 | 2,054,358 |
| Expenses with salaries | 65,510,784 | 66,993,240 |
| Expenses with social insurances and protection | 17,835,055 | 16,040,264 |
| Adjusting the value of tangible and intangible fixed assets | 6,787,024 | 7,436,549 |
| Adjusting the value of net current assets | (7,224,962) | (27,205,288) |
| Expenses with external services | 117,888,053 | 114,694,157 |
| Expenses with other taxes, charges and similar payments | 5,421,351 | 4,781,256 |
| Expenses with penalties, compensations, donations, and assigned assets | 1,658,472 | 1,335,867 |
| Adjustments on risk provisions and net expenses | 10,359,543 | (426,881) |
| Total exploitation expenses | 3,826,715,617 | 4,058,685,587 |
| Exploitation result - profit | 223,744,878 | 143,075,478 |

- in 2014);
- income from selling green certificates amounting to Lei 345,486,723 (Lei 274,867,549 in 2014);
- active electric power supplied to other markets (it comprises balancing market, day-ahead market, as well as sale to the distribution branches of Electrica group) amounting to Lei 41,575,343 (Lei 68,526,503 in 2014);
- reactive electric power amounting to Lei 66,691,797 (Lei 69,197,569 in 2014),

In 2015, the average price per MWh sold on the retail market was approximately Lei 366 /MWh (as against Lei 387 /MWh in 2014),

In 2015, the average selling price of green certificates per MWh was Lei 35,90 /MWh (as against Lei 29,47 /MWh in 2014),

Another exploitation income amounting to Lei 24,419,595 (2014: Lei 38,838,534) mainly comprises income from contractual penalties for delays, which amounted to Lei 22,680,465 (2014: 36,169,566),

Expenses with external services mainly refer to the next items:

- invoice distribution, amounting to Lei 26,086,532 (in 2014: Lei 28,203,385);
- electric power payment collection amounting to Lei 22,197,339 (in 2014: Lei 24,280,957);
- IT services amounting to Lei 14,678,865 (in 2014: Lei 13,553,826);
- grid intervention (RED) amounting to Lei 9,065,137 (in 2014: Lei 8,942,646);
- services supplied by Electrica Serv amounting to Lei 7,712,050 (in 2014: Lei 7,489,136), representing motor vehicle services;
- expenses for printing invoices and placing them in envelopes amounting to Lei 5,320,107 (in 2014: Lei 4,573,266)
- bank and similar services amounting to Lei 846,943 (in 2014: Lei 4,485,851);
- post mail, landline and cell phone expenses amounting to Lei 3,289,545 (in 2014: Lei 3,405,266),

Expenses for IT services have been provided mainly by Electrica Distributie Transilvania Nord in exchange of the amount Lei 2,540,496 (in 2014: Lei 1,360,292), Electrica Distributie Transilvania Sud in exchange of the amount Lei 4,125,600 (in 2014: Lei 4,484,239), and Electrica Distributie Muntenia Nord in exchange of the amount Lei 604,911 (in 2014: Lei 661,051),

Expenses for penalties, compensations, donations and assigned assets mainly comprise compensations amounting to Lei 110,060 (in 2014: Lei 367,357), out of which compensations to Billa Romania amount to Lei 107,347,

According to Law no, 134/ 2012 for approving Government Emergency Ordinance no, 88/ 2011 on modifying and completing Law no, 220/ 2008 for setting out the system of producing electric power from renewable sources until the latest September 1 each year, electric power suppliers and producers provisioned in the law indicated above will regulate the value of green certificates corresponding to the previous year,

The company estimated and registered in 2015 the regulation value of green certificates for 2015 according to the provisions of primary legislation in force, based on the mandatory estimate quota for purchasing green certificates [CV/MWh],

8.4.5. Trade receivables and other receivables

Customer accounts and similar accounts include invoices issued until December 31 for the sale of electric power and related estimated receivables for electric power delivered by the end of the year but invoiced during the period subsequent to the end of the year,

The Company recorded in trade receivables mainly receivables from electric power supply and other receivables recorded mainly penalties for late payment of electric power invoices and electric power receivables sued and for which the Company obtained writs of execution and other sundry debtors,

The balance of trade receivables (including affiliates related balance) is in total gross value of 910,841,594 lei and consists mainly of:

