SOCIETATEA ENERGETICA ELECTRICA S.A.

Consolidated Financial Statements

For the year ended

31 December 2017

Contents

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017
(All amounts are in THOUSAND RON, if not otherwise stated)

	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Intangible assets related to concession arrangements	23	4,330,909	3,910,388
Other intangible assets	23	14,053	17,218
Property, plant and equipment	22	701,510	701,962
Restricted cash	21	320,000	134,492
Deferred tax assets	17	41,100	39,668
Other non-current assets		1,305	1,741
Total non-current assets		**5,408,877**	**4,805,469**
Current assets			
Trade receivables	18	804,361	777,989
Other receivables	20	55,534	20,030
Cash and cash equivalents	21	562,493	888,841
Deposits, treasury bills and government bonds	19	746,981	1,875,054
Inventories		21,620	22,750
Prepayments		3,692	5,635
Green certificates		12,643	-
Income tax receivable	17	1,134	2,385
Total current assets		**2,208,458**	**3,592,684**
Total assets		**7,617,335**	**8,398,153**
EQUITY AND LIABILITIES			
Equity			
Share capital	24	3,814,242	3,814,242
Share premium		103,049	103,049
Treasury shares reserve	24	(75,372)	(75,372)
Pre-paid capital contributions in kind from shareholders		5,144	5,144
Revaluation reserve	24	123,748	104,681
Legal reserves	24	326,779	302,236
Retained earnings		1,357,966	1,429,908
Total equity attributable to the owners of the Company		**5,655,556**	**5,683,888**
Non-controlling interests	25	-	836,599
Total equity		**5,655,556**	**6,520,487**

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(All amounts are in THOUSAND RON, if not otherwise stated)

	Note	31 December 2017	31 December 2016
Liabilities			
Non-current liabilities			
Financing for network construction related to concession agreements	26	11,122	41,617
Deferred tax liabilities	17	200,504	195,689
Employee benefits	15	165,448	192,965
Other payables	28	40,440	44,921
Long-term bank borrowings	30	320,000	127,733
Total non-current liabilities		**737,514**	**602,925**
Current liabilities			
Financing for network construction related to concession agreements	25	32,709	85,513
Bank overdrafts	21	247,904	142,626
Trade payables	27	689,405	722,830
Other payables	28	134,226	160,890
Deferred revenue		7,364	4,415
Employee benefits	15,16	78,918	83,972
Provisions	29	29,889	62,407
Current income tax liability		3,850	12,088
Total current liabilities		**1,224,265**	**1,274,741**
Total liabilities		**1,961,779**	**1,877,666**
Total equity and liabilities		**7,617,335**	**8,398,153**

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

Chief Executive Officer
Dan Catalin Stancu

Chief Financial Officer
Mihai Darie

(All amounts are in THOUSAND RON, except per share data)

	Note	2017	2016
Revenues	9	5,603,235	5,517,802
Other income	11	173,487	243,454
Electricity purchased	10	(2,972,793)	(2,756,032)
Green certificates		(372,878)	(401,382)
Construction costs related to concession agreements	23	(745,332)	(528,372)
Employee benefits	16	(642,418)	(654,383)
Repairs, maintenance and materials		(61,724)	(44,077)
Depreciation and amortization	22,23	(395,601)	(373,096)
Impairment of property, plant and equipment, net	22,23	(8,805)	(695)
Impairment of trade and other receivables, net	18,20	(12,864)	(40,614)
Change in provisions, net	29	32,518	65,206
Other operating expenses	11	(399,791)	(441,959)
Operating profit		**197,034**	**585,852**
Finance income	12	20,116	20,037
Finance costs	12	(10,399)	(16,856)
Net finance income		**9,717**	**3,181**
Profit before tax		**206,751**	**589,033**
Income tax expense	17	(35,192)	(120,136)
Profit for the year		**171,559**	**468,897**
Profit for the year attributable to:			
- owners of the Company		127,730	356,566
- non-controlling interests	25	43,829	112,331
Profit for the year		**171,559**	**468,897**
Earnings per share			
Basic and diluted earnings per share (RON)	13	**0.38**	**1.05**

