

**S. FILIALA DE ÎNTREȚINERE ȘI SERVICII ENERGETICE
„ELECTRICA SERV” - SA,**

**Administrators report regarding the financial year ended on December
31, 2015**

March 2016

Data regarding the Report and Issuer

Report date:	March 2016
Name of issuer:	Societatea Electrica Serv SA
Registered office:	Bucharest, no. 1A Stefan cel Mare road, District 1, Bucharest
Tax Registration Code:	RO17329505
Share capital:	394.089.920 lei, fully paid, according Trade Register registration

1. General presentation

Filiala de Intretinere si Servicii Energetice "Electrica Serv" - S.A. was founded by Government Decision (G.D.) no. 74/January 27, 2005, as subsidiary of Societatea Comerciala de Distributie si Furnizare a Energiei Electrice «ELECTRICA» SA, by dividing this company.

Thus, Filiala de Intretinere si Servicii Energetice „Electrica Serv” SA became a Romanian legal entity, organized as joint stock company and operates according to the law and status provided in Annex 1 to G.D. 74/27.01.2005.

Filiala de Intretinere si Servicii Energetice "Electrica Serv" SA was registered at Trade Registry Office on 08.03.2005 under number J40/4454, with the headquarters in Bucharest, NO. 1A Stefan cel Mare Road, district 1, with Unique Registration Code 17329505 and fiscal attribute RO.

The share capital of FISE Electrica Serv SA is entirely owned by SC "Electrica" SA as sole shareholder and the shares held at this subsidiary represents its property.

According to the provisions of the statute, the management body of the company is the General Shareholders Meeting, whose duties are set forth in the statute.

FISE Electrica Serv SA is managed by a Board of Directors consisting of five members, appointed and revoked by the General Shareholders Meeting.

S FISE Electrica Serv SA benefits from wide experience in energy services, with the objects of activity as maintenance of power supply installations, modernization, repairs and new works; verifications, inspections and repairs of measurement devices; other services supply activities, also investment works for power distribution subsidiaries, where Electrica SA is shareholder according to the company statute and current legislation.

1.1 Objective

The objective of “Electrica Serv”– S.A. is to provide high quality services, meeting the requirements of all our clients, aiming to provide continuous power supply to the electrical energy consumers, with maximum efficiency and environmental consideration.

Meeting customer requirements through high quality professional level services is reflected into a mandatory dominant for all staff of the subsidiary.

1.2 Equity

The equity of „Electrica Serv” – SA is lei 394.089.920, fully paid and it is divided into 39.408.992 registered shares; each share has a nominal value of lei 10 and it is obtained by contribution in kind and cash of Societatea de Distribuție și Furnizare a Energiei „Electrica” – SA.

The equity is fully owned by „Electrica” – SA.

„Electrica” – SA is the sole shareholder of „Electrica Serv” SA, and exercises all its rights and assumes all obligations arising from this quality according to law.

In 2015, the **Board of Directors of “Electrica Serv”- SA** has operated according to its statutes, approved by Government Decision no. 74/2005, as amended and supplemented, of own Organizational and Operating regulation and current legislation.

In 2015, the **General Meeting of Shareholders of “Electrica Serv”- SA** has operated according to its statutes, approved by Government Decision no. 74/2005, as amended and supplemented, of own Organizational and Operating regulation and current legislation.

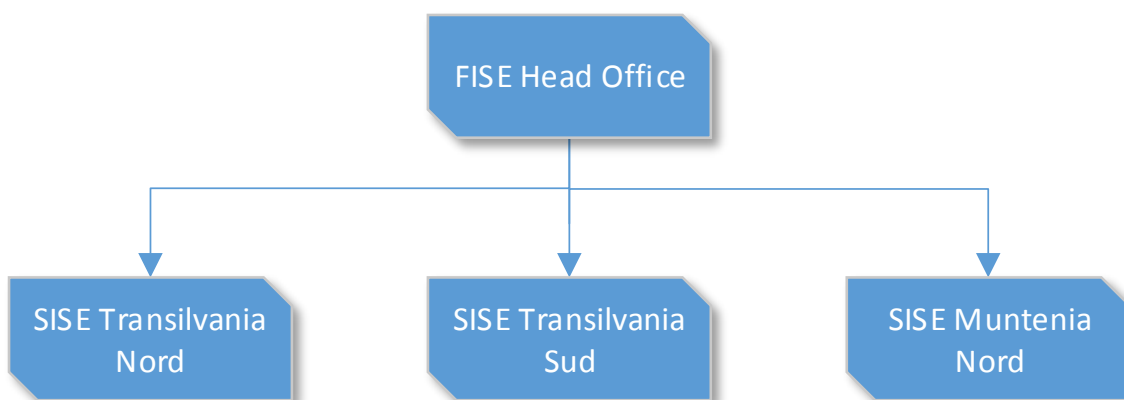
1.3 Organization Structure and Territorial Coverage