- unsued core business customers in the amount of 312,010,969 lei (2014: 358,164,763 lei);
- customers from other activities in the amount of 3,611,318 lei (2014: 1,247,232 lei);
- bankrupt customers in the amount of 124,814,661 lei (2014: 126,307,682 lei);
- customers in litigation in the amount of 90,186,076 lei (2014: 98,504,373 lei);
- customer invoices to be drafted in the amount of 349,916,871 lei (2014: 276,501,744 lei);
- customers from radio and TV and habitat fee in the amount of 28,640,110 lei (2014: 30,903,217 lei),

Sundry debtors amounting to 49,163,137 lei (2014: 84,976,393 lei) include unearned customers with writs of execution in the amount of 9,451,559 lei (2014: 31,549,796 lei) and other debtors in the amount of 38,428,614 lei (2014: 52,148,921) mainly including unpaid penalties from customers Cupru Min SA and Metal Galati SA,

Assessment of the recoverable amount of receivables at the reporting date is done to their likely value of collection, The negative differences in minus between the recoverable amount and the accounting amount of receivables are recorded in the accounting based on adjustments for depreciation of current assets, Uncollectible receivable are recorded as expenses at the end of the bankruptcy proceedings of that customer,

The impairment loss related to a receivable is reversed if the subsequent increase in recoverable amount can be related to an event occurring after the impairment loss was recognized,

For individual major customers, an individual impairment analysis is carried out based on their specific circumstances,

By December 31, 2015, total adjustment of impairment related to doubtful customers and debtors in the amount of 417,256,957 lei mainly refer to the following outstanding balances:

| Customer name | Provisioned value |
|-----------------------------|--------------------------|
| Compania Nationala Remin SA | 71,147,710 |
| Oltchim SA | 56,479,137 |
| SC Balan SA | 48,855,268 |
| Tractorul UTB SA | 35,482,718 |
| SC Ariesmin SA | 20,745,243 |
| Metal Galati | 19,016,873 |
| Cupru Min SA | 15,121,775 |
| C,U,G, SA Cluj | 10,367,919 |
| Zlatmin SA | 9,274,714 |
| S,C,G,C,L, Panciu SA | 5,309,360 |
| Hidromecanica SA | 4,788,369 |
| SC Baita SA | 4,770,491 |
| Sidex Galati | 3,287,584 |
| Meteor SA | 2,989,900 |
| Apaterm | 2,644,991 |
| Carpatcement Holding SA | 2,440,785 |
| Nitramonia Fagaras SA | 2,321,847 |
| Vegetal Trading | 2,252,770 |
| European Drinks Oradea | 2,164,215 |
| Mic,ro | 1,459,317 |
| Total | 320,920,986 |

A significant proportion of customers mentioned in the list above, especially mining companies, are older than 8 years, being insolvent / bankrupt,

8.4.6. Economic and financial indicators on December 31, 2015

| | Calculus formula | 2014 | 2015 |
|---------------------------------|---|------------|------------|
| Liquidity indicators | | | |
| Current liquidity ratio | Current assets / Current debts | 1,38 | 1,36 |
| Fast liquidity ratio | Current assets – Stocks / Current debts | 1,38 | 1,36 |
| Risk indicators | | | |
| Indebtedness | Debts over 1 year / Own capital *100 | 12,15% | 14,24% |
| Activity indicators | | | |
| Days sales outstanding | Receivables balance / Turnover*365 | 76 days | 64 days |
| Days payable outstanding | Average supplier balance / Asset purchase *365 | 52 days | 50 days |
| Fixed assets turnover | Turnover / Fixed assets | 51 times | 46 times |
| Total assets turnover | Turnover / Total assets | 3,34 times | 3,65 times |
| Profitability indicators | | | |
| Return on capital employed | Gross exploitation profit / Total capitals *100 | 64,80% | 47,31% |
| Gross sales margin | (Gross exploitation profit)/ Turnover * 100 | 5,58% | 3,43% |

8.4.7. Distribution of profit of financial year 2015

The company registered a net profit amounting to Lei 131,140,009 for the financial year ended on December 31, 2015; it follows to be distributed during year 2016,

The profit of year 2014 amounting to Lei 204,734,188 was distributed thus:

- dividends granted to shareholders pro-rated with the share they hold in the company's share capital, amounting to Lei 174,024,060;
- other reserves – as own funding source amounting to Lei 30,710,128,

9. Human resource

On December 31, 2015, Electrica Furnizare had 1,110 employees,

The table below presents a general image of work force employment within the company:

| Structure | December 31, 2014 | December 31, 2015 |
|------------------------|----------------------|----------------------|
| Own branch apparatus | 117 | 99 |
| SFEE Transilvania Nord | 378 | 345 |
| SFEE Transilvania Sud | 370 | 331 |
| SFEE Muntenia Nord | 362 | 335 |
| TOTAL | 1,227 | 1,110 |

Diminishment of staff numbers during 2015 is mainly due to voluntary resignation according to the agreement the Electrica representatives concluded with the representatives of "Univers" National Federation of Electric power Trade Unions,

Age categories for the staff within Electrica Furnizare are the next:

| | December 31, 2014 | December 31, 2015 |
|--------------------|------------------------------|------------------------------|
| Under 18 years old | 0 | 0 |
| 18-30 years old | 4,77 | 4,33 |
| 31-40 years old | 21,81 | 22,27 |
| 41-50 years old | 40,16 | 44,09 |
| 51-60 years old | 30,12 | 27,41 |
| Over 60 years old | 3,13 | 1,89 |
| TOTAL | 100% | 100% |

Within Electrica Furnizare, the training programs refer to continuously training the employees' skills, thus that the employees effectively approach their professional challenges,

10. Indicatorii de performanta cheie și obiectivele de performanță realizati in anul 2015

| Running no, | Key Performance Indicator | Performance targets | M,U, | Period: 01,01,2015 - 31,12,2015 | | | Weighting Coefficient | Degree of achievement of performance indicators and targets (%) |
|--|---|--|----------------|---------------------------------|--------------|---------------------------|-----------------------|---|
| | | | | Forecasts | Achievements | Degree of fulfillment (%) | | |
| 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8=6*7 |
| 1 | Outstanding payments | Reduction of outstanding payments* (in current prices) | thousand lei | 0 | 0 | 100,00 | 0,15 | 15,00 |
| 2 | Outstanding receivables | Reduction of outstanding receivables* (in current prices) | thousand lei | 604,148 | 551,653 | 109,52 | 0,15 | 16,43 |
| 3 | Labor productivity | Labor productivity growth in value or physical units ** | MWh / employee | 8,504 | 8,708 | 102,40 | 0,05 | 5,12 |
| 4 | Total expenses at 1,000 Lei total revenues | Reduction of total expenses at 1,000 Lei total revenues * | lei | 973 | 965 | 100,84 | 0,10 | 10,08 |
| 5 | Gross income | Achievement of the gross income (+/-)** | thousand lei | 110,010 | 146,967 | 133,59 | 0,10 | 13,36 |
| 6 | Achievement of the investment program | Achievement of schedules investment expenditures ** | thousand lei | 19,731 | 19,187 | 97,24 | 0,15 | 14,59 |
| 7 | Sold electric power | Increase in the sold electric power** | Mwh | 9,932,104 | 10,431,781 | 105,03 | 0,05 | 5,25 |
| 8 | Operating expenses at 1,000 lei income | Decrease in operating expenses* | lei | 973 | 965 | 100,84 | 0,15 | 15,13 |
| 9 | Commercial gross margin in the competitive market | Increase in the commercial gross margin in the competitive market ** | thousand lei | 159,499 | 163,872 | 102,74 | 0,10 | 10,27 |
| TOTAL - Degree of fulfillment of criteria and performance targets (sum of the values of column 8) | | | | | | | 1,00 | 105,23 |

11. Financial tools and risk management

The main risks and uncertainties refer to

- supply activity could face risks of increasing competition level due to the liberalization of electric power market process;
- financial performance could be adversely affected by modification of tariffs set out for the regulated market;
- supply activity could lose the status of supplier of last resort;
- financial performance could be adversely affected by altering the electric power prices;
- electric power demand in Romania depends on various factors that cannot be controlled by the Company, among which the economic, political, and climatic conditions;
- the Company must observe numerous regulation requirements and must keep into force the regulation approvals; on the contrary, it might be exposed to significant loss;
- reputation, perspectives or operational results of the Company could be adversely affected by claims or litigations,