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

Chief Executive Officer
Dan Catalin Stancu

Chief Financial Officer
Mihai Darie

(All amounts are in THOUSAND RON, if not otherwise stated)

	Note	2017	2016
Profit for the year		**171,559**	**468,897**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Remeasurements of the defined benefit liability	15	19,173	4,792
Tax related to remeasurements of the defined benefit liability	17	(1,300)	(768)
Revaluation of property, plant and equipment	24	55,874	-
Related tax	24	(8,940)	-
Other comprehensive income, net of tax		**64,807**	**4,024**
Total comprehensive income		**236,366**	**472,921**
Total comprehensive income attributable to:			
- owners of the Company		192,537	359,555
- non-controlling interests		43,829	113,366
Total comprehensive income		**236,366**	**472,921**

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

Chief Executive Officer
Dan Catalin Stancu

Chief Financial Officer
Mihai Darie

(All amounts are in THOUSAND RON, if not otherwise stated)

		Attributable to the owners of the Company									
	Note	**Share capital**	**Share premium**	**Treasury shares**	**Pre-paid capital contributions in kind from shareholders**	**Revaluation reserve**	**Legal reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2017		**3,814,242**	**103,049**	**(75,372)**	**5,144**	**104,681**	**302,236**	**1,429,908**	**5,683,888**	**836,599**	**6,520,487**
Comprehensive income											
Profit for the year		-	-	-	-	-	-	127,730	**127,730**	43,829	**171,559**
Other comprehensive income		-	-	-	-	46,934	-	17,873	**64,807**	-	**64,807**
Total comprehensive income		**-**	**-**	**-**	**-**	**46,934**	**-**	**145,603**	**192,537**	**43,829**	**236,366**
Transactions with owners of the Company											
Contributions and distributions											
Dividends to the owners of the Company	24	-	-	-	-	-	-	(251,405)	**(251,405)**	-	**(251,405)**
Total contributions and distributions		**-**	**-**	**-**	**-**	**-**	**-**	**(251,405)**	**(251,405)**	**-**	**(251,405)**
Changes in ownership interests											
Acquisition of NCI without a change in control		-	-	-	-	-	-	30,536	30,536	(782,559)	**(752,023)**
Total changes in ownership interests		-	-	-	-	-	-	**30,536**	**30,536**	**(782,559)**	**(752,023)**
Total transactions with owners of the Company								**(220,869)**	**(220,869)**	**(782,559)**	**(1,003,428)**
Other changes in equity											
Dividends to non-controlling interests	24	-	-	-	-	-	-	-	-	(97,869)	**(97,869)**
Set up of legal reserves	24	-	-	-	-	-	24,543	(24,543)	-	-	**-**
Transfer of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment	24	-	-	-	-	(27,867)	-	27,867	-	-	-
Balance at 31 December 2017		**3,814,242**	**103,049**	**(75,372)**	**5,144**	**123,748**	**326,779**	**1,357,966**	**5,655,556**	**-**	**5,655,556**

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(All amounts are in THOUSAND RON, if not otherwise stated)

		Attributable to the owners of the Company									
	Note	**Share capital**	**Share premium**	**Treasury shares**	**Pre-paid capital contributions in kind from shareholders**	**Revaluation reserve**	**Legal reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2016		**3,814,242**	**103,049**	**(75,372)**	**2,862**	**140,358**	**273,899**	**1,354,595**	**5,613,633**	**828,957**	**6,442,590**
Comprehensive income											
Profit for the year		-	-	-	-	-	-	356,566	**356,566**	112,331	**468,897**
Other comprehensive income		-	-	-	-	-	-	2,989	**2,989**	1,035	**4,024**
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**	**359,555**	**359,555**	**113,366**	**472,921**
Transactions with owners of the Company											
Contributions and distributions											
Land for which ownership rights were obtained		-	-	-	2,282	-	-	-	**2,282**	-	**2,282**
Dividends to the owners of the Company	24	-	-	-	-	-	-	(291,582)	**(291,582)**	-	**(291,582)**
Total transactions with owners of the Company		**-**	**-**	**-**	**2,282**	**-**	**-**	**(291,582)**	**(289,300)**	**-**	**(289,300)**
Other changes in equity											
Dividends to non-controlling interests	24	-	-	-	-	-	-	-	-	(105,724)	**(105,724)**
Set up of legal reserves	24	-	-	-	-	-	28,337	(28,337)	-	-	**-**
Transfer of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment	24	-	-	-	-	(29,251)	-	29,251	-	-	-
Loss of control over subsidiaries in financial distress	24	-	-	-	-	(6,426)	-	6,426	-	-	-
Balance at 31 December 2016		**3,814,242**	**103,049**	**(75,372)**	**5,144**	**104,681**	**302,236**	**1,429,908**	**5,683,888**	**836,599**	**6,520,487**

