SOCIETATEA ENERGETICA ELECTRICA S.A.

Separate Financial Statements

For the year ended

31 December 2017

Free translation from Romanian, which is the official and binding version

Contents

	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	20	270,667,304	275,008,415
Other intangible assets	21	557,958	1,836,710
Investments in subsidiaries	22	2,183,950,669	1,430,819,457
Restricted cash	19	320,000,000	134,491,752
Loans granted to subsidiaries	22	246,563,230	-
Total non-current assets		**3,021,739,161**	**1,842,156,334**
Current assets			
Cash and cash equivalents	19	125,982,921	197,644,018
Deposits, treasury bills and government bonds	17	746,980,117	1,867,115,360
Trade receivables	16	79,300,866	64,074,773
Other receivables	18	54,939,696	12,597,869
Inventories		174,592	161,205
Prepayments		83,135	48,926
Income tax receivable	15	-	2,384,366
Total current assets		**1,007,461,328**	**2,144,026,517**
Total assets		**4,029,200,489**	**3,986,182,851**
EQUITY AND LIABILITIES			
Equity			
Share capital	23	3,459,399,290	3,459,399,290
Share premium	23	103,049,177	103,049,177
Treasury shares	23	(75,372,435)	(75,372,435)
Pre-paid capital contributions in kind from shareholders		5,144,025	5,144,025
Revaluation reserves	23	16,295,016	709,974
Legal reserves	23	169,303,590	156,545,204
Retained earnings		246,338,855	252,240,158
Total equity		**3,924,157,518**	**3,901,715,393**

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	Note	31 December 2017	31 December 2016
Liabilities			
Non-current liabilities			
Employee benefits	13	1,588,567	1,580,589
Total non-current liabilities		**1,588,567**	**1,580,589**
Current liabilities			
Trade payables	24	72,395,483	67,591,033
Other payables	25	12,936,476	11,716,925
Deferred revenue		771,914	540,944
Employee benefits	12,13	5,057,651	3,037,967
Provisions	26	12,292,880	-
Total current liabilities		**103,454,404**	**82,886,869**
Total liabilities		**105,042,971**	**84,467,458**
Total equity and liabilities		**4,029,200,489**	**3,986,182,851**

The accompanying notes are an integral part of these separate financial statements.

Chief Executive Officer	**Chief Financial Officer**
Dan Catalin Stancu	Mihai Darie

	Note	2017	2016
Revenues	8	481,914,976	362,388,192
Other income	9	5,454,469	1,709,529
Electricity purchased	9	(469,697,651)	(347,592,754)
Employee benefits	14	(25,848,474)	(20,503,839)
Depreciation and amortization	20,21	(23,531,857)	(23,506,827)
Impairment of trade and other receivables, net	16,18	(15,120,206)	(38,391,976)
Impairment of property, plant and equipment	20	(1,906,585)	-
Change in provisions, net	26	(12,292,881)	31,250,650
Other operating expenses	9	(48,128,627)	(81,037,171)
Operating profit		**(109,156,836)**	**(115,684,196)**
Finance income	10	364,794,976	389,682,646
Finance costs	10	(470,420)	(1,738,725)
Net finance income		**364,324,556**	**387,943,921**
Profit before tax		**255,167,720**	**272,259,725**
Income tax	15	2,996,195	(7,233,616)
Profit for the year		**258,163,915**	**265,026,109**
Earnings per share			
Basic and diluted earnings per share (RON)	11	**0.76**	**0.78**

The accompanying notes are an integral part of these separate financial statements.

Chief Executive Officer	**Chief Financial Officer**
Dan Catalin Stancu	Mihai Darie

	Note	2017	2016
Profit for the year		**258,163,915**	**265,026,109**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Revaluation of property, plant and equipment		18,624,202	-
Tax related to revaluation of property, plant and equipment		(2,979,872)	-
Re-measurements of the defined benefit liability	13	55,286	100,114
Tax related to re-measurements of the defined benefit liability	15	(16,323)	(16,018)
Other comprehensive income, net of tax		**15,683,293**	**84,096**
Total comprehensive income		**273,847,208**	**265,110,205**

The accompanying notes are an integral part of these separate financial statements.

Chief Executive Officer	**Chief Financial Officer**
Dan Catalin Stancu	Mihai Darie

SOCIETATEA ENERGETICA ELECTRICA SA
SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts are in RON)

	Note	Subscribed and paid in share capital	Share premium	Treasury shares	Capital contributions in kind from shareholders	Revaluation reserves	Legal reserves	Retained earnings	Total equity
Balance at 1 January 2017		**3,459,399,290**	**103,049,177**	**(75,372,435)**	**5,144,025**	**709,974**	**156,545,204**	**252,240,158**	**3,901,715,393**
Comprehensive income									
Revaluation of property, plant and equipment						**15,644,330**			**15,644,330**
Profit for the year		-	-	-	-	-	-	258,163,915	**258,163,915**
Other comprehensive income		-	-	-	-	-	-	38,963	**38,963**
Total comprehensive income		**-**	**-**	**-**	**-**	**15,644,330**	**-**	**258,202,878**	**273,847,208**
Transactions with owners of the Company									
Contributions and distributions									
Land for which ownership rights were obtained	23	-	-	-	-	-	-	-	**-**
Dividends to the owners of the Company	23	-	-	-	-	-	-	(251,405,083)	**(251,405,083)**
Total transactions with owners of the Company		**-**	**-**	**-**	**-**	**-**	**-**	**(251,405,083)**	**(251,405,083)**
Other changes in equity									
Set up of legal reserves		-	-	-	-	-	12,758,386	(12,758,386)	**-**
Transfer of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment		-	-	-	-	(59,287)	-	59,287	**-**
Balance at 31 December 2017		**3,459,399,290**	**103,049,177**	**(75,372,435)**	**5,144,025**	**16,295,016**	**169,303,590**	**246,338,855**	**3,924,157,518**

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	Note	Subscribed and paid in share capital	Share premium	Treasury shares	Capital contributions in kind from shareholders	Revaluation reserves	Legal reserves	Retained earnings	Total equity
Balance at 1 January 2016		**3,459,399,290**	**103,049,177**	**(75,372,435)**	**2,861,525**	**769,261**	**142,932,218**	**292,266,081**	**3,925,905,117**
Comprehensive income									
Profit for the year		-	-	-	-	-	-	265,026,109	**265,026,109**
Other comprehensive income		-	-	-	-	-	-	84,096	**84,096**
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**	**265,110,205**	**265,110,205**
Transactions with owners of the Company									
Contributions and distributions									
Land for which ownership rights were obtained	23	-	-	-	2,282,500	-	-	-	**2,282,500**
Dividends to the owners of the Company	23	-	-	-	-	-	-	(291,582,429)	**(291,582,429)**
Total transactions with owners of the Company		**-**	**-**	**-**	**2,282,500**	**-**	**-**	**(291,582,429)**	**(289,299,929)**
Other changes in equity									
Set up of legal reserves		-	-	-	-	-	13,612,986	(13,612,986)	**-**
Transfer of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment		-	-	-	-	(59,287)	-	59,287	**-**
Balance at 31 December 2016		**3,459,399,290**	**103,049,177**	**(75,372,435)**	**5,144,025**	**709,974**	**156,545,204**	**252,240,158**	**3,901,715,393**

The accompanying notes are an integral part of these separate financial statements.

	Note	2017	2016
Cash flows from operating activities			
Profit for the year		**258,163,915**	**265,026,109**
Adjustments for:			
Depreciation	20	22,049,734	23,087,773
Amortisation	21	1,482,123	419,054
Impairment of property, plant and equipment		1,906,585	-
Impairment of trade and other receivables, net	16,18	15,120,206	38,391,976
Net finance income	10	(364,324,556)	(387,943,921)
Changes in provisions, net	26	12,292,880	(31,250,650)
Income tax expense/(benefit)	15	(2,996,195)	7,233,616
		(56,305,308)	**(85,036,043)**
Changes in:			
Trade receivables		(53,294,164)	(57,437,525)
Other receivables		(3,913,798)	18,856,898
Trade payables		27,764,080	49,579,305
Other payables		165,715	3,745,961
Employee benefits		2,027,662	22,363
Cash used in operating activities		**(83,555,813)**	**(70,269,041)**
Interest paid		-	(1,677)
Net cash used in operating activities		**(83,555,813)**	**(70,270,718)**

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	Note	2017	2016
Cash flows from investing activities			
Payments for purchases of property, plant and equipment		(994,728)	(16,909,651)
Payments for purchase of intangible assets		(203,371)	(757,101)
Payments for purchase of additional shares in subsidiaries		(752,029,916)	-
Restricted cash		(185,508,248)	(134,491,752)
Payments for purchase of treasury bills and government bonds		(543,114,032)	(2,437,538,086)
Proceeds from maturity of treasury bills and government bonds		1,838,554,275	2,436,403,791
Increase in deposits with maturity of 3 months or longer		(995,625,000)	(109,087,392)
Proceeds from deposits with maturity of 3 months or longer		820,320,000	148,443,585
Interest received		17,033,022	14,844,919
Dividends received	10	302,341,425	374,838,510
Loans granted to related parties		(237,654,490)	-
Net cash from investing activities		**263,118,937**	**275,746,823**
Cash flows from financing activities			
Dividends paid	23	(251,224,221)	(291,198,118)
Net cash used in financing activities		**(251,224,221)**	**(291,198,118)**
Net decrease in cash and cash equivalents		**(71,661,097)**	**(85,722,013)**
Cash and cash equivalents at 1 January	19	197,644,018	283,366,031
Cash and cash equivalents at 31 December	19	**125,982,921**	**197,644,018**

The accompanying notes are an integral part of these separate financial statements

Non-monetary transactions are presented in Note 19.

Chief Executive Officer
Dan Catalin Stancu

Chief Financial Officer
Mihai Darie

1 Reporting entity

These financial statements are the separate financial statements of Societatea Energetica Electrica S.A. ("Company" or "Electrica SA"). During 2016 the Company changed its name from Societatea de Distributie si Furnizare a Energiei Electrice Electrica S.A. to Societatea Energetica Electrica S.A.

Electrica was originally incorporated as a company in 1998 by Government Decision no. 365/1998, following the restructuring of the former National Electricity Company (RENEL). On 1 August 2000, following the restructuring of the former National Electricity Company (CONEL) under the Government Decision no. 627/2000, the Company was allocated a new tax registration number, without changing the object of activity (distribution and supply of electricity in Romania). The registered office of the Company is 9 Grigore Alexandrescu Street, District 1, Bucharest, Romania. The Company has sole registration code 13267221 and Trade Register number J40/7425/2000.