Risk exposure

The Company is exposed to the next risks derived from using financial tools:

- credit risk;
- liquidity risk;
- market risk,

Credit risk

Credit risk is the risk that the Company would register a financial loss if a customer or a counterparty within a financial tool does not meet its contractual obligations, being mainly generated in connection to the Company's commercial receivables, cash and cash equivalents, bank deposits and treasury certificates and governmental bonds,

The cash, deposits, treasury certificates and governmental bonds are held by financial institutions deemed as being highly reliable, The accounting value of financial assets is the maximum exposure to credit risk, In view of assessing the risk levels and treating it for eligible customers, calculus manners of tariffs are provisioned, which would allow diminishing it by offering tariffs with payment in advance, upon creating guarantees or partial payment during the delivery month,

For benefitting of the legal provisions of Law no, 123/ 2012 and ANRE Order no, 64/ 2014 on guarantees, considering they are lawful but at a negotiated level, the internal procedure setting out the analysis and calculus manner of those guarantees was approved,

For the high importance cases or in which the general solvability analysis is not sufficient or cannot be developed, a purchase report was promoted and approved in connection to some risk report services, which will be used for the procedures of selecting and accepting eligible customers or other important partners,

Another method to manage risk is a controllable manner of granting echeloning schedules provisioned by the legislation, prior to applying settlement to eligible customers.

Commercial receivables

The credit risk of the Company in connection to receivables focuses in the state-controlled companies, The company registers a depreciation adjustment, which is the best estimate of loss registered in connection to the commercial receivables,

The situation of old age of commercial receivables was the next:

| | December 31, 2014 | | December 31, 2015 | |
|-------------------------|-------------------|-------------------------|-------------------|-------------------------|
| thousands RON | Gross value | Depreciation adjustment | Gross value | Depreciation adjustment |
| Not overdue | 164,072 | 9,839 | 179,726 | 202 |
| Overdue by 1-90 days | 210,623 | 3,429 | 160,515 | 8,230 |
| Overdue by 90-180 days | 22,118 | 16,082 | 3,491 | 3,261 |
| Overdue by 180-360 days | 19,605 | 13,498 | 8,708 | 8,695 |
| Overdue by 1-2 years | 30,270 | 21,923 | 18,866 | 18,561 |
| Overdue by 2-3 years | 70,687 | 70,687 | 18,131 | 18,131 |
| Overdue by over 3 years | 331,288 | 331,288 | 360,177 | 360,177 |
| Total | 848,663 | 466,746 | 749,614 | 417,257 |

| | Net commercial receivables | |
|-------------------------|----------------------------|-------------------|
| thousands RON | December 31, 2014 | December 31, 2015 |
| Not overdue | 154,233 | 179,524 |
| Overdue by 1-90 days | 207,194 | 152,285 |
| Overdue by 90-180 days | 6,036 | 230 |
| Overdue by 180-360 days | 6,107 | 13 |
| Overdue by 1-2 years | 8,347 | 305 |
| Overdue by 2-3 years | 0 | 0 |
| Overdue by over 3 years | 0 | 0 |
| Total | 381,917 | 332,357 |

Liquidity risk

Liquidity risk is the risk that the Company would encounter difficulties in paying its obligations connected to financial debts, which are settled by transferring cash or another financial asset, The Company's policy in connection to liquidity management is to maintain sufficient liquid resources for paying the obligations as they become due, to the degree possible, in normal and stress conditions, with the aim to avoid unacceptable loss,

The Company envisages to maintain a cash and cash equivalent level, which would surpass the provisioned cash payments for paying the financial debts, As well, the Company monitors the level of provisioned cash collected from collection of commercial receivables, as well as the level of provisioned cash payments for paying commercial debts and other debts.