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

(All amounts are in THOUSAND RON, if not otherwise stated)

	Note	2017	2016
Cash flows from operating activities			
Profit for the year		**171,559**	**468,897**
Adjustments for:			
Depreciation	22	32,013	40,886
Amortisation	23	363,588	332,210
Impairment loss of property, plant and equipment, net	22	8,805	695
Loss/(Gain) on disposal of property, plant and equipment		4,576	(8,015)
Impairment of trade and other receivables, net	18,20	12,864	40,614
Change in provisions, net	29	(32,518)	(65,206)
Net finance income	12	(9,717)	(3,181)
Gain on loss of control over subsidiaries in financial distress	11,33	-	(73,693)
Income tax expense	17	35,192	120,136
		586,362	**853,343**
Changes in :			
Trade receivables		(196,138)	(88,336)
Other receivables		(28,487)	33,954
Deposits, treasury bills and government bonds		8,321	(4,943)
Prepayments		1,943	3,825
Green certificates		(12,643)	31,304
Restricted cash		(185,508)	(134,492)
Inventories		1,130	508
Trade payables		120,741	150,682
Other payables		(24,610)	(34,854)
Employee benefits		(14,698)	5,323
Deferred revenue		2,949	-
Cash generated from operating activities		**259,362**	**816,314**
Interest paid		(2,237)	(4,575)
Income tax paid		(53,206)	(93,722)
Net cash from operating activities		**203,919**	**718,017**

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(All amounts are in THOUSAND RON, if not otherwise stated)

	Note	2017	2016
Cash flows from investing activities			
Payments for purchases of property, plant and equipment		(52,949)	(32,140)
Payments for network construction related to concession agreements		(726,729)	(500,262)
Payments for purchase of other intangible assets		(2,390)	(7,530)
Proceeds from sale of property, plant and equipment		2,559	27,829
Payments for purchase of treasury bills and government bonds	19	(543,114)	(2,437,538)
Proceeds from maturity of treasury bills and government bonds	19	1,838,245	2,436,404
Increase in deposits with maturity of 3 months or longer		(995,625)	(300,895)
Proceeds from deposits with maturity of 3 months or longer		820,320	419,799
Interest received		20,042	18,358
Effect on loss on control over subsidiaries on cash		-	(1,609)
Consideration paid to acquire non-controlling interests		(752,030)	-
Net cash used in investing activities		**(391,671)**	**(377,584)**
Cash flows from financing activities			
Proceeds from long term bank loans		192,267	127,733
Repayment of long term bank loans		-	(9,900)
Repayment of short term bank loans		-	(50,000)
Dividends paid	24	(349,373)	(396,922)
Repayment of financing for network construction related to concession agreements	26	(86,768)	(92,658)
Net cash used in financing activities		**(243,874)**	**(421,747)**
Net decrease in cash and cash equivalents		**(431,626)**	**(81,314)**
Cash and cash equivalents at 1 January	21	746,215	827,529
Cash and cash equivalents at 31 December	21	**314,589**	**746,215**

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

The non-cash transactions are disclosed in Note 21.

Chief Executive Officer
Dan Catalin Stancu

Chief Financial Officer
Mihai Darie

(All amounts are in THOUSAND RON, if not otherwise stated)

1 Reporting entity and general information

(a) General information about the Group

These financial statements are the consolidated financial statements of Societatea Energetica Electrica S.A. ("the Company" or "Electrica SA") and its subsidiaries (together "the Group"). 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.