As at 31 December 2017 the major shareholder of Electrica SA is the Romanian State, represented by the Ministry of Energy (48.78%), after the ownership dilution following an initial public offer. The next largest shareholder is the European Bank for Reconstruction and Development with a stake of 6.9247% (2016: 8.66%).

As at 31 December 2017 and 2016, Electrica SA has the following investments in subsidiaries:

Subsidiary	Activity	Tax code	Head Office	% shareholding as at 31 Dec 2017	% shareholding as at 31 Dec 2016
Societatea de Distributie a Energiei Electrice Muntenia Nord SA	Electricity distribution in geographical area of Muntenia Nord	14506181	Ploiesti	99,9999696922382%	78.0000021%
Societatea de Distributie a Energiei Electrice Transilvania Nord SA	Electricity distribution in geographical area of Transilvania Nord	14476722	Cluj-Napoca	99,9999829770757%	77.99999%
Societatea de Distributie a Energiei Electrice Transilvania Sud SA	Electricity distribution in geographical area of Transilvania Sud	14493260	Brasov	99,999976413243%	78.0000019%
Electrica Furnizare SA	Electricity Supply	28909028	Bucuresti	99,9998390431663%	77.99997%
Electrica Serv SA	Services in the energy sector (maintenance, repairs, construction)	17329505	Bucuresti	100%	100%
Servicii Energetice Muntenia (In reorganization)	Services in the energy sector (maintenance, repairs, construction)	29384120	Bucuresti	100%	100%
Servicii Energetice Oltenia SA (In reorganization)	Services in the energy sector (maintenance, repairs, construction)	29389861	Craiova	100%	100%
Servicii Energetice Moldova SA*	Services in the energy sector (maintenance, repairs, construction)	29386768	Bacau	n/a	n/a

**Societatea Energetica Electrica SA lost the control of Servicii Energetice Moldova starting January 2016 when the bankruptcy proceedings of the subsidiary began*

The Company's main activities

Currently, the core business of the Company, per the Statute, annex to Government Decision no, 627/2000, consolidated, amended and supplemented, is "Activities of business and management consulting". The Company also covers services on the balancing electricity market and trading.

According to the Commercial Code of the wholesale electricity market, the balancing market was introduced and began operating in Romania in July 2005. The purpose of this market is to allow the balance of the production and consumption of power in real time, using resources provided in a competitive system. Each participant at the wholesale market (producer, supplier, operator, eligible consumer) has the obligation to register at the Operator of the balancing market part of CN Transelectrica SA as a Balancing Responsible Party ("BRP") or to transfer his balancing responsibility to another licence holder registered as BRP. The Company operates as Balancing Responsible Party for 110 license holders as of December 31st 2017.

Initial public offering

The Government Decision no. 85/2013, amended and completed by Government Decision no. 477/2014, approved the privatization strategy of Electrica SA through initial public offer ("IPO"), The privatization strategy included the offer for sale of a 51% stake by issuance of new shares representing 105% of the existing share capital as at the date of the IPO. The shares were offered to both individual and institutional investors on the Romanian market, as well as to qualified investors on the US market and outside USA, and as Global Depository Receipts ("GDRs") on the UK market.

The IPO was organised between 11 and 27 June 2014 and referred to an offering by the Company of 177,188,744 ordinary shares in the form of shares and GDRs, each GDR representing four shares. Following the IPO, the Company sold 142,007,744 shares and 8,795,250 GDRs, at the offer price of RON 11 per share and USD 13.66 per GDR. The allocation of shares and GDRs was concluded on 27 June 2014. The transfer of ownership rights to new shares and the collection of cash by the Company took place on 2 July 2014. At the same date the increase in share capital was recorded at the Trade Register.

Starting 4 July 2014, the Company's shares are listed on the Bucharest Stock Exchange and the GDRs are listed on the London Stock Exchange.

The acquisition of Fondul Proprietatea's minority holdings in Electrica's subsidiaries

Societatea Energetica Electrica S.A. and Fondul Proprietatea have executed on 1 November 2017 the Sale and Purchase Agreements for the acquisition of Fondul Proprietatea's holdings in Electrica's subsidiaries (i.e. SDEE Muntenia Nord S.A., SDEE Transilvania Sud S.A., SDEE Transilvania Nord S.A. and Electrica Furnizare S.A.).

The Aggregated Purchase Price of the transaction was RON 752,031,841, reflecting the following four transactions: a total price of RON 209,744,928 for 21.9999979% of the share capital of Societatea de Distribuție a Energiei Electrice Muntenia Nord S.A.; RON 201,702,667 for 22.00001% of the share capital of Societatea de Distribuție a Energiei Electrice Transilvania Nord S.A.; RON 173,504,365 for 21.9999981% of the share capital of Societatea de Distribuție a Energiei Electrice Transilvania Sud S.A.; RON 167,079,881 for 22.000027% of the share capital of Electrica Furnizare S.A.

Out of the total number of shares held by Fondul Proprietatea in each subsidiary, ten shares of each of the subsidiaries were transferred to other group companies, as follows: 10 shares, representing 0.0000282195174818077% of the share capital, held in SDEE Muntenia Nord S.A. to SDEE Transilvania Sud

S.A. for a total price of RON 269.04; 10 shares, representing 0.0000269350068519964% of the share capital, held in SDEE Transilvania Nord S.A. to SDEE Muntenia Nord S.A. for a total price of RON 246.95; 10 shares, representing 0.0000235867191675586% of the share capital, held in SDEE Transilvania Sud S.A. to SDEE Transilvania Nord S.A. for a total price of RON 186.02; 10 shares held in Electrica Furnizare S.A. to Societatea Filiala de Intretinere si Servicii Energetice Electrica Serv S.A. for a total price of RON 1,222.76.

2 Basis of preparation

These separate financial statements have been prepared in accordance with the Ministry of Public Finance Order no. 2844/2016 for approving the Accounting Regulations in accordance with International Financial Reporting Standards ("OMFP 2844/2016" or "IFRS-EU"). In acceptance of OMFP 2844/2016, International Financial Reporting Standards are standards adopted under the procedure provided by the European Commission Regulation no. 1606/2002 of the European Parliament and of the Council of 19 July 2002 regarding the application of the international accounting standards.

These separate financial statements were authorized for issue by the Board of Directors on 6 March 2018. The financial statements will be submitted for shareholders' approval in the general meeting scheduled on 27 April 2018.

3 Functional and presentation currency

These separate financial statements are presented in Romanian Lei (RON), which is the functional currency of the Company. All amounts are in RON, if not otherwise stated.

4 Use of judgements and estimates

In preparing these separate financial statements, the management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are prospectively recognised.

(a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the separate financial statements is included below:

Commissions

Company assesses its revenue arrangements based on specific criteria to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. If the Company acts in the capacity of an agent rather than as the principal in a transaction, then the recognised revenue is the net amount of commission earned by the Company.

(b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that may result in a material adjustment in the subsequent twelve-month period is included in the following notes:

- Note 6 h) and i) – estimates regarding the useful lives of property, plant and equipment and of intangible assets;

- Notes 16 and 27 – assumptions and estimates about the recoverability of trade receivables;
- Note 20 - assumptions regarding the revalued amount of property, plant and equipment;
- Note 22 – assumptions and estimates regarding the valuation of shareholdings in the subsidiaries;
- Note 15 – recognition of deferred tax assets: availability of future taxable profit against which tax loss carried forward can be used;
- Notes 26 and 29 – recognition and measurement of provisions and contingencies;
- Note 13 – measurement of defined benefit obligations and other long-term employee benefits: key actuarial assumptions;
- Note 20 – determining whether an agreement contains a lease.

Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in the fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability are categorised into different levels of the fair value hierarchy, then the fair value measurement is entirety categorised on the level of the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions used in measuring fair values is included in Note 20: Property, plant and equipment.

5 Basis of measurement

The separate financial statements have been prepared on the historical cost basis, except for the land and buildings, which are measured based on revaluation model.

6 Significant accounting policies

The Company has consistently applied the following accounting policies to all periods presented in these separate financial statements.

(a) Revenue

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the company and the amount of the revenue can be reliably measured. Revenue is recognized at the fair value of the services rendered or goods delivered, net of VAT, excises or other taxes related to the sale.

Rendering of services

Revenues related to services rendered are recognised in the period in which the services were rendered based on the statements of work performed, regardless of when paid or received, in accordance with the accrual accounting principle.

Sales of goods

Revenues from sale of goods are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

(b) Commissions

Company assesses its revenue arrangements based on specific criteria to determine if it is acting as principal or agent. If the Company acts in the capacity of an agent rather than as the principal in a transaction, then the recognised revenue is the net amount of commission earned by the Company.

(c) Finance income and finance costs

The Company's finance income and finance costs include:

- interest income;
- interest expense;
- dividend income;
- the foreign currency gain or loss on financial assets and financial liabilities;
- impairment losses recognised on financial assets (other than trade receivables),

Interest income or expense is recognised using the effective interest method.

(d) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date, as communicated by the National Bank of Romania. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated to the functional currency.

(e) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present, legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be reliably estimated.

(ii) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) Defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, updating that amount at the present value.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method.

Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in other comprehensive income. The Company determines the net interest expense (income) on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, considering any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Company recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iv) Other long-term employee benefits

The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Re-measurements are recognised in profit or loss in the period in which they arise.

(v) Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(f) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except for the items recognised directly in equity or in other comprehensive income, in which case it will be recognized directly in equity or in other comprehensive income.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences arising from the initial recognition of assets and liabilities resulting from transactions that are not business combinations and that affect neither accounting nor taxable profit or loss;
- temporary differences resulting from investments in subsidiaries, associates and jointly controlled entities, to the extent that the Company can exercise control over the reversal period of the temporary differences and it is probable that they will not be reversed in the foreseeable future.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences only to the extent that it is probable that future taxable profits will be available to be used for covering them. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured based on the tax rates that are expected to be applicable to temporary differences when they are reversed, using tax rates enacted or substantively enacted at the reporting date.

The measurement of the deferred tax reflects the tax consequences that would follow from the manner in which the Company expects to recover or settle the carrying amount of its assets and liabilities at the reporting date.

Deferred tax assets and liabilities are offset only if certain criteria are met.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it is probable that the future taxable profits will be available against which they can be used.

(g) Inventories

Inventories consist mainly of consumables and other materials.

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of the business, minus the estimated costs of completion and the estimated costs necessary to perform the sale.