The subsidiary has a pyramidal internal structure led by a GENERAL MANAGER with five divisions that coordinates the main activities: OPERATING DIVISION, HUMAN RESOURCES AND ADMINISTRATIVE, PROCUREMENT, TENDERING AND INTERNATIONAL ALLIANCES, LEGAL AND PATRIMONY DIVISION and ECONOMIC DIVISION. Today, “Electrica Serv”-SA provides design consultancy, maintenance, automotive, equipment repairs and construction and assembling services for distribution operators with state-owned capital from areas as Transilvania Nord, Transilvania Sud and Muntenia Nord. Starting 2005, “Electrica Serv”- SA also manages the Technical Museum “Prof. Ing. Dimitrie LEONIDA”, an institution with a tradition of almost 100 years, representing a pantheon of Romanian and universal science.



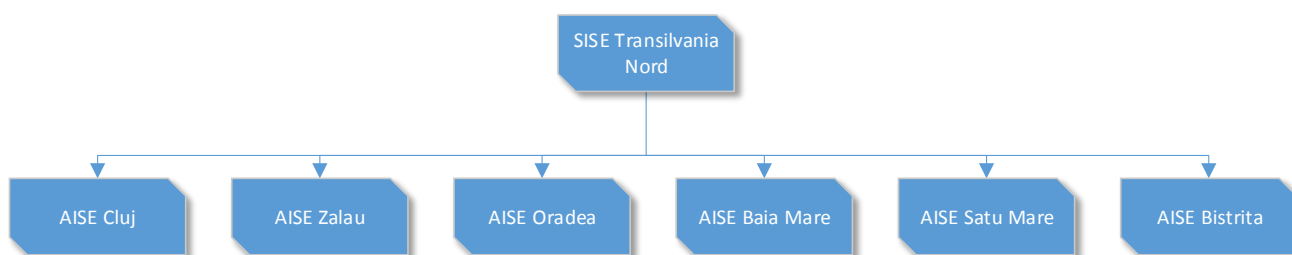
The organization structure of SC FISE Electrica Serv SA is hierarchical-functional and comprises 3 (three) hierarchical levels: the headquarters, the branches and, respectively, the agencies/departments.

The management of the branches and the agencies/departments is ensured by the central office which has the following structure:

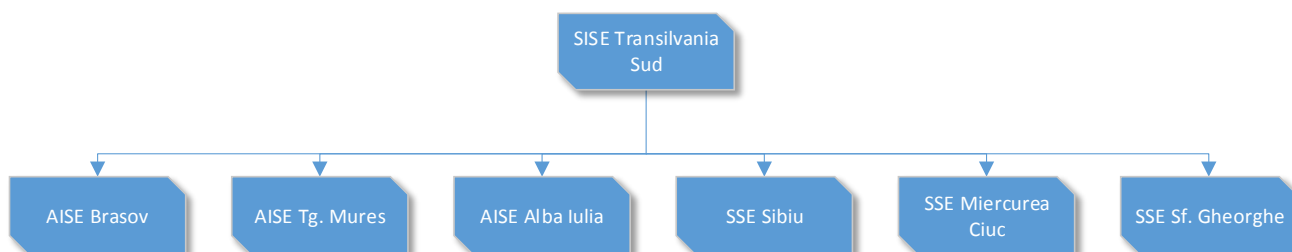


Please note that FISE – Head Office also manages Dimitrie Leonida Technical Museum.