Market risk

The market risk is the risk that the market price modification – exchange rate and interest rate – would affect the Company's profit or the value of its financial tools, The objective of market risk management is to control and maintain exposures within acceptable limits and to optimize the results,

Legislation risks

Tax inspections are frequent in Romania, They are detailed verifications of taxpayers' accounting books, Sometimes, such inspections take place months or even years after the payment obligations have been set out, As consequence, the companies can owe taxes and fines, Furthermore, the tax legislation is subject to frequent modifications and the authorities are many times inconsistent in construing the legislation, Nevertheless, the Company's management believes that adequate reserves have been created for all significant tax obligations,

Significant key factors, directions and market trends that the Board of Directors cannot control include

- general regulation framework and legal framework in which Electrica Furnizare develops its activity;
- regulated tariffs approved by ANRE (transport, distribution, supply, etc.);
- expenses for purchasing electric power;
- macroeconomic trends in Romanian economy and electric power demand,

12. Internal control

The company has an internal / management control system whose design and implementation allow the management and the board of directors to supply reasonable assurance that the funds allotted for fulfilling the general and specific objectives have been used in lawfulness, regularity, effectiveness, efficient, and cost-effective conditions,

The internal control within Electrica Furnizare SA is a permanent dynamic and flexible process, with a strongly planned component:

- has objectives set out by the annual plan of developing the management internal control, with the aim to provide reasonable assurance against risks and that the objectives of organization will be met and they apply to all employees based on the adopted control strategies and the management's needs;
- integrates all control forms existing at a given time in the company, distributed in the process flow under various forms: self-control, observation, comparison, approval, reporting, coordination, verification, authorization, supervision, position separation, assessment, delegation, and process outlining,

Internal control aimed to ensure

- compliance with the legislation in force;
- application of decisions made by the company's management;
- adequate operation of company's internal activity;
- reliability of financial information;
- effective resource utilization;
- preventing and controlling risks of not reaching the goals set out.

13. Status of litigations

The company Electrica Furnizare S,A, has a number of 5,551 litigation files,

- a) Litigations with values greater than 9,000 thousand lei, where the Company has as the procedural quality of **Claimant / Creditor**

| Category | No, | Claimant / Creditor | File no, | Object | Court | File status |
|---|-----|--|--------------------------|--|-------------------------------------|---|
| 1, - Litigations in tax matters | - | - | - | - | - | - |
| 2, - Court of Auditors litigations | 1, | Romanian Court of Auditors | 5755/2/2013 | Nullity of Hearing Report no, 82/2013, | High Court of Cassation and Justice | Court of first instance granted in part the judicial action, providing partial cancellation of the Hearing Report no, 82/2013 and Decision no, 20/2013, Both Parties appealed, The file is in filtration procedure, |
| 3, - Significant litigations | 1, | Remin Baia Mare S,A, | 244/2009 ans 32/100/2009 | 71,443,401 | Timiș Tribunal | Insolvency - Law no, 85/2006, |
| | 2, | Oltchim S,A, | 887/90/2013 | 56,479,137 | Vâlcea Tribunal | Insolvency - Law no, 85/2006, |
| | 3, | Balan S,A, | 2139/96/2007 | 48,855,268 | Harghita Tribunal | Insolvency - Law no, 85/2006, |
| | 4, | Tractorul S,A, | 6602/62/2007 | 35,482,732 | Brașov Tribunal | Insolvency - Law no, 85/2006, |
| | 5, | Ariesmin - Baia de Aries | 7375/107/2008 | 20,745,243 | Alba Tribunal | Insolvency - Law no, 85/2006, |
| | 6, | Metal S,A, - Galati | 2181/121/2013 | 19,016,873 | Galați Tribunal | Insolvency - Law no, 85/2006, |
| | 7, | Cuprumin S,A, | 176/2006 | 15,121,775 | - | Enforcement, Repayment schedule, |
| | 8, | CUG S,A, | 2145/1285/2005 | 10,367,918 | Cluj Court of Appeal | Insolvency - Law no, 85/2006, |
| | 9, | Zlatmin S,A, - Zlatna | 6/107/2003 | 9,274,713 | Alba Tribunal | Insolvency - Law no, 85/2006, |
| 4, - Litigations with A,N,R,E, | 1, | National Regulatory Authority for Energy | 26210/3/2013 | Modification of the ANRE Order no, 40/2013, ANRE obligation to pay damages that can not be covered by modifying the order, | Bucharest Court of Appeal | Court of first instance dismissed the action as unfounded, The solution pronounced is subject to appeal, The judgment has not yet been drawn up, |