The cost of inventories is based on the weighted average cost method. The cost of inventories includes all the acquisition costs and other expenses related to bringing the inventories to their current place and condition.

(h) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are stated initially at cost, which includes purchase price and other costs directly attributable to acquisition and bringing the asset to the location and condition necessary for their intended use. After initial recognition, land and buildings are measured at revalued amounts less any accumulated depreciation and any accumulated impairment losses since the most recent valuation.

The Company used the fair value as deemed cost for the tangible assets for the opening of the financial position.

Revaluations are performed with sufficient regularity to ensure that the carrying amount does not materially differ from the one which would be determined using the fair value at the end of the reporting period.

When a building is revalued, the accumulated depreciation is eliminated against the gross carrying amount of that item, and the net amount is restated to the revalued amount of the asset.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Spare parts, stand-by and servicing equipment are classified as property, plant and equipment if they are expected to be used during more than one period or can be used only in connection with an item of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land and other non-current assets in progress are not depreciated.

The estimated useful lives of property, plant and equipment are as follows:

Category	**Useful lives**
Buildings	40-60 years
Equipment	4-12 (average 7 years)
Vehicles, furniture and office equipment	3-10 (average 7 years)

The depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(i) Intangible assets

(i) Recognition and measurement

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(iii) Amortization

Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit or loss.

The estimated useful lives of software and licenses are 3-5 years.

The amortisation method, the useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(j) Assets held for distribution

Non-current assets or groups to be disposed comprising assets and liabilities are classified as held-for-distribution if it is highly probable that they will be recovered primarily through distribution rather than through continuing use.

Such assets, or groups to be disposed, are measured at the lower of their carrying amount and fair value less costs of distribution. Impairment losses and subsequent gains and losses on re-measurement are recognised in profit or loss in case they refer to an asset that is initially classified as held-for-distribution.

(k) Financial instruments

The Company classifies non-derivative financial assets into the following categories: loans and receivables, investments held to maturity and available-for-sale financial assets.

The Company classifies non-derivative financial liabilities into the other financial liabilities category.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Company initially recognizes loans and receivables on the date when they are originated. Financial liabilities are initially recognized on the trade date, which is the date the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expired.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Non-derivative financial assets – measurement

Loans and receivables

These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

Loans and receivables comprise trade receivables, cash and cash equivalents and deposits, treasury bills and government bonds.

Trade receivables

Trade receivables include mainly unsettled invoices issued until the reporting date for the balancing electricity market settlements, late payment penalties and accrued revenue for the balancing electricity market settlements until the end of the year, but invoiced after the end of the year. Trade receivables include also invoices issued or to be issued to the subsidiaries for the rendered services.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits and deposits with maturities of three months or less from the transaction date that are subject to an insignificant risk of changes in their fair value, that are used by the Company in the management of its short-term commitments.

Held-to-maturity investments

Held-to-maturity financial assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale. Available-for-sale financial assets are initially recognized at fair value plus any directly attributable transaction costs.

After the initial recognition, they are measured at cost minus any impairment losses.

Financial assets available-for-sale for which there is no active market and it is not possible to reliably determine the fair value, are measured at cost and periodically tested for impairment.

Financial assets available-for-sale include investments in subsidiaries and investments in associates.

(iii) Non-derivative financial liabilities – measurement

Non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities include bank loans, bank overdrafts and trade payables.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents in the statement of cash flows.

(iv) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognized as a deduction from equity.

Repurchase and reissue of ordinary shares (treasury shares)

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified and presented in the treasury share reserve. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is presented within share premium.

(l) Impairment

(i) Non-derivative financial assets

Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Company on terms that the Company would not otherwise accept;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security; or
- observable data indicating that there is a measurable decrease in expected cash flows for a group of financial assets.

Financial assets measured at amortised cost

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All the assets that are individually significant are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred, but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and are reflected in an allowance account. The amounts are written off after the legal proceedings regarding the bankruptcy or liquidation of the customer are completed. If the amount of impairment loss subsequently decreases and the decrease can be objectively related to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss.

(ii) Non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units ("CGUs").

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss, except for the property, plant and equipment measured at the revalued amount, in which case the impairment loss is recognised in other comprehensive income and decreases the revaluation reserve within equity to the extent that it reverses a previous revaluation surplus related to the same asset.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

A reversal of an impairment loss other than on revalued assets is recognised in profit or loss. A reversal of an impairment loss on a revalued asset is recognized in profit or loss to the extent that it reverses an impairment loss on the same asset that was previously recognized as an expense in profit or loss. Any additional increase in the carrying amount of the asset is treated as a revaluation increase.

(m) Revaluation reserves

The difference between the revalued amount and the net carrying amount of property, plant and equipment is recognized as revaluation reserve included in equity.

If an asset's carrying amount is increased as a result of a revaluation, the increase is recognized and accumulated in equity under the heading of revaluation reserve. However, the increase is recognized in profit and loss to the extent that it reverses a revaluation decrease of the same amount of the asset previously recognised in profit and loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in profit or loss, However, the decrease is recognized in equity in revaluation reserves if there is any credit balance existing in the revaluation reserve in respect of that asset.

The revaluation reserve is transferred to retained earnings in an amount corresponding to the use of the asset (as the asset is depreciated) and upon disposal of the asset.

(n) Dividends

Dividends are recognized as a deduction from equity in the period in which their distribution is approved and recognized as a liability to the extent it is unpaid at the reporting date. Dividends are disclosed in the notes to financial statements when their distribution is proposed after the reporting date and before the date of the issuance of the financial statements.

(o) Capital contributions in kind from shareholders

These contributions from a shareholder (the Romanian State) represent pre-paid contributions of land for which the Company obtained title deeds in respect of future issuance of shares. The amounts recorded are based on the fair value of the land.

(p) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. No provisions are provided for future operating losses.

(q) Contingent assets and liabilities

A contingent liability is:

(a) a potential obligation arising as a result of previous events and whose existence will be confirmed only by the occurrence or the non-occurrence of one or more uncertain future events, which are not fully controlled by the Company; or

(b) a current obligation arising as a result of previous events, but which is not recognized because:

i. it is unlikely that outputs of resources incorporating economic benefits to be required for the settlement of the obligation; or

ii. the value of the obligation may not be evaluated credibly enough.

Contingent liabilities are not recognized in the financial statements of the Company. They are presented in case the output of resources incorporating economic benefits is possible and not probable.

A contingent asset is a potential asset that appears as a result of previous events and whose existence will be confirmed only by the occurrence or the non-occurrence of one or more uncertain future events, which are not fully controlled by the Company.

A contingent asset is not recognized in the financial statements of the Company, but it is shown when an input of economic benefits is likely to arise.

(r) Leases

(i) Determining whether an arrangement contains a lease

At inception of an arrangement, the Company determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Company separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes that, for a finance lease, it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Company's incremental borrowing rate.

(ii) Leased assets

Assets held by the Company under leases that transfer substantially all the risks and rewards of ownership to the Company are classified as finance leases. The leased assets and finance lease liability are initially measured at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Company's separate statement of financial position.

(iii) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iv) Rent income

Rental income from property, plant and equipment other than property investment is recognised as other income. Rental income is recognised on a straight-line basis over the term of the lease.

(s) Subsequent events

Events occurring after the reporting date, which provide additional information about conditions prevailing at the reporting date (adjusting events) are reflected in the separate financial statements. Events occurring after the reporting date that provide information on events that occurred after the reporting date (non-adjusting events), when material, are disclosed in the notes to the separate financial statements. When the going concern assumption is no longer appropriate at or after the reporting period, the financial statements are not prepared on a going concern basis.

7 New standards and interpretations not yet adopted

A number of standards were adopted by the EU but are not yet mandatorily effective for the year ending 31 December 2017 and have not been applied in preparing these separate financial statements:

- IFRS 9 "*Financial Instruments*". IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Company started to apply IFRS 9 on 1 January 2018. The Company concluded that the new requirements, if applied at 31 December 2017, would not had a material impact on its financial statements.

- IFRS 15 *"Revenues from contracts with customers".* IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Company started to apply IFRS 15 on 1 January 2018.

  Rendering of services

  The Company concluded that no significant differences occurred in the timing of revenue recognition or the net impact on the result for the year.

  Transition

  The company adopted IFRS 15 at 1 January 2018, using the retrospective approach. As a result, the company will apply all of the requirements of IFRS 15 to each comparative period presented.
- IFRS 16 "Leases". IFRS 16 is effective for annual periods beginning on or after 1 January 2019. IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases. Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals. Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained. The Company is currently performing the detailed assessment of the impact resulting from the application of IFRS 16.

- A number of interpretations were not yet adopted by the EU. Relevant to the company is IFRIC 23 *"Uncertainty over Income Tax Treatments".* IFRIC 23 applies for annual periods beginning on or after 1 January 2019. Earlier adoption is permitted. IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. It is sometimes unclear how tax law applies to a particular transaction or circumstance, which may cast uncertainty about a tax treatment adopted in the tax return. Under IFRIC 23, the key test is whether it's probable that the tax authority will accept the company's chosen tax treatment. Tax obligations recognized in the financial statements may be equal to the related tax return or not, depending on the probability that the tax treatment applied by the entity will be accepted by the tax authorities. The uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty – either the most likely amount or the expected value. The Interpretation also requires companies to reassess the judgements and estimates applied if facts and circumstances change - i.e. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires. IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about: judgements made, assumptions and other estimates used and the potential impact of uncertainties that are not reflected.

8 Revenue

	2017	2016
Supply energy in balancing market and day-ahead-market	480,606,931	357,705,156
Revenues from services contracts with the subsidiaries related to the Automatic Meter Reading System (Note 20)	1,308,045	4,683,036
Total	**481,914,976**	**362,388,192**

9 Other operating revenues and expenses

(a) Other operating revenues

Other income mainly includes rent revenue and late payment penalties from customers.

(b) Purchased electricity

Purchased electricity includes the cost of electricity purchased for settlements on balancing market and day-ahead-market.

(c) Other operating expenses

	2017	2016
Rent	70,157	17,088
Repair and maintenance expenses	1,388,559	1,466,533
IT services	913,077	494,340
Postage and telecommunication	3,401,871	3,354,655
Penalties for late payment and other payments to the State	3,118,568	62,417,320
Commercial penalties	25,809,035	-
Other taxes and duties	589,123	626,058
Legal and consultancy fees	4,413,232	3,818,706
Bank commissions	54,818	254,051
Other	8,370,186	8,588,420
Total	**48,128,627**	**81,037,171**

"Penalties for late payment and other payment to the State" in 2016 includes an amount of RON 58,126,604 in connection with disputes with the National Agency for Fiscal Administration "NAFA", for several claims related to a prior fiscal inspection reports.