The registered office of the Company is 9 Grigore Alexandrescu Street, Sector 1, Bucharest, Romania. The Company has sole registration code 13267221 and Trade Register registration number J40/7425/2000.

As at 31 December 2017 and 2016 the major shareholder of Societatea Energetica Electrica SA is the Romanian State, represented by the Ministry of Energy (48.78%), after the ownership dilution following an initial public offer. The second largest shareholder based on the share of ownership is EBRD with 6.9247% (2016: 8.66%).

The Company's subsidiaries are the following:

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 S.A.	Electricity distribution in geographical area of Muntenia Nord	14506181	Ploiesti	99,9999696922382%	78.0000021%
Societatea de Distributie a Energiei Electrice Transilvania Nord S.A.	Electricity distribution in geographical area of Transilvania Nord	14476722	Cluj-Napoca	99,9999829770757%	77.99999%
Societatea de Distributie a Energiei Electrice Transilvania Sud S.A.	Electricity distribution in geographical area of Transilvania Sud	14493260	Brasov	99,999976413243%	78.0000019%
Electrica Furnizare S.A.	Electricity Supply	28909028	Bucuresti	99,9998390431663%	77.99997%
Electrica Serv S.A.	Services in the energy sector (maintenance, repairs, construction)	17329505	Bucuresti	100%	100%
Servicii Energetice Muntenia S.A.	Services in the energy sector (maintenance, repairs, construction)	29384120	Bucuresti	100%	100%
Servicii Energetice Oltenia S.A.	Services in the energy sector (maintenance, repairs, construction)	29389861	Craiova	100%	100%
Servicii Energetice Moldova S.A.*	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*

Group's main activities

The main activities of the Group include operation and construction of electricity distribution networks and activities related to electricity supply to final consumers. The Group is the electricity distribution operator and the main electricity supplier in Muntenia Nord area (Prahova, Buzau, Dambovita, Braila, Galati and Vrancea counties), Transilvania Nord area (Cluj, Maramures, Satu Mare, Salaj, Bihor and Bistrita-Nasaud counties) and Transilvania Sud area (Brasov, Alba, Sibiu, Mures, Harghita and Covasna counties), operating with transformation stations and 0.4 kV and 110 kV power lines.

The Company's distribution subsidiaries (Societatea de Distributie a Energiei Electrice Transilvania Sud, Societatea de Distributie a Energiei Electrice Muntenia Nord and Societatea de Distributie a Energiei Electrice Transilvania Nord) invoice the electricity distribution service to electricity suppliers (mainly to Electrica Furnizare SA subsidiary, the main electricity supplier in Muntenia Nord, Transilvania Nord and Transilvania Sud areas), which further invoice the electricity consumption to final consumers.

Electrica Furnizare SA is the supplier of last resort (defined as supplier designated by the regulatory authority to deliver the universal service of electricity supply under specific regulated conditions) in Muntenia Nord, Transilvania Nord and Transilvania Sud areas. According to the regulations issued by the National Authority for Energy Regulation ("ANRE"), the suppliers of last resort have the obligation to ensure electricity supply to final customers which have not exercised their eligibility right – this is the right to choose their electricity supplier (hereinafter named captive consumers).

The electricity supply to captive consumers is made based on regulated contracts, with prices that are regulated by ANRE.

In January 2014 the Board of Directors of Servicii Energetice Oltenia and in October 2014 the Board of Directors of Servicii Energetice Muntenia decided the commencement of the insolvency process with a view to reorganization. For further information on the financial position of these subsidiaries refer to Note 33.

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 by 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 Global Depository Receipts ("GDRs") on the UK market.

The IPO was organised between 11 and 27 June 2014 and entailed to an offering by the Company of 177,188,744 ordinary shares in the form of shares and in the form of GDRs, each GDR representing four shares. Following the IPO, the Company sold 142,007,744 shares and 8,795,250 GDRs, at the offer prices of RON 11 per share and 13.66 USD per GDR. The allocation of shares and GDRs and the offering prices were 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 in 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 holdings in Electrica 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 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 is 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 Distributie a Energiei Electrice Muntenia Nord S.A.; RON 201,702,667 for 22.00001% of the share capital of Societatea de Distributie a Energiei Electrice Transilvania Nord S.A.; RON 173,504,365 for 21.9999981% of the share capital of Societatea de Distributie 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; 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 247; 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; 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 1,223.