- a) Litigations with values greater than 50 thousand lei, where the Company has as the procedural quality of **Defendant / Debtor**

| Category | No, | Claimant / Creditor | File no, | Object | Court | File status |
|--|-----|--|---------------|---|----------------------------|--|
| 1, - Litigations in tax matters | - | - | - | - | - | - |
| 2, - Significant litigations | 1, | CFR S.A, | 4063/231/2013 | 5,864,921 | Vrancea Tribunal | Contestation to enforcement, The amount represents the output update in five cases of enforcement, The court of appeal granted the appeal to enforcement, |
| | 2, | Banca Comerciala Feroviara (Railway Commercial Bank) | 6919/3/2014 | 1,502,471 | Bucharest Court of Appeal | Claims involving the court charges and pecuniary damage for lack of use of amounts seized in foreclosure, Court of first instance granted the matter in part and ordered Electrica Furnizare to pay the amount of 89,924 lei, The Court of Appeal allowed the Claimant's appeal and ordered Electrica Furnizare to pay the amount of 1,228,829 lei, Court of Appeal judgment is to be drafted and is subject to appeal within 30 days from notice, |
| | 3, | Hivatalos S,R,L, | 737/96/2014 | 432,540 | Harghita Tribunal | Action in finding, Refusing to pay capacitive reactive energy power, |
| | 4, | Allianz Ţiriac Asigurari | 4528/258/2013 | 121,019 | Miercurea Ciuc Local Court | Claims, subrogation in the rights of the insured, |
| | 5, | CFR S.A, | 24/176/2015 | 101,670 | Braşov Local Court | Contestation to enforcement, The amount represents the output update in file of enforcement, Negative conflict of competence - the file was forwarded to the High Court of Cassation and Justice, |
| 3, - Litigations with Fondul Proprietatea (Property Fund) | 1, | Fondul Proprietatea S.A, | 14173/3/2014 | Nullity of General Assembly of Shareholders Decision on approval of the corporate governance strategy of Electrica group, | Bucharest Court of Appeal | Court of first instance dismissed the legal action, In the appeal, the court ruled the admission of legal action and partial cancellation of the EGM Resolution no, 3/2014 in terms of approval of the unit corporate governance strategy at Electrica group level, forcing Electrica Furnizare to pay court charges in the amount of 66,783 lei, |

14. Development forecast

Strategic objectives at the level of Electrica Furnizare SA

The main objectives considered by Electrica Furnizare SA for year 2016 mainly refer to

- maintaining the market share to a level >20%;
- purchasing green certificates at the level of the annual mandatory quota set out by ANRE;
- maintaining the market leadership;
- implementing technology in its relations with customers;
- rationalization and modernization of customer relation centers;
- diminishing operational expenses to Lei 1,000 income;
- diminishing the overdue receivables;
- increasing the customers' satisfaction degree;
- diversifying the services and products provided to the customers,

15. Predictable development of the company

The regulation framework went through significant changes in the last decade, including market liberalization, activities separation and implementing the support scheme for renewable energy,

Other significant changes of the Romanian legislation refer to

- organizing the centralized market for global service – according to ANRE Order no, 65/ 2014, which since the 2nd quarter of 2015 have followed implementation of a transparent and competition mechanism of purchasing electric power by suppliers of last resort, for covering the consumption invoiced at the CPC belonging to the customers benefitting of global service;
- approving the Methodology for setting out the tariffs applied by suppliers of last resort to end customers – ANRE Order no, 92/ 2015, and that since the 2nd quarter of 2015 has set out the phases and principles for calculating tariffs that the suppliers of last resort apply to end customers,

Even if those changes were meant to adapt Romania's legislation to the EU one, the process has not been completed yet, Thus, other changes are expected in the next years in all EU countries for going to completing the Internal Energy Market, Among the expected changes, we mention: implementing a harmonized set of rules harmonized in all member countries, increasing regional cooperation and granting a more active role to the consumers,

Opening the energy market was done and the customers can choose their supplier, no matter their category, For eliminating the regulated tariffs according to the de-regulation schedule, favorable conditions are created for a bigger number of household customers becoming eligible, Thus, there will be larger migration processes of household customers to suppliers, which could affect the customer basis in the next years, in the meaning of diminishing it, because those customers are now in EFSA portfolio,

We cannot quantify the effect, but we believe that it will be a mass phenomenon and will not be limited to only tens of thousands, We consider the quality increase of the services provided and diversifying their range for increasing customer satisfaction and protecting the company against migration to other suppliers, Dumping offers could appear and we are considering a policy of customer retention and special offers to the degree they have commercial substantiation and as applicable, the board of directors approves them, As well, we consider to complete the activity field by providing consultancy, energy audit and natural gas selling services.