In 2010, the Company was sued by Termoelectrica S.A., claiming the payment of penalties related to certain invoices, for the period 1 April 2007 – 31 March 2008. The first ruling in this case was favorable to Electrica SA. In November 2016, the Court of Appeal admitted the appeal of Termoelectrica S.A., cancelled the decision of the first instance court and admitted Termoelectrica S.A.'s request for penalties to be paid by the Company. In 2017, Electrica SA filed an appeal against the request of enforcement, but the court definitively admits the case and forces Electrica to the payment of the amount of RON 25,047,458 and to the payment of the court charges amounting RON 761,577. Therefore the amount of RON 25,809,035 „Commercial penalties" in 2017 refers only to penalties and court charges related to Termoelectrica dispute. These amounts are presented in "Commercial penalties" in the table above.

10 Net finance income

	2017	2016
Interest income	17,033,022	14,784,494
Dividends income	347,341,425	374,838,510
Other finance income	420,529	59,642
Total finance income	**364,794,976**	**389,682,646**
Interest expense	-	(1,677)
Interest cost for employee benefits (Note 13)	(61,655)	(56,739)
Foreign exchange losses	(408,765)	(1,680,309)
Total finance costs	**(470,420)**	**(1,738,725)**
Net finance income	**364,324,556**	**387,943,921**

In 2017, the Company received a total amount of RON 302,341,438 out of the total revenue of RON 347,341,425 as dividends from its subsidiaries (2016: RON 374,838,510).

The average interest rate for deposits, treasury bills and government bonds with original maturity of three months increased from 0.63% in 2016 to 0.78% in 2017.

11 Earnings per share

The calculation of basic and diluted earnings per share is based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding:

Profit attributable to ordinary shareholders

	2017	2016
Profit for the year attributable to the owners of the Company	258,163,915	265,026,109
Profit attributable to ordinary shareholders	**258,163,915**	**265,026,109**

Weighted-average number of ordinary shares (in number of shares)

	2017	2016
Issued ordinary shares at 1 January	339,049,336	339,049,336
Weighted-average number of ordinary shares at 31 December	**339,049,336**	**339,049,336**

For the calculation of basic and diluted earnings per share, the own shares repurchased by the Company (6,890,593 shares) were not treated as outstanding shares and are deducted from the total number of issued ordinary shares.

	2017	2016
Earnings per share		
Basic and diluted earnings per share (RON)	**0.76**	**0.78**

12 Short-term employee benefits

	31 December 2017	31 December 2016
Personnel payables	3,072,740	1,891,629
Current portion of defined benefit liability and other long-term employee benefits	166,862	178,350
Social security charges	1,344,025	680,514
Tax on salaries	474,024	287,474
Total	**5,057,651**	**3,037,967**

Details related to employee benefit expenses are presented in Note 13.

In Romania, all employers and employees, as well as other persons, are contributors to the state social security system. The social security system covers state pensions, child benefit, temporary incapacity for work situations, risks of work accidents and professional diseases and other social assistance services, redundancy payments and incentives granted to employers to creating new jobs.

13 Post-employment and other long-term employee benefits

In accordance with Government Decisions no. 1041/2003 and no. 1461/2003, the Company provides benefits in kind in the form of free of charge electricity to retired employees of the Company.

The Company also provides cash benefits to employees depending on seniority and years of service at retirement.

The post-employment and other long-term employee benefits are stipulated also in the Collective Labor Contract.

In 2017 and 2016, employee benefit obligations were computed by independent actuary using the projected unit credit method with benefits calculated proportionally to the period of service.

	31 December 2017	31 December 2016
Defined benefit liability	898,884	976,762
Other long-term employee benefits	856,545	782,177
Total	**1,755,429**	**1,758,939**
- Current portion*	166,862	178,350
- Non-current portion	1,588,567	1,580,589

**included in Personnel payables in Note 12*

(i) Movement in the defined benefit liability and other long-term employee benefits

The following tables shows a reconciliation between the opening balances and the closing balances of the defined benefit liability and other long-term employee benefits and their components. There are no plan assets.

Defined benefit liability	**2017**	**2016**
Balance at 1 January	**976,762**	**1,043,453**
Included in profit or loss		
Current service cost	28,971	32,481
Interest (income) / cost	34,933	30,491
	63,904	**62,972**
Included in other comprehensive income		
Re-measurements loss (gain)		
- Actuarial loss / (gain)	(55,286)	(100,114)
Other		
Benefits paid	(86,496)	(29,549)
Balance at 31 December	**898,884**	**976,762**

Other long-term employee benefits	**2017**	**2016**
Balance at 1 January	**782,177**	**1,096,717**
Included in profit or loss		
Current service cost	32,895	33,852
Actuarial gain/ (loss)	111,081	(279,897)
Interest cost	26,722	26,248
Benefits paid	(96,330)	(94,743)
Balance at 31 December	**856,545**	**782,177**

(ii) Actuarial assumptions

The following are the main actuarial assumptions at the respective reporting date:

(a) *Macroeconomic assumptions*:

- Inflation. The actuary used the Consumer Price Index (CPI) published by the National Forecast Commission:

Year	Valuation date 31 December 2017	Valuation date 31 December 2016
2017	-	2.3%
2018	2.6%	2.3%
2019	2.2%	2.3%
2020	2%	2.2%
2021+	1.8%	2%

- the discount rate used was the yield for Romanian government bonds maturing in 10 years at the reporting date, 4.5% for the year 2017 (2016: 3.63%);
- the electricity price per KWh used in the actuarial computation is 0.4372 RON at 31 December 2017 (2016: 0.4576 RON/ KWh);
- the mortality rate published by the National Institute of Statistics was adjusted to allow for an anticipated decrease in mortality rates;
- taxes and social charges are those in force as at the reporting date, but also considering the foreseen changes starting January 1st, 2018.

(b) Company specific assumptions:

- Gross salaries' growth rate for 2018 is 19.9%. Starting January 1st 2018, as a result of Government Emergency Ordinance No. 79 updating the Fiscal Code, some social security contributions were transferred from the employer to the employee; the Company has adopted measures aimed at preserving the net salaries of the employees, which required increases of 19,9% of the gross salaries, as an effect of contributions transfer For the years 2019 and 2020, the assumed salary increases correspond to the inflation forecast by the National Forecasting Commission. Starting 2021, salaries' growth is forecast at 1.8% per year;
- Employees' turnover: turnover rate for 2018 was estimated at 18.75% and for the following years the historical rate for 2013-2017, with an average value of 6.78%, was considered;
- Jubilee and retirement bonuses granted based on seniority as per the collective labour contract, as follows:

Jubilee bonuses based on years of service

Seniority	No. of gross monthly base salaries	
	31 December 2017	31 December 2016
20 years	0.8	0.8
30 years	1.6	1.6
35 years	2.4	2.4
40 years	3.2	3.2
45 years	4	4

Retirement bonuses based on years of service in the Company

	No. of gross monthly base salaries	
Seniority	**31 December 2017**	**31 December 2016**
Between 8 and 10 years	1	1
Between 10 and 25 years	2	2
More than 25 years	3	3

In case the conditions related to years of service are met, the Company offers as benefit free of charge electricity in quantity of 1,200 kWh per year to retired employees of the Company. In the event of pensioner's death, husband/wife is entitled to receive the same benefit until he/she will marry again or dies.

a. Termination benefits for individual lay-offs at the Company's initiative

In accordance with the Collective labour contract concluded between the Company and the Unions, when individual labour contract are terminated at the Company's initiative, the Company will pay termination benefits to the employees depending on their period of service, as follows:

Seniority	No. of gross monthly base salaries
1 - 5 years	4
5 - 10 years	6
10 - 20 years	7
More than 20 years	10

b. Termination benefits for collective lay-offs at the Company's initiative

For collective lay-offs, per the Collective labour contract, the Company will pay termination benefits to the employees depending on their period of service, as follows:

Seniority	No. of gross monthly base salaries
1 - 3 years	3
3 - 5 years	6
5 - 10 years	7
10 - 20 years	11
More than 20 years	16

The above-mentioned stipulations do not apply to employees with individual labour contract concluded for a determined period. The above provisions do not apply to employees that obtained other higher cumulative salary compensation rights, provided by legal regulations regarding the Company's reorganization and restructuring. Employees who are re-employed within the Group after layoff are not entitled to the above-mentioned benefits.

The financial statements do not include any provision for liabilities relating to compensation payments because there is no present obligation in this regard.

c. Termination benefits for voluntary redundancies

According to the Collective labour contract from 13 August 2015 and to the Addendum on 1 October 2015, signed by the Company and the Union, in case the individual labour contract is terminated as voluntary redundancy of the employee, the Company will make severance payment depending on the employee's remaining period to reach the standard retirement age, his period of service in the Company and his seniority. The number of gross monthly base salaries paid as termination benefits vary between 4 and 18.

14 Employee benefit expenses

	2017	2016
Average number of employees	137	130
Number of employees at 31 December	155	142

	2017	2016
Wages and salaries	20,128,179	16,631,440
Social security contributions	2,456,832	3,605,695
Meal tickets	347,992	266,704
Termination benefit including social security contributions	2,915,471	-
Total	**25,848,474**	**20,503,839**

The termination benefits represent compensation payments in case of employees' voluntary departure (see Note 13 c) as well as management compensation in case of mandate contracts termination.

Management remuneration is presented within Note 28 – Related parties.

15 Income tax

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. The Company considers that the accounting records for taxes due are adequate for all open fiscal years, based on assessment made by management taking into account various factors, including the interpretation of tax legislation and previous experience. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the income tax expense in the period that such a determination is made.

(i) Amounts recognised in profit or loss

	2017	2016
Deferred tax expense/(benefit)	(2,996,195)	7,233,616
Total expense/(benefit) related to income tax	**(2,996,195)**	**7,233,616**

(ii) Amounts recognised in other comprehensive income

	2017			2016		
	Before Tax	Fiscal benefit (expense)	Net of tax	Before tax	Fiscal benefit (expense)	Net of tax
Revaluation of property, plant and equipment	18,624,202	(2,979,872)	15,644,330	-	-	-

Re-measurement of defined benefit liability	55,286	(16,323)	38,963	100,114	(16,018)	84,096
Total	**18,679,488**	**(2,996,195)**	**15,683,293**	**100,114**	**(16,018)**	**84,096**

(iii) Reconciliation of effective tax rate

		2017		2016
Profit before tax		**255,167,720**		**272,259,725**
Tax using Company's domestic tax rate	**16%**	**40,826,835**	**16 %**	**43,561,556**
Non-deductible expenses	2%	6,084,115	3%	8,639,798
Non-taxable income	-19%	(56,128,328)	-20%	(59,974,162)
Current-year tax losses for which no deferred tax asset is recognised	3%	9,188,882	3%	7,718,132
Deferred tax asset derecognised	0%	-	2%	7,229,222
Other tax effects	0%	(15,011)	0%	59,070
Recognition of tax effect of previously unrecognised tax losses	-1%	(2,952,687)	0%	-
Income tax – expense/(income)	**-1%**	**(2,996,195)**	**2%**	**7,233,616**

Non-taxable income represents dividend income in amount of RON 347,341,425 (2015: RON 374,838,510).