(All amounts are in THOUSAND RON, if not otherwise stated)

(b) Regulations regarding the energy sector

Regulatory environment

The activity in the energy sector is regulated by National Authority for Energy Regulation ("ANRE").

Some of the main responsibilities of ANRE are to approve prices and tariffs and to prepare substantiation methodologies used to establish regulated prices and tariffs.

Electricity distribution

Electricity distribution is a monopoly activity. Distribution tariffs are established by a „tariff basket-price cap" mechanism. The setting methodology for the tariff of distribution of electricity is approved by ANRE Order no. 72/2013 with subsequent amendments (Orders no. 112/2014, no. 146/2014 and no. 165/2015). The specific distribution tariffs applicable for the years 2017 and 2016 for the three voltage levels (high, medium and low) by regions were approved by ANRE orders as follows (RON/MWh, presented cumulatively for medium and low voltage):

	Order	**113, 114, 112/14.12.2016**		**Order**	**173, 171, 172/14.12.2015**	
	1 January-31 December 2017			**1 January-31 December 2016**		
	High voltage	Medium voltage	Low voltage	High voltage	Medium voltage	Low voltage
Transilvania Nord	19.05	60.98	157.71	19.93	64.20	167.74
Transilvania Sud	20.63	61.64	165.37	21.22	63.58	172.02
Muntenia Nord	14.79	48.46	157.81	15.93	52.60	171.38

The following items are considered by ANRE when setting the target revenue for one year of one regulatory period: controllable and non-controllable operating and maintenance costs, costs of electricity purchased for own technological consumption (distribution network losses), regulated depreciation charge, the return on the regulated assets base ("RAB"), working capital requirements, revenues from reactive energy and revenues from other activities.

The controllable operating and maintenance costs include, without limitation, the following: raw materials and consumables, utilities, maintenance and repairs; rental; insurance; studies and research; other services; employee benefits (salaries, per diem, bonuses); damages paid by the main distribution operator to third parties for maintenance works agreed between parties.

The noncontrollable operating and maintenance costs include: costs resulting from payment of taxes, royalties, duties and similar payments; regulated costs related to special expenditure; contributions to the health fund, special funds and other similar funds related to the salary fund; regulated distribution costs generated by the use of distribution networks of other operators; extraordinary costs produced by force majeure; costs generated by the impossibility of shutting down the electricity supply for certain consumers, according to the legislation; damages paid by the main distribution operator to third parties for maintenance works established in court.

The regulated rate of return on the RAB starting with 2015 is 7.7%, in accordance with the ANRE Order no. 146/2014.

The distribution tariffs applicable for 2018 for the three voltage levels (high, medium and low) by regions were approved by ANRE orders as follows (RON/MWh), presented cumulatively for medium and low voltage:

(All amounts are in THOUSAND RON, if not otherwise stated)

	Order	**115, 114, 116/12.12.2017**	
	1 January-31 December 2018		
	High voltage	Medium voltage	Low voltage
Transilvania Nord	18.73	60.11	157.35
Transilvania Sud	20.29	60.38	160.80
Muntenia Nord	14.79	46.33	155.71

Regulatory asset base (RAB)

In accordance with the Methodology of establishing the tariffs for distribution of electricity approved through ANRE Order no. 72/2013 with subsequent amendments (Orders no. 112/2014, no. 146/2014 and no. 165/2015), the determination of the distribution tariffs is based on, inter alia, the regulated asset base ("RAB"). The RAB calculation is based on capital expenditure.

The regulatory asset base at the beginning of the first regulatory period (1 January 2005) (initial RAB) includes the net book value of the property, plant and equipment and intangible assets as approved by ANRE and used only for regulated electricity distribution. The RAB subsequently calculated includes the net value of the initial RAB and the net value of property, plant and equipment and intangible assets subsequently acquired through investments approved by ANRE. In RAB are not included land, current assets, assets put into conservation, inventories, as well as the tangible assets financed through financial contributions, whichever their source might be.