Tariff evolution

On a short term, we believe that a tariff diminishment trend will be maintained, other than the regulated ones for services supplied by grid operators, as well as those on the wholesale free market, With the increase of cross border capacities, the stability trend of energy prices will strengthen, On the retail market, we believe it is reasonable to consider a diminishment of the margin, which will put pressure on the costs and quality and efficiency of the organization,

Evolution of purchase costs

We expect that the energy prices in the wholesale market remain stable, at the level of those in the last 2 years, They could be modified by markets coupling and production structure change in the region, which will require time, It could be deemed that the effect of production subsidizing from renewable sources was significant on the wholesale and retail market, but right now that production no longer receives such large investments,

Income evolution

Income will always be correlated to cost and will ensure a margin correlated to the secondary legislation for selling in exchange of ANRE-approved tariffs and 1-3% of the energy price to customers on the competition market, where rival companies operate as well,

Gas license and its corresponding market evolution

EFSA began the procedure to obtain the gas supply license as consequence of purchasing a market survey that underlined that such an activity was feasible, would bring profit and could contribute to rendering customers loyal to the company, It is estimated that the license will be obtained during the first half of 2016 and it is possible that the first offers be sent in the 3rd quarter of this year,

Investments in information technology systems

There is a continuous process of improving the ERP – SAP system, which is made up of a set of applications meant to collect, keep, administer and construe the information within the company,

During the reference period of this report, such specific activities were initiated for rendering processes uniform at the level of the Branches, which led to diminishing the risks derived from manually processing information and concomitantly offered an enhancement of the quality of services provided by Electrica Furnizare S,A,

New functionalities were implemented within the Oficial Virtual (Virtual Desk) portal, including the creation of an application for smartphones, introducing the online payment possibility by using banking tools, as well as better management of alternative communication channels by implementing a call-answering high performance system, call center type,

New functionalities are in progress of implementation and analysis, which are connected to the possibility to achieve automatic data exchange with the partners by using EDI systems, implementing electronic invoice according to the legal provisions in force, as alternative to the present day invoicing manner, with the aim to diminish costs connected to printing and sending invoices issued, as well as creating an integrated system of CRM type, which would allow a better management of the customer relation, rendering automatic some work flows and better collaboration by developing alternative collaboration channels in the online environment,

Main change factors of the electric power market

| Factor | Description | Impacts |
|---|---|---|
| Evolution of GDP and industry structure | Economic growth is a determining factor of electric power demand, Although there is no direct causality between the GDP increase rate and the electric power demand increase rate, there is a positive correlation mainly between the electric power demand in the industry area and the economic growth, In the future, the electric power demand in household customers and the industrial area will be influenced by energy efficiency policies, | Electric power consumption |
| Changes of the regulation framework | The regulation framework went through major changes during the process of adapting Romanian legislation to the EU one, Even if the main phases have been completed, a series of other major changes are expected in the next decade, which will influence prices and patterns of electric power demand and supply, | Electric power prices |
| Increasing the awareness on environment matters | Romania aimed to reach EU 20-20-20 targets wishing to diminish greenhouse gas emissions, improve efficiency and increase the renewable energy share, According to the most recent talks in connection to the EU framework concerning climate and energy policy estimated for the future, such targets will be increased, | Electric power prices and consumption, regulation framework |
| Technological development | Smart grid and smart meter projects will bring benefits to the end consumers, distributors and suppliers in terms of energy efficiency and efficient use of energy, by more effectively use of information, | Electric power prices and consumption |

16. Events subsequent to the balance sheet date

In 2016, Electrica Furnizare SA will continue to develop the activity of supplying electric power in a regular manner, There are no significant elements or outside the specific course of business that should be made known to the shareholders and that would require changes in the financial statements,

Ioan ROȘCA

Chairman of the Board of Directors