(iv) Movement in deferred tax balances

				Balance at 31 December 2017		
2017	**Net balance at 1 January 2017**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Deferred tax assets, net**	**Deferred tax assets**	**Deferred tax liabilities**
Property, plant and equipment	2,743,234	(37,225)	2,979,872	5,685,881	-	5,685,881
Employee benefits	(200,185)	(6,283)	16,323	(190,145)	(190,145)	-
Tax loss carried forward	(2,543,049)	(2,952,687)	-	(5,495,736)	(5,495,736)	-
Tax liabilities (assets) before set-off					**(5,685,881)**	**5,685,881**

				Balance at 31 December 2016		
2016	**Net balance at 1 January 2016**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Deferred tax assets, net**	**Deferred tax assets**	**Deferred tax liabilities**
Property, plant and equipment	2,783,522	(40,288)	-	2,743,234	-	2,743,234
Employee benefits	(260,885)	44,682	16,018	(200,185)	(200,185)	-
Tax loss carried forward	(9,772,271)	7,229,222	-	(2,543,049)	(2,543,049)	
Tax liabilities (assets) before set-off	**-**	**-**	**-**	**-**	**(2,743,234)**	**2,743,234**

(v) Unrecognised deferred tax assets

The Company had not recognized deferred tax assets in respect of the 2017 and 2016 tax losses as it is not probable that future taxable profit will be available against which the Company can use the benefits therefrom.

Tax losses for which no deferred tax assets were recognised expire as follows:

	Tax losses	
Year when the tax loss was generated:	**2017**	**2016**
2017 (expiring in 2024)	57,430,509	-
2016 (expiring in 2023)	43,737,200	48,238,325
2015 (expiring in 2022)	-	13,953,169
Total	**101,167,709**	**62,191,494**

16 Trade receivables

	31 December 2017	**31 December 2016**
Trade receivables, gross	804,784,418	774,555,334
Bad debt allowance	(725,483,552)	(710,480,561)
Total trade receivables, net	**79,300,866**	**64,074,773**

Receivables from related parties are presented in Note 28.

Trade receivables, gross, comprise:

	31 December 2017	**31 December 2016**
Electricity supply on the balancing market	78,981,527	80,757,358
Electricity receivables from clients in litigation, insolvency and bankruptcy (mainly Oltchim SA, Transenergo)	633,141,146	601,372,888

Late payment penalties from clients in litigation, insolvency and bankruptcy (Oltchim SA)	88,968,313	88,968,313
Other	3,693,432	3,456,775
Total trade receivables, gross	**804,784,418**	**774,555,334**

The reconciliation between the opening balances and the closing balances of the impairment for trade receivables is as follows:

Bad debt allowance	**2017**	**2016**
Balance as at 1 January	**710,480,561**	**667,736,915**
Impairment recognized	19,583,229	42,847,186
Impairment used	(129,989)	-
Impairment reversed	(4,450,249)	(103,540)
Balance as at 31 December	**725,483,552**	**710,480,561**

The aging of trade receivables is presented in Note 27.

Oltchim SA (a state-controlled company) was a significant customer of the Company until January 2012, when the Company has transferred the contract with Oltchim to Electrica Furnizare SA. In January 2013 Oltchim became insolvent. Due to uncertainties regarding the recoverability of amounts owed by this customer, the Company recognized impairment for trade receivables to the total amount of receivables. The procedure is ongoing, the Company being registered in the creditors' table.

The adjustments recognized during 2016 comprise the amount of RON 31,561,656 refering to receivables from Transenergo Com S.A., trader of energy whose financial situation has deteriorated as a result of the recent changes in prices on the spot market of electricity. Electrica SA has initiated the procedure of enforcement against Transenergo Com S.A. due to non-collection of receivables starting from September 2016. On 1 February 2017, the procedure of insolvency of Transenergo Com S.A. has been initiated. The outstanding balance of the receivables at the gross value from Transenergo Com S.A. as at 31 December 2016 is RON 35,561,656. Electrica SA is the beneficiary of an insurance policy for an amount of RON 4,000,000. The management estimates that the degree of recovery of the uninsured debt is reduced and consequently impairments were recognized.

The adjustments recognized during 2017 comprise the amount of RON 11,218,320 referring to receivables from Fidelis Energy, RON 2,093,785 RON from Electra Management Supply and an additional impairment in amount of RON 5,367,044 RON from Transenergo Com S.A, companies that have entered into insolvency in the context of unfavourable developments in the energy market.

The adjustment of RON 4,450,249 was reversed due to the collection of receivable from CEZ Romania.

17 Deposits, treasury bills and government bonds

	31 December 2017	31 December 2016
Treasury bills and government bonds denominated in RON with original maturity of more than three months	462,738,382	1,757,746,279
Deposits with maturity of more than three months	284,241,735	109,369,081
Total deposits, treasury bills and government bonds	**746,980,117**	**1,867,115,360**

Deposits, treasury bills and government bonds with original maturity of more than three months have an average interest rate (yield) of 0.78% (2016: 0.63%) at the following banks: Citibank Europe PLC Dublin, Raiffeisen Bank, BRD-GSG, Marfin Bank, ING Bank. The treasury bills and government bonds are classified as investments held-to-maturity.

18 Other receivables

	31 December 2017	31 December 2016
Dividends to be cashed	44,999,987	-
Other receivables	19,995,259	22,536,204
Bad debt allowance	(10,055,550)	(9,938,335)
Total other receivables, net	**54,939,696**	**12,597,869**

The reconciliation between the opening balances and the closing balances of the impairment for other receivables is as follows:

Bad debt allowance	**2017**	**2016**
Balance as at 1 January	**9,938,335**	**14,290,005**
Impairment recognized	170,722	-
Impairment used	(53,507)	-
Impairment reversed	-	(4,351,670)
Balance as at 31 December	**10,055,550**	**9,938,335**

19 Cash and cash equivalents

	31 December 2017	31 December 2016
Bank current accounts	3,452,999	3,825,171
Call deposits	122,529,922	193,787,807
Cash in hand	-	31,040
Total cash and cash equivalents in the individual statement of financial position and in the individual statement of cash flow	**125,982,921**	**197,644,018**

The following information is relevant in the context of the statement of cash-flows:

Non-cash activity includes:

- Compensations between trade receivables and trade payables, especially related to the Company's subsidiaries of RON 22,959,630 in 2017 (2016: RON 28,150,567).

On 17 October 2016, Societatea de Distributie a Energiei Electrice Muntenia Nord SA, Societatea de Distributie a Energiei Electrice Transilvania Nord SA and Societatea de Distributie a Energiei Electrice Transilvania Sud SA have concluded credit agreements with BRD – Groupe Societe Generale, in which the Company is guarantor. The contracts relate to facilities for non-revolving term loans, with maturity on 15 October 2021. The total amount of the loan is RON 320 million.

On 31 December 2017, the Company has guarantees as collateral deposits at BRD – Groupe Societe Generale for the withdrawls made by the Societatea de Distributie a Energiei Electrice Transilvania Sud SA and Societatea de Distributie a Energiei Electrice Transilvania Nord SA.

The amount of such collateral deposits at 31 December 2017 is RON 320,000,000 (2016: RON 134,491,752). The company has classified these deposits as restricted cash.

Cash flow restatement for the year 2016

The Company reclassified in the cash flow statement for the year 2016 the changes in restricted cash from operating activities to investing activities, as the restricted cash represents collateral deposits for guaranteeing the long term bank loans contracted by subsidiaries.

20 Property, plant and equipment

The movements in property, plant and equipment in 2017 and 2016 were as follows:

	Land and land improvement	**Buildings**	**Equipment**	**Vehicles, furniture and office equipment**	**Construction in progress**	**Total**
Gross carrying amount						
Balance at 1 January 2016	**75,257,195**	**16,758,572**	**236,451,458**	**732,677**	**35,556,074**	**364,755,976**
Additions	2,282,500	-	966,948	157,526	1,313,754	4,720,728
Disposals	-	-	-	-	-	-
Balance at 31 December 2016	**77,539,695**	**16,758,572**	**237,418,406**	**890,203**	**36,869,828**	**369,476,704**
Additions	-	-	705,063	281,231	8,434	994,728
Transfer from construction in progress	-	2,115,609	290,610	-	(2,406,219)	-
Disposals	-	-	(9,302)	-	-	(9,302)
Revaluation recognized in other comprehensive income, net	15,726,574	2,897,628	-	-	-	18,624,202
Revaluation recognized in profit or loss, net	(1,906,585)		-	-	-	(1,906,585)

	Land and land improvement	Buildings	Equipment	Vehicles, furniture and office equipment	Construction in progress	Total
Gross book value netted off against the accumulated depreciation at revaluation	-	(710,071)	-	-	-	(710,071)
Balance at 31 December 2017	**91,359,684**	**21,061,738**	**238,404,777**	**1,171,434**	**34,472,043**	**386,469,676**
Accumulated depreciation and impairment losses						
Balance at 1 January 2016	**-**	**248,809**	**57,958,721**	**707,456**	**12,465,531**	**71,380,516**
Depreciation	-	230,240	22,847,888	9,645	-	23,087,773
Balance at 31 December 2016	**-**	**479,049**	**80,806,609**	**717,101**	**12,465,531**	**94,468,289**
Depreciation	-	245,137	21,783,985	20,612	-	22,049,734
Accumulated depreciation of disposals	-	-	(5,580)	-	-	(5,580)
Gross book value netted off against the accumulated depreciation at revaluation	-	(710,071)	-	-	-	(710,071)
Balance at 31 December 2017	**-**	**14,115**	**102,585,014**	**737,713**	**12,465,531**	**115,802,372**
Net carrying amounts						
At 1 January 2016	**75,257,195**	**16,509,763**	**178,492,737**	**25,221**	**23,090,543**	**293,375,460**
At 31 December 2016	**77,539,695**	**16,279,523**	**156,611,797**	**173,102**	**24,404,297**	**275,008,415**
At 31 December 2017	**91,359,684**	**21,047,623**	**135,819,763**	**433,721**	**22,006,512**	**270,667,303**

On 31 December 2017, the buildings and lands include the administrative office of the Company and the corresponding land and the lands over which the Company has obtained title deeds, which will be used as capital injection for subsidiaries. The administrative headquarter has a net book value of RON 20,907,142 (2016: RON 16,134,462) while the related land has a carrying value of RON 13,076,050 as at 31 December 2017 (2016: RON 13,410,443).