According to the tariff setting Methodology, in the reference year of the regulatory period, the distribution operator may request the regulator the recognition of the revaluation of asset commissioned after 1 January 2005, based on the revaluations studies performed according to the legislation in force. However, the maximum value of the revaluation accepted by the regulator may not exceed the value of the assets commissioned after 1 January 2005 updated using the cumulative inflation rate over that period.

Starting with the fourth regulatory period, the value of RAB at 31 December of the reference year of a regulatory period is no longer updated with the inflation rate.

Tariff adjustments

Annually, ANRE makes revenue corrections due to: change in the quantities of electricity distributed compared to the forecast; change in quantities and acquisition price for the regulated own technological consumption (electricity network losses) compared to the forecast; annual change in uncontrollable operating and maintenance costs compared to the forecast; changes in revenues from reactive energy compared to the forecast; failure to meet the approved investments programme if the annual realised value is lower than the annual value previously approved; and revenues generated from other operations made by the distribution operator.

At the end of each regulated period, ANRE performs corrections for the controllable costs and for investments, as follows:

- The revenue resulted from exceeding/failing to accomplish the investments approved by ANRE, in any year of the regulated period p, are reduced from/added to the revenue related to the regulated period p+1;
- At the computation of the target income for the first year of the regulated period p+1, the authority determines the value related to the efficiency gain above the approved values for the regulated period p and allocates 50% from these to the users (the mechanism of gain splitting).

The differences in revenue arising in relation to the above mentioned stipulations are used to modify the regulated tariffs for the subsequent year.

The annual corrections are adjusted by the interest rate on one year treasury bills, in real terms. The annual regulated revenue in nominal terms is obtained by applying the adjusted inflation rate for the year of revenue adjustments.

In regulated activities, the regulator establishes through the tariff adjustment mechanism (as presented above), the criteria to recognise over or under recoveries of one period in future periods. The Group does not recognise regulatory assets and liabilities in respect of these under or over recoveries, as these differences are recovered or returned through the tariffs charged in subsequent periods. As at 31 December 2017 the Group is in an over-recovery position of approximately RON 234 million (2016: RON 332 million), which will be deducted from the tariffs for subsequent year.

Tariffs increase limitations

Starting with the third regulatory period (2014-2018) the distribution tariffs shall not increase year on year by more than 7% for the weighted average tariff and 10% for each specific distribution tariff.

According to ANRE Order no. 165/2015, starting 2015 the tariff variation limitation applies only to tariff increases, and not to tariff decreases.

Where the increase in tariffs is limited and does not allow distribution operators to obtain the approved regulated revenues in full, the difference shall be recovered in the following year(s) limited to the cap set for tariff increases. Such difference is adjusted with the interest rate on one year treasury bills, in nominal terms.

Electricity supply

Regulated market

According to Electricity Law and the European Directive 54/2003 the electricity market is fully open starting from 1 July 2007 and all consumers were declared eligible. The eligible consumers are free to choose their electricity supplier from which they purchase electricity at negotiated prices. For the other consumers (including those that did not use their eligibility right), the tariffs are regulated by ANRE orders.

Starting from 1 September 2012, the methodology for setting tariffs to consumers that do not use the eligibility right is established by ANRE Order no. 30/2012 (repealed by Orders no 82/2013 and no. 92/2015), that includes a proposed timetable for gradual elimination of the regulated tariffs between 2012 and 2017 ("the timetable"), that sets the share of electricity purchased on the competitive market, in three-month period stages, for sale to consumers that do not use the eligibility right (household and non-household consumers).

The categories of justified costs of the last resort supplier, recognized by ANRE in the tariffs applied to the consumers that did not use the eligibility right, according to the methodology, are: electricity acquisition costs, transmission and system services costs, costs related to technical and operational services, services provided by the centralized electricity market operator to the participants in the centralized electricity markets, electricity distribution cost, electricity supply costs related to consumers that did not use the eligibility right (including cost for concluding contracts, invoicing, call-center, mass-media, salaries and other personnel related costs, rental, taxes, borrowing costs, interest, loss on receivables, debt recovery, financing of cash flow deficits and investments, legal expenses, costs related to the implementation of legislative changes).