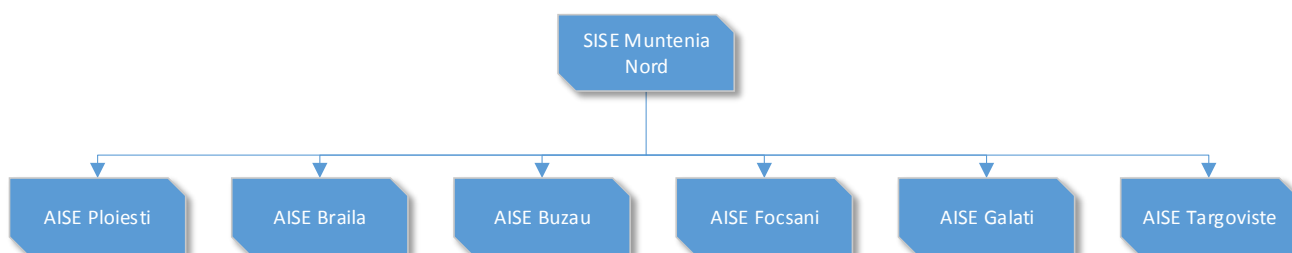
SISE Transilvania Nord (with the headquarters in Cluj-Napoca), manages the agencies (AISE):



SISE Transilvania Sud (with the headquarters in Brasov), manages agencies (AISE) and departments (SSE), as follows:



SISE Muntenia Nord (with the headquarters in Ploiesti), manages departments and agencies and offices from ENEL Dobrogea area, as follows:



2. Financial information

2.1. Balance sheet 31.12.2015

	Item description	Balance at December 31. 2014	Balance at December 31. 2015
	1	2	3
A.	INTANGIBLE ASSETS		
I.	INTANGIBLE ASSETS	1.030.342	506.357
II.	TANGIBLE ASSETS	242.126.753	233.315.357
III.	FINANCIAL ASSETS	2.465.903	2.416.605
	INTANGIBLE ASSETS- TOTAL	245.622.998	236.238.319
B.	CURRENT ASSETS		
I.	INVENTORY	35.916.564	31.283.492
II.	RECEIVABLES	122.823.039	146.955.835
III.	SHORT TERM FINANCIAL INVESTMENTS	160.132	0
IV.	CASH AND BANK ACCOUNTS	14.142.976	27.433.725
	CURRENT ASSETS - TOTAL	173.042.711	205.673.052
C.	EXPENSES IN ADVANCE	998.195	1.332.129
D.	LIABILITIES TO BE PAID IN LESS THAN 1 YEAR	112.678.532	144.826.972
E.	LIABILITIES TO BE PAID IN MORE THAN 1 YEAR	11.238.123	0
F.	PROVISIONS	49.390.809	46.586.552
G.	INCOME IN ADVANCE	238.107	981.279
H.	CAPITAL AND RESERVES		
I.	CAPITAL	390.631.010	394.089.920
II.	SHARE PREMIUM (ct. 104)	0	0
III.	REEVALUATION RESERVES (ct. 105)	198.399.737	200.781.206
IV.	RESERVES	5.086.929	5.137.442
V.	REPORTED PROFIT OR LOSS	-353.777.289	-350.999.261
VI.	PROFIT OR LOSS FOR THE FINANCIAL YEAR	6.082.048	1.936.200
VII.	PROFIT APPROPRIATION (ct. 129)	304.102	96.810
	EQUITY - TOTAL	246.118.333	250.848.697

The balance sheet at 31.12.2015 was prepared by centralizing the trial balances and accounting reports of the branches and the central office.

The trial balances of the central office and the subordinated branches under “Electrica Serv”- SA on 31.12.2015 were prepared according to Art. 26 of the Accounting law.

No compensations were made between the balance accounts or between the income and expenditure.