Land and buildings were revalued by an independent appraiser as of 31 December 2017, the results being a net increase of the revaluation reserve in amount of RON 18,624,201 and a net impact of RON 1,906,585 in the profit and loss account.

Equipment and tangible assets in progress mainly include costs related to the implementation of the AMR system (Automatic Meter Reading) for electricity measuring and dispatch activity of the entire Group. On 31 December 2017, the net capitalized amount regarding the AMR system is RON 155,183,940 (2016: RON 176,159,847), out of which a part is recognized as tangible asset in progress amounting to RON 21,942,902 as at 31 December 2017 (2016: RON 21,942,902). During 2017, an evaluation of the entire AMR system was performed by a third party independent evaluator in order for the distribution subsidiaries to take over the AMR system. As a result of ANRE refusal to endorse the transfer of AMR system from Electrica SA to distribution subsidiaries with the subsequent recognition into Regulated Assets Base, the transfer could not be implemented. In connection with the AMR system, the Company had service agreements with the distribution subsidiaries in 2017 until March 2017. The main services provided refer to obtaining in real time from measuring groups by the distribution subsidiaries of accurate data with increased frequency within Electrica Group, using remote reading systems, property of the Company located in the consumption points, respectively in distribution subsidiaries grid within Electrica Group. Currently, Electrica SA and each distribution subsidiary in the Group are negotiating the conclusion of new agreements for services to be provided through AMR system.

The Company assessed whether the arrangement contains a lease and determined that does not contain a lease, as the distribution subsidiaries have no right to use the specific assets, according to the contractual provisions.

Measurement of fair value

The following table shows the valuation techniques used in measuring fair values (Level 3) for the revaluation of land and buildings, as well as the significant unobservable inputs used.

Category	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Land	*Market approach* The fair value is estimated based on selling price per square meter of land of similar characteristics (i,e, ownership, legal limitations, location, physical properties, and best use). The market price is mainly based on the most recent transactions.	• Adjustments for liquidity, location, size	The estimated fair value would increase (decrease) if: • Adjustments for liquidity, location, size were lower (higher)
Buildings	*Discounted cash-flows (DCF) method* The valuation model based on the DCF method estimates the present value of net cash flows to be generated by a rented building taking into account occupancy rate and costs to be paid by the tenants. The discount rate estimation considers, inter alia, the	• Occupancy rates (80-90%) • Discount rates (9% on average) • Costs to be paid by tenants (average 6-7%) • Annual rent per sqm (10 EUR/sqm)	The estimated fair value would increase (decrease) if: • Occupancy rates were higher (lower) • Discount rates were lower (higher) • Costs to be paid by tenants were lower (higher)

Category	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
	quality of a building and its location.		• Annual rent per sqm was higher (lower)

21 Intangible assets

Intangible assets include mainly licenses and costs of implementation of SAP ERP, as follows:

	Software and licenses	Total
Gross carrying amount		
Balance at 1 January 2016	**4,224,821**	**4,224,821**
Additions	757,101	757,101
Balance at 31 December 2016	**4,981,922**	**4,981,922**
Additions	203,371	203,371
Balance at 31 December 2017	**5,185,293**	**5,185,293**
Accumulated depreciation and impairment losses		
Balance at 1 January 2016	**2,726,158**	**2,726,158**
Amortisation	419,054	419,054
Balance at 31 December 2016	**3,145,212**	**3,145,212**
Amortisation	1,482,123	1,482,123
Balance at 31 December 2017	**4,627,335**	**4,627,335**
Net carrying amounts		
At 1 January 2016	**1,498,663**	**1,498,663**
At 31 December 2016	**1,836,710**	**1,836,710**
At 31 December 2017	**557,958**	**557,958**

22 Investments in subsidiaries

The investments in subsidiaries are presented as follows:

	31 December 2017		31 December 2016	
	Gross value	**Impairment**	**Gross value**	**Impairment**
Societatea de Distributie a Energiei Electrice Muntenia Nord	532,781,496	-	322,729,680	-
Societatea de Distributie a Energiei Electrice Transilvania Nord	538,458,599	-	336,460,800	-

Societatea de Distributie a Energiei Electrice Transilvania Sud	557,157,124	-	383,398,860	-
Electrica Furnizare SA	225,019,153	-	57,695,820	-
Electrica Serv SA	445,743,000	(144,849,133)	445,743,000	(144,849,133)
Servicii Energetice Muntenia SA	29,640,430	-	29,640,430	-
Servicii Energetice Moldova SA	106,162,492	(106,162,492)	106,162,492	(106,162,492)
Servicii Energetice Oltenia SA	82,033,220	(82,033,220)	82,033,220	(82,033,220)
Total	**2,516,995,514**	**(333,044,845)**	**1,763,864,302**	**(333,044,845)**

Electrica SA also holds shares in two companies that are in bankruptcy (Servicii Energetice Banat SA and Servicii Energetice Dobrogea SA), the net value of these investments being zero. The Company has lost control over them in November 2014 and respectively in January 2015, when they have entered bankruptcy.

	Investments in the subsidiaries, net value	
	31 December 2017	**31 December 2016**
Societatea de Distributie a Energiei Electrice Muntenia Nord	532,781,496	322,729,680
Societatea de Distributie a Energiei Electrice Transilvania Nord	538,458,599	336,460,800
Societatea de Distributie a Energiei Electrice Transilvania Sud	557,157,124	383,398,860
Electrica Furnizare SA	225,019,153	57,695,820
Electrica Serv SA	300,893,867	300,893,867
Servicii Energetice Muntenia SA	29,640,430	29,640,430
Total investments in subsidiaries	**2,183,950,669**	**1,430,819,457**

The Company fully accounted for the impairment of investment in Servicii Energetice Oltenia SA, which is in reorganization process, because it is deemed to be an unrecoverable investment. The Company did not adjusted the carrying amount of the investment in Servicii Energetice Muntenia as long as this amount is deemed to be recoverable, taking into account the significant asset base of this company and the fact that its net assets have positive value.

As regard to Electrica Serv SA, the Company has recognized impairment in prior year, based on a valuation report prepared by an independent valuator and having as purpose the assessment of the recoverable value of the investment in Electrica Serv SA.

As part of the reorganization process initiated in 2017, Electrica Serv transferred its core business (electricity distribution network services) to its main customers - the electricity distribution subsidiaries of the Company. Following the transfer, the level of the Electrica Serv’s activities was significantly reduced and is currently limited to performing specialized transportation services.

As of 31 December 2017, based on the fact that Electrica Serv SA has gone through reorganization process in line with the Group's strategy for distribution segment, the management has made an assessment of the recoverability of the net book value of investment in Electrica Serv SA. To this end, the management has used a discounted cash flow model combining both the cash flows from existing and projected activities, as well as the potential of assets outside current exploitation, most of them real estate (land and buildings). Based on the findings of the model, the management concluded that neither additional impairment is required, nor there is a basis to reverse in part or in full the prior recognized impairment on Electrica Serv SA participation.

Main assumptions used for the impairment test were:

- A discounted cash flow model was prepared using a 5 years explicit forecast period;
- Main revenues streams assumed were transportation/rent of vechicles and rent of buildings
- Revenues from new business lines to be launched were also assumed in the forecast
- Sale of non-core assets were estimated, including potential sale of some buildings to group companies and thus, the value of non-core assets was added to the total value estimated based on discounted cash flow analysis
- The weighted average cost of capital assumed was 7.7%

Loans granted to subsidiaries

	Loans granted to subsidiaries	
	31 December 2017	**31 December 2016**
Societatea de Distributie a Energiei Electrice Transilvania Nord	94,367,250	-
Societatea de Distributie a Energiei Electrice Muntenia Nord	94,000,000	-
Societatea de Distributie a Energiei Electrice Transilvania Sud	49,287,241	-
Servicii Energetice Muntenia SA	8,908,739	-
Total loans granted to subsidiaries	**246,563,230**	-

In 2017, the Company has entered into loan agreements as lender with the Group's distribution subsidiaries, as follows:

- Intragroup loan agreement with Societatea de Distributie a Energiei Electrice Muntenia Nord SA executed in November 2017. Main provisions are: maximum loan amount: RON 150,000,000, Purpose of the loan: to finance the investment program of 2017, Interest rate: 0.85% per annum, Maturity: 84 months, Period allowed for disbursements: 12 months, Bullet repayment at maturity, Repayment in advance allowed. As of 31 December 2017, loan balance is RON 94,000,000;
- Intragroup loan agreement with Societatea de Distributie a Energiei Electrice Transilvania Nord SA executed in November 2017. Main provisions are: maximum loan amount: RON 200,000,000, Purpose of the loan: to finance the investment program of 2017, Interest rate: 0.85% per annum, Maturity: 84 months, Period allowed for disbursements: 12 months. As of 31 December 2017, loan balance is RON 94,367,250 ;
- Intragroup loan agreement with Societatea de Distributie a Energiei Electrice Transilvania Sud SA executed in November 2017. Main provisions are: maximum loan amount: RON 160,000,000, Purpose of the loan:

to finance the investment program of 2017, Interest rate: 0.85% per annum, Maturity: 84 months, Period allowed for disbursements: 12 months. As of 31 December 2017, loan balance is RON 49,287,241.

In August 2017, the Company has entered into an assignment agreement with FISE Electrica Serv SA, having as purpose the takevover of Electrica Serv SA receivable against Servicii Energetice Muntenia SA for a total value of RON 9,542,336. In October 2017, the Company has entered into an agreement with Servicii Energetice Muntenia SA having as object the conditions for payment of the amount of RON 9,542,336 due by Servicii Energetice Muntenia SA to the Company as well as for the set up of a mortgage over land and buildings located in Bucharest, property of the debtor in favour of the Company; the mortgage was set up in October 2017. The payment schedule agreed was as follows: RON 8,049,389 until 25 November 2017 and RON 1,492,947 until 25 August 2018. As of 31 December 2017, the outstanding balance of Electrica SA's receivable against Servicii Energetice Muntenia SA is RON 8,908,739 (out of which RON 7,415,791 is overdue); in January 2018, the overdue amount according to the schedule was cashed in.

The amounts provided by Electrica SA to group subsidiaries as loans and the amount owed by Servicii Energetice Muntenia SA as a result of the above mentioned transaction are presented together as "Loans granted to related parties", which as of 31 December 2017 is RON 246,563,320 (31 December 2016: RON 0).

23 Capital and reserves

(a) Share capital and share premium

The issued share capital in nominal terms consists of 345,939,929 ordinary shares at 31 December 2017 (345,939,929 ordinary shares at 31 December 2016) with a nominal value of RON 10 per share. Ordinary shares grant the right to dividends and one vote per share in the shareholders' meetings of the Company, except for 6,890,593 shares repurchased by the Company in July 2014 in order to stabilize the price. All shares rank equal and confer equal rights to the net assets of the Company, except for 6,890,593 shares repurchased by the Company.

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

After IPO privatization, the Company recognized an increase of share capital of RON 1,771,887,440 and a share premium of RON 171,128,062. The transaction costs of RON 68,078,885 thousand were deducted from the share premium.

Until 31 December 2003, the statutory share capital in nominal terms was restated according to IAS 29 "Financial Reporting in Hyperinflationary Economies" with a corresponding adjustment to retained earnings.

The General Meeting's of Shareholders decision no. 1/27.04.2015 approved the use of the amount known as "Inflation adjustment to share capital" having a value of RON 354,842,710 to cover the accounting loss reported according to OMFP 1286/2012 (predecessor of OMFP 2844/2016).

(b) Treasury shares

In July 2014 the Company purchased 5,206,593 ordinary shares and 421,000 Global Depositary Receipts, equivalent to 1,684,000 shares, and thus the total number of treasury shares held by the Company is

6,890,593. The total amount paid for acquiring the shares and Global Depositary Receipts was RON 75,372,435.

(c) Revaluation reserves

The reconciliation between opening and closing revaluation reserve is as follows:

	2017
Balance at 1 January	**709,974**
Revaluation of property, plant and equipment	18,624,202
Deferred tax related to revaluation	(2,979,872)
Release of revaluation reserve to retained earnings corresponding to depreciation and disposals of property, plant and equipment	(59,287)
Balance at 31 December	**16,295,016**

(d) Legal reserves

The Legal reserves are set aside as 5% of the gross profit, until the total legal reserves reach 20% of the paid-up nominal share capital of the Company, according to the legal provisions. These reserves are deductible for income tax purposes and are not distributable.

(e) Dividends

The dividends distributed by the Company in 2017 and 2016 (from the statutory profits of preceding years) were as follows:

	2017	**2016**
Distributed dividends	251,405,083	291,582,429

In 2017, the dividends per share paid to the shareholders of the Company were: RON 0,7415 per share (2016: RON 0,86 per share). When calculating the dividend per share, the Company's repurchased own shares (6,890,593 shares) were not considered as outstanding shares and are deducted from the total number of issued ordinary shares.

Out of the dividends for 2016 declared by the Company of RON 251,405,083 the dividends paid were RON 250,944,083, the remaining difference represents dividends uncollected by the shareholders as of 31 December 2017.

24 Trade payables

	31 December 2017	**31 December 2016**
Electricity suppliers	67,299,842	62,675,233
Capital expenditure suppliers	617,899	1,629,999
Other suppliers	4,477,742	3,285,801
Total	**72,395,483**	**67,591,033**

Electricity suppliers are mainly related parties, as detailed in Note 28. Other suppliers include suppliers of services, materials, consumables, etc.

25 Other payables

	31 December 2017		31 December 2016	
	Current	**Current**	**Current**	**Non-current**
Payables to the State budget	10,202,071	-	9,677,979	-
Other payables	2,734,405	-	2,038,946	-
Total	**12,936,476**	**-**	**11,716,925**	**-**

Other liabilities include mainly guarantees and sundry creditors.

26 Provisions

	Litigations and other risks
Balance at 1 January 2017	**-**
Provisions made	24,492,880
Provisions used	-
Provisions reversed	(12,200,000)
Balance at 31 December 2017	**12,292,880**

In May 2017, after the revision of the Company's tax record, the tax authorities issued an enforcement order for additional interest and penalties of RON 39,248,000 as a result of certain tax record allocations for prior periods. The Company filed a complaint with the tax authorities against the enforcement order and also opened a legal action to suspend the enforced payment by the resolution of the above mentioned complaint. These additional interest and penalties are related to the prior enforcement orders received by the Company in the prior years of RON 73,460,000 and which were settled by enforced payments in 2016. Since there were uncertainties regarding the outcome of these legal actions, the Company recognized a provision of RON 12,200,000 which was the management best estimate as of the end of the first semester 2017.

In February 2018, the Company has obtained a favourable Supreme Court ruling in one of the litigations with tax authorities ("NAFA"), which essentially maintains into force a prior Court of Appeal decisions, which is favourable for the Company, in management's view. Based on this Court ruling and in conjunction with all other litigations with NAFA on the same historical taxes, including penalties and interest, as well as based on analysis with internal and external lawyers, the management best estimate as of 31 December 2017 is that the Company shall be able to obtain favourable Court rulings with the end result of no future cash outflows in these litigations with tax authorities. As a result, the previous recognized provision of RON 12,200,000 has been reversed in full as of 31 December 2017 and there is no provision recognized as of 31 December 2017 related to NAFA litigations.

Competition Council

On 4 January 2018, the Company received the Competition Council's decision on the investigation commenced in 2017, whereby it was found the breach of the provisions of art. 5 par. (1) of the Competition Law no. 21/1996 and art. 101 par. (1) TFEU by several companies which have sold meters and related measuring equipment for electricity in Romania, by the procedures for the award of supply contracts in the period from 27 November 2008 to 30 September 2015 and by Electrica, as a facilitator, in the period from 24 November 2010 to 30 September 2015.

The sanction applied to Electrica consists in a fine amounting to RON 10,800,984 representing 2.98% of the revenues of Electrica SA in the financial year 2016. In determining the amount of the fine, it was taken into account that (i) Electrica cooperated fully and effectively with the Competition Council during the investigation procedure, outside the scope of the leniency policy and beyond the legal duty to cooperate, and (ii) it is for the very first time when the authority retains the role of facilitator for a company organizing public procurement procedures. As of 31 December 2017, the amount of RON 10,800,984 was recognized as provision related to the Competition Council fine.

27 Financial instruments - fair values and risk management

(a) Accounting classifications and fair values

The following table shows the carrying amounts and it does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount isasonable approximation of fair value.

		Carrying amount			
31 December 2017	***Note***	**Loans and receivables**	**Held-to-maturity investments**	**Other financial liabilities**	**Total**
Financial assets not measured at fair value					
Trade receivables	16	79,300,866	-		79,300,866
Other receivables	18	9,174,583			9,174,583
Deposits, treasury bills and government bonds	17	-	746,980,117		746,980,117
Cash and cash equivalents	19	125,982,921	-		125,982,921
Restricted cash	19	320,000,000			320,000,000
Loans granted to related parties		246,563,230			246,563,230
Total		**781,021,600**	**746,980,117**		**1,528,001,717**
Financial liabilities not measured at fair value					
Trade payables	24			72,395,483	72,395,483
Total				**72,395,483**	**72,395,483**

		Carrying amount			
31 December 2016	***Note***	**Loans and receivables**	**Held-to-maturity investments**	**Other financial liabilities**	**Total**
Financial assets not measured at fair value					
Trade receivables	16	64,074,773	-		64,074,773
Other receivables	18	11,480,832	-		11,480,832
Deposits, treasury bills and government bonds	17	-	1,867,115,360		1,867,115,360
Cash and cash equivalents	19	197,644,018	-		197,644,018
Restricted cash	19	134,491,752	-		134,491,752
Total		**407,691,375**	**1,867,115,360**		**2,140,314,983**
Financial liabilities not measured at fair value					
Trade payables	24			67,591,033	67,591,033
Total				**67,591,033**	**67,591,033**

(b) Financial risk management

The Company has exposure to the following risks arising from financial instruments: credit risk, liquidity risk and market risk. These risks are further explained and detailed.

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises mainly from the Company's receivables from customers, cash and cash equivalents, bank deposits and treasury bills and government bonds.

The Company has a high credit risk mainly from State-owned companies. Until 2012, the Company had a concentration of credit risk with Oltchim SA, company that became insolvent (see Note 16). The Company has implemented policies and procedures aimed at enhancing the credit risk management.

Cash, bank deposits, treasury bills and government bonds are placed in financial institutions, which are considered to have good creditworthiness. The carrying amount of financial assets represents the maximum credit exposure.

Trade receivables

The Company establishes an allowance for impairment that represents the best estimate of incurred losses in respect of trade receivables.

Impairment

The ageing of trade receivables is as follows:

	31 December 2017		31 December 2016	
	Gross value	**Bad debt allowance**	**Gross value**	**Bad debt allowance**
Neither past due nor impaired	75,608,748	-	50,863,472	-
Past due 1-90 days	41,737	-	42,817,162	(32,097,026)
Past due 90-180 days	11,956,235	(8,305,854)	1,940,414	(1,543,044)
Past due 180-360 days	36,603,951	(36,603,951)	507,346	(507,346)
Past due 1 – 2 years	9,284,141	(9,284,141)	7,623,813	(5,530,018)
Past due 2 – 3 years	987,107	(987,107)	299,311	(299,311)
Past due more than 3 years	670,302,499	(670,302,499)	670,503,816	(670,503,816)
Total	**804,784,418**	**(725,483,552)**	**774,555,334**	**(710,480,561)**

Allowances for impairment are referring mainly to Oltchim SA (RON 658,779,545), Transenergo Com S.A. (RON 37,235,400) and to Fidelis Energy (RON 11,218,320). Please see Note 16.

	Net trade receivables	
	31 December 2017	**31 December 2016**
Neither past due nor impaired	75,608,748	50,863,472
Past due 1-90 days	41,737	10,720,136
Past due 90-180 days	3,650,381	397,370
Past due 180-360 days	-	-
Past due 1 – 2 years	-	2,093,795
Total	**79,300,866**	**64,074,773**

(ii) Liquidity risk

Liquidity risk is the risk that the Company might encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company has significant cash and cash equivalents so that no liquidity risk is experienced.

The Company aims to maintain the level of its cash and cash equivalents at an amount in excess of expected cash outflows on financial liabilities. The Company also monitors the level of expected cash inflows on trade receivables together with expected cash outflows on trade and other payables.