2.2. Profit and Loss account at 31.12.2015

Item description	Balance at December 31 2014	Balance at December 31 2015
1	2	3
OPERATING INCOME	411.312.277	408.266.989
OPERATING EXPENSES	403.833.915	405.806.891
OPERATING PROFIT OR LOSS:	7.478.362	2.460.098
FINANCIAL INCOME	698.967	129.363
FINANCIAL EXPENSES	493.952	653.261
FINANCIAL PROFIT OR LOSS:	205.015	-523.898
CURRENT PROFIT OR LOSS:	6.082.048	1.936.200
TOTAL INCOME	412.011.244	408.396.352
TOTAL EXPENSES	404.327.867	406.460.152
GROSS PROFIT OR LOSS:	7.683.377	1.936.200
INCOME TAX (ct. 691-791)	1.601.329	
NET RESULT OF THE FINANCIAL YEAR:	6.082.048	1.936.200

At the end of financial year 2015, S.F.I.S.E. Electrica Serv S.A. obtained a gross profit of 1.936.200 lei as a result of 408.396.352 lei total income and 406.460.152 lei expenses.

The company accounting is organized and conducted in accordance with the legal provisions in force and it is conducted in accordance with Accounting Law no. 82/1991, republished, as amended and supplemented.

S. Electrica Serv–SA applied the Order of the Minister of Public Finances no. 1802/2014 for the approval of accounting regulations according to the European directives, as amended and supplemented.

In conducting the financial and accounting operations, accounting principles were observed: prudence, methods permanence, independence, separation of assets and liabilities, exercise intangibility, prelevance of substance over form, materiality.

2.3. Economic and financial indicators

	Indicator	2014	2015	Formula
1	Liquidity indicators			
	Current liquidity indicator	1.54	1.42	Current assets / Current debts
	Immediate liquidity indicator	1.22	1.20	Current assets - Inventory/ Current debts
2	Risks indicators			
	Debt degree	4.57%	0.00%	Total debts / Equity *100
3	Activity indicators			
	Storage days	97	95	Inventory/ Expenditure related to inventory consumption*365
	Duration commercial debt recovery	111	121	Commercial claims Balance/ Turnover*365
	Average duration of payment of current commercial liabilities	139	152	Commercial current debts/ Turnover *365
	The rotation speed of fixed assets	1.62	1.68	Turnover/Current assets
	The rotation speed of total assets	0.95	0.90	Turnover/Total assets
4	Profitability indicators			
	Return on equity	3.04%	0.98%	Gross operating profit/Total equity*100
	Gross margin on sales	0.00%	0.00%	(Gross operating profit)/Turnover* 100

2.4 Profit distribution

During 2015, the Company registered a net profit amounting lei 1.936.200, of which lei 96.810 was distributed to the legal reserve. The rest will be proposed for allocation in 2016. 1.936.200 lei gross profit will be divided according to legal destinations.

3. Human resources

For 2015, S. Electrica Serv S.A. recorded an average number of 3.288 employees and at the end of the year, the total number of employees was 3143.

The number of employees decreased by 64 in December 2015 mainly as a result of the voluntary departures.

4. Financial instruments and risk management

Interest rate risk

The interest rate risk represents the risk that the value of a financial instrument will fluctuate due to the modification of the interest rates on the market, compared to the interest rate applicable to the respective financial instrument. The cash flow risk of the interest is the risk that the interest fluctuates in time.

The company has interest bank loans (see note 7.1). The company considers that the interest risk rate is low considering that the company has no long term loans.

Credit risk

The Company has a significant concentration of credit risk related parties (see Note 14). Trade receivables are presented diminished adjustments for doubtful clients. The company considers the adjustments recorded represents the best estimate of the loss in value of the creditors to the balance-sheet date.

Liquidity risk

Liquidity risk represents the risk that the company will encounter difficulties in honoring of obligations associated with financial liabilities which are to be paid by the transfer of cash or other financial asset. The policy of the company in respect of liquidity management is to maintain, in so far as it is possible, sufficient resources liquids to fulfill its obligations as they arrive at maturity, under normal conditions and stress, in order to avoid losses unacceptable.

The liquidity risk management policy is to maintain the Company's credit lines available.

Legislative risks

The tax inspections are frequent in Romania, consisting in detailed verifications of the records kept by the taxpayers. Such controls take place after months, even years from the payment obligations determination. Therefore, the companies may owe taxes and fines. Moreover, the tax law is frequently changed, and often, the authorities are inconsistent in law interpretation.

However, the management of the company believes that adequate reserves were established for significant tax liabilities.

5. Internal control

The company has an internal/management control system whose conception and application allow the management and the board to provide a reasonable assurance the funds for meeting the general and specific objectives were used in conditions of legality, regularity, effectiveness, efficiency and economy.

Internal control in S. Electrica Serv SA is a permanent, dynamic, flexible, with a well-planned component:

- It has set targets in the annual development plan of the internal management control, in order to provide a reasonable assurance against risks and the objectives of the organization are met and applied to all employees, depending on the adopted control strategies and management's needs;
- Integrates all existing forms of control, dissipated on the process flow in various forms: Integrates all existing forms of control at a time in society, dissipated on flow processes in various forms: self-control, observation, comparison, approval, reporting, coordination, verification, authorization, supervision, separation of duties, evaluation, delegation, procedures.

Internal control aimed at ensuring:

- Compliance with applicable legislation;
- Implementation of decisions of the company management;
- The proper functioning of the company internal activities;
- Fiability of financial information;
- Efficient use of resources;
- Risk prevention and control for not achieving the objectives set.

6. Development forecasts

Along with Electrica S.A's listing on the stock exchange and the changes in the structure of the shareholders, appeared changes in economic policy of Electrica group, electricity distribution subsidiaries having as objective the increasing of profits by reducing operating costs , including maintenance costs provided by the Company.

This trend has generated a low budget for the maintenance and by default, FISE Electrica Serv has been affected, with great impact on the area of the SISE Muntenia Nord, as follows:

- a reorganization of activities is necessary in order to reduce operating costs and to adapt on the market.
- a reduction of indirect and general costs is necessary by reducing the number of staff for these categories.
- a restriction of activities of the energy-related equipment repair and meters is necessary, as well as of auto services.

Main reorganization directions

I. Separation of essential activities for the maintenance activities, i.e. investment works

- The allocation of staff for maintenance and logistics contract, dimensioned on a perspective of 3 years (for the contract with Electrica)
- Formation and transfer of staff for a separate division that will work on investment projects tendered by distribution operators

II. Raising society skills

- Obtaining ANRE approval for LEA works and power stations up to 400 kV
- Is aimed the participation in tender procedures for maintenance works for LEA/ stations and the participation as contractor for Transelectrica, Hidroelectrica.

III. Restoring of internal procedures/ rules and their management through SAP and IT functions use and/ or extension

- Automatization of processes and functions extension in SAP
- Use of SAP for controlling functions for: streamlining of activities, tracking and reduction of costs, determining the level of decision and budget boundaries.

IV. Extension of activity

- Extension on internal market and other external markets in energy services.

V. Entrance on market segments by capitalization/ development of existing skills

- Extension of new technologies skills (i.e. high voltage works – LST)
- Capitalization of existing skills (i.e. inspection of cables).

The main objectives taken into account by S Electrica Serv SA. for 2016 mainly refers to:

- Maintaining partnership relations with distribution subsidiaries belonging to Electrica, a major client of the Company;
- Attracting investment from grants, for development and retechnologization;
- Accessing new markets, especially foreign and diversification of energy services;
- Company image promotion and consolidation;
- Management transparency, inside and for clients;
- Development of energy services provided and consolidation of the market leader position in the areas where it operates;
- Reaching the minimum profit target of 3% of the turnover achieved in Electrica Group, maximizing the profit from works executed outside the group.
- Reduce overdue receivables;
- Increase customer satisfaction;

- Diversification of services provided.

The detailed presentation of the financial and accounting activity is reflected in the report on the balance sheet and the profit and loss account on 31.12.2015, annex to this Report.

The following documents are enclosed to this report:

1. The financial statements prepared in accordance with the Order of the Minister of Public Finances 1802/2014, for the financial exercise ended on 31.12.2015;
2. Presentation of the independent financial audit report for 2015.

**PRESIDENT OF THE BOARD OF DIRECTORS
Adrian-Gheorghe MARIN**