Exposure to liquidity risk

The following table presents the contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest accrued.

Financial liabilities	Carrying amount	Contractual cash flows Total	less than 1 year
31 December 2017			
Trade payables	72,395,483	72,395,483	72,395,483
Total	**72,395,483**	**72,395,483**	**72,395,483**
31 December 2016			
Trade payables	67,591,033	67,591,033	67,591,033
Total	**67,591,033**	**67,591,033**	**67,591,033**

(iii) Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates– will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Currency risk

The Company is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales, purchases and borrowings are denominated and the functional currency of the Company, The functional currency of the Company is the Romanian Leu (RON).

The currencies in which these transactions are primarily denominated are RON, EUR and USD. The Company also has deposits and bank accounts denominated in foreign currency (EUR and USD). The Company's policy is to use the local currency in its transactions as far as practically possible. The Company does not use derivative or hedging instruments.

Exposure to currency risk

The summary of the quantitative data about the Company's exposure to currency risk is as follows:

	31 December 2017	**31 December 2017**	**31 December 2016**	**31 December 2016**
In RON	USD	EURO	USD	EURO
Cash and cash equivalents	55,569	1,235,553	4,669,081	2,533,008
Deposits, treasury bills and government bonds	4,241,735	-	-	-
Net statement of financial position exposure	**4,297,304**	**1,235,553**	**4,669,081**	**2,533,008**

The following significant exchange rates have been applied during the year:

	Average rate		**Year-end spot rate**	
RON	**2017**	**2016**	**2017**	**2016**
EUR	4.5681	4.4908	4.6597	4.5411
USD	4.0525	4.0592	3.8915	4.3033

Sensitivity analysis

A reasonable possible appreciation (depreciation) of the EUR against RON at 31 December would have affected the measurement of financial instruments denominated in a foreign currency, the profit before tax and the equity, respectively, by the amounts shown below. The analysis assumes that all other variables, in especially the interest rates, remain constant and ignores the impact of forecasted sales and purchases.

	Profit before tax	
Effect	**Appreciation**	**Depreciation**
31 December 2017		
EUR (5% movement)	61,778	(61,778)
31 December 2016		
EUR (5% movement)	126,650	(126,650)

A reasonable possible appreciation (depreciation) of the USD against RON at 31 December would have affected the measurement of financial instruments denominated in foreign currency and profit before tax, the equity, respectively, by the amounts shown below. The analysis assumes that all other variables, especially the interest rates, remain constant and ignores the impact of forecasted sales and purchases.

	Profit before tax	
Effect	**Appreciation**	**Depreciation**
31 December 2017		
USD (5% movement)	214,865	(214,865)
31 December 2016		
USD (5% movement)	233,454	(233,454)

Interest rate risk

The Company has no bank loans.

Exposure to interest rate risk

The interest rate profile of the Company's interest-bearing financial instruments is as follows:

	31 December 2017	31 December 2016
Fixed-rate instruments		
Financial assets		
Bank accounts (call deposits)	122,529,922	193,787,807
Deposits, treasury bills and government bonds	746,980,177	1,867,115,360
Restricted cash	320,000,000	134,491,752
	1,189,510,039	**2,195,394,919**

Fair value sensitivity analysis for fixed-rate instruments

The Company does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

28 Related parties

(a) Main shareholders

As at 31 December 2017, the Romanian State, represented by the Ministry of Energy holds 48.78% of the Company's share capital. The second largest shareholder is the European Bank for Reconstruction and Development with 6.9247%.

(b) Management and administrators' compensation

	2017	2016
Management compensation	**4,623,768**	**1,039,030**

Executive management compensation refers to the managers with mandate contracts concluded with Electrica SA. At the beginning of 2017, Electrica SA`s management consisted in four managers remunerated based on mandate agreement. For one of them, the mandate agreement ended in January 2017 and for another one, in December 2017. During 2017 six new managers were hired based on the same type of contract, in February, March, May, August and December. As of December 31st 2017 the Company had seven managers in place with mandate agreement, the latter one starting January 2018, effectively.

Compensations granted to the members of the Board of Directors were as follows:

	2017	2016
Members of Board of Directors	**2,207,003**	**2,136,888**

Electrica SA's Board of Directors comprises 7 members. According to the remuneration policy approved by the General Meeting of Shareholders that took place on 31 March 2016, the annual number of paid sessions is limited to twelve for Board of Directors meetings and to six for each of the committees.

No loans were granted to managers and administrators in 2017 and 2016.

(c) Transactions with the subsidiaries

(i) Balance of receivables and payables from/ to subsidiaries:

	Receivables from		Payables to	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Electrica Furnizare	9,961,843	6,435,530	1,038,656	2,428,881
Societatea de Distributie a Energiei Electrice Muntenia Nord SA	853,327	8,067,916	2,031,935	439,209
Societatea de Distributie a Energiei Electrice Transilvania Nord SA	1,792,894	5,932,916	552,512	246,823
Societatea de Distributie a Energiei Electrice Transilvania Sud SA	1,523,184	5,864,832	136,963	20,677
Electrica Serv	10,384,591	10,602,735	190,617	261,773
Servicii Energetice Muntenia	6,697,952	-	-	-
Total	**31,213,791**	**36,903,929**	**3,950,683**	**3,397,363**

Receivables and payables from/to electricity distribution and supply subsidiaries mainly include, receivables/ payables from/to electricity supply, mainly from settlements on the balancing market.

The receivables from Electrica Serv are mainly represented by loans granted by the company to Electrica Serv that reached maturity but are undrawn. The Company estimates that these amounts will be cashed in the next period.

(ii) Transactions with subsidiaries:

	Sales in 2017	**Sales in 2016**	**Purchases in 2017**	**Purchases in 2016**
Electrica Furnizare	91,643,477	43,903,009	22,313,160	22,793,574
Societatea de Distributie a Energiei Electrice Muntenia Nord SA	33,139,413	37,824,810	12,559,979	4,997,798
Societatea de Distributie a Energiei Electrice Transilvania Nord SA	32,871,562	16,124,831	8,524,096	2,713,149
Societatea de Distributie a Energiei Electrice Transilvania Sud SA	14,852,901	16,380,289	8,026,979	3,116,268
Electrica Serv	334,940	-	1,135,994	1,337,065
Total	**172,842,293**	**114,232,939**	**52,563,208**	**34,957,854**

(d) Transactions with companies in which the state has control or significant influence

In 2017 the Company had sale and purchase transactions mainly with the following companies:

	Net Receivables at 31 December 2017	Payables at 31 December 2017	Sales 2017	Purchases 2017
Transelectrica	1,818,317	21,887,889	18,129,136	346,132,325
CET GRIVITA	10,786	-	205,822	245,811
ANCOM	-	127,613	-	510,452
ICPE	-	-	312,158	86,542
ANRE	-	-	-	286,164
Others	189,606	24,626	4,006,559	2,321,840
TOTAL	**2,018,709**	**22,040,128**	**22,713,546**	**349,583,133**

The transactions with Transelectrica represent electricity imbalances from the balancing market.

In 2016 the Company had sale and purchase transactions mainly with the following companies:

	Net Receivables at 31 December 2016	Payables at 31 December 2016	Sales 2016	Purchases 2016
Transelectrica	1,335,460	47,481,338	14,445,437	228,274,428
OPCOM	259	-	888,780	-
ANRE	-	1,683	-	305,539
ANCOM	-	126,647	-	499,443
ICPE	19,386	-	242,166	-
Others	544	423,175	1,399,383	2,670,409
TOTAL	**1,355,649**	**48,032,843**	**16,975,766**	**231,749,819**

The transactions refer mainly to purchase and sales on the balancing market.

29 Contingencies

(a) Litigation and claims

The Company is involved in various litigations (i.e Fondul Proprietatea – major stakeholder in the subsidiaries, ANRE, tax authorities, Court of Accounts, damage compensation requests, labour litigations etc.).

As summarized in Note 26, the Company set up provisions for litigation and disputes over which management has assessed that is likely to be necessary an outflow of resources embodying economic benefits due to low chances of solving them favourably. The Company does not present information in the financial statements and had not set up provisions for litigation and disputes over which the management has assessed that the possibility of an outflow of resources is reduced.

- The Company was sued by Hidroelectrica S.A. in 2015, which requires the payment of RON 5,444,761 and other damages, representing the damages claimed for the sale of electricity at a price estimated by the defendant as being unjust. The first instance dismissed the action as unfounded. At the date of the financial statements, both parties filed an appeal, the appeal is in course of settlement.

(b) Fiscal environment

Tax audits are frequent in Romania, consisting of detailed verifications of the accounting records of tax payers. Such audits sometimes take place after months, even years, from the date liabilities are established. Consequently, companies may be found liable for significant taxes and fines. Moreover, tax legislation is subject to frequent changes and the authorities sometimes demonstrate inconsistency in interpretation of the law. Income tax statements may be subject to revision and corrections made by tax authorities, generally for a five-year period after they are filled in. The company was the subject of fiscal inspections until 31 March 2013.

As shown in Note 9 (c) and 26, the Company has incurred significant expenses related to tax adjustments related to previous years as a result of tax authorities inspections and disputes.

The Company's management considers that adequate reserves were established in the separate financial statements for all the significant fiscal obligations, however a risk that the tax authorities could take different positions still persists.

(c) Transfer prices

According to the fiscal legislation, the fiscal assessment for a transaction with affiliates is based on the market price concept for that transaction. Based on this concept, the transfer prices must be adjusted in order to reflect the market prices that would have been established between the entities having no affiliation relation and are acting independently, based on "normal market conditions".

Likely, verifications of the transfer prices may be done in the future by the fiscal authorities, in order to establish if these prices are respecting the principle of the "normal market conditions" and that the tax base for Romanian taxpayer is not distorted.

30 Commitments

Guarantees and pledges

At 31 December 2017 the Company has outstanding bank letters of guarantee as follows:

Bank	Beneficiary	Value	Currency	Issue Date	Expiry Date
Unicredit	Transelectrica	27,104,109	RON	05.09.2016	20.08.2018
Unicredit	SDEE Muntenia Nord	120,000	RON	11.12.2017	31.03.2018

The company has a facility for bank letter of guarantee issuance in the amount of RON 200 million contracted from UniCredit, out of which the used amount as of 31 December 2017 is RON 58,844,761. The facility will become due on 31 December 2022.

Contractual commitments

The Company has the following contractual commitments as at 31 December 2017:

	Amount
Purchase of property, plant and equipment and intangible assets	4,000,000