Starting from 1 September 2012, in correlation with the proposed timetable for eliminating the regulated tariffs, the last resort suppliers apply a new electricity tariff called "the competitive market component" ("CMC") in the invoice to customers that did not use the eligibility right. The CMC is based on costs for the electricity acquisition on the competitive market estimated by the last resort suppliers, plus costs for transmission and system services, services rendered by the centralized market operator, distribution and supply costs, profit margin, and adjustments for the difference between estimated and actual costs for the previous stage of the timetable. The last resort suppliers submit the CMC pricing proposals to ANRE for approval and the related calculations for the 3 distinct voltage levels.

The current methodology (ANRE Order 92/2015) establish the regulated profit as a percentage of 1.5% of the total supply costs (that includes energy acquisition, transport and distribution costs, costs related to the system services and costs related to market operations and supply) and the operating supply costs of 4.7 RON/client/month in 2017.

In 2017, the household consumers have been invoiced, according to the timetable, with a tariff that consists in a mix between a regulated tariff component (20% - for first semester and 10% for the second semester) and a competitive market component, "CMC" (80% for the first semester and 90% for the second semester). Non-household customers that benefit from the universal service were invoiced with last resort tariffs ("LR") for 100% from the realised consumption.

The tariffs for electricity supplied under regulated regime in 2017 are those established by ANRE Order no. 115/2016 for the first semester and ANRE Order no 50/2017, for the second semester.

The acquisition prices paid to producers for electricity purchased based on regulated contracts for delivery under the regulated regime to captive consumers / consumers that did not use the eligibility right, and the quantities acquired are established by ANRE.

Competitive market

Transactions on the competitive en-gross market are transparent, public, centralised and non-discriminatory. Participants on the en-gross market can trade electricity based on the bilateral contracts concluded on the related centralised market.

Green certificates

Electricity suppliers have a legal obligation to purchase green certificates from producers of electricity from renewable sources, based on annual targets or quotas set by law, which are applied to the quantity of electricity purchased and supplied to end consumers. Cost of green certificates is billed to end consumers separately from the tariffs for electricity.

For 2017, the mandatory annual quota for green certificates was established by ANRE through Order no. 119/2016 for first semester and Order no. 27/2017 for the period April – December, following that until 1 March 2018, ANRE to establish, also through Order, the annual mandatory quota for the acquisition of green certificates related to 2017, based on the quantities of electricity from renewable sources and the final consumption of electricity of the previous year.

2 Basis of accounting

These consolidated financial statements have been prepared in accordance with International Reporting Standards ("IFRS") as adopted by the European Union ("IFRS-EU"). They were authorized for issue by the Board of Directors on 6 March 2018. The financial statements will be submitted for shareholders' approval in the meeting scheduled on 27 April 2018.

The Company also issues an original version of consolidated financial statements prepared in accordance with IFRS-EU in Romanian language that will be used for filing on the Bucharest Stock Exchange.

Details of the Group's accounting policies are included in Note 6. The Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

3 Functional and presentation currency

These consolidated financial statements are presented in Lei (RON), which is the functional currency of all group companies. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

4 Use of judgements and estimates

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

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

(a) Judgements

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

Service Concession Arrangements

The distribution subsidiaries (as operators) concluded concession contracts with the Ministry of Economy (as grantor) in 2005, updated in 2009 by addenda. These contracts concern the operation of electricity distribution service in the established territory (Transilvania Nord, Transilvania Sud, Muntenia Nord), on the risk and responsibility of the operators and taking into account the regulations applicable to the operation, modernization, rehabilitation and development of energy distribution networks specified in the Electricity Law, the terms and conditions of the licenses for electricity distribution and the regulations issued by ANRE.

IFRIC 12 "*Service Concession Arrangements"* deals with public-to-private service concession arrangements.

IFRIC 12 applies to public-to-private service concession arrangements if:

(a) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and

(b) the grantor controls - through ownership, beneficial entitlement or otherwise - any significant residual interest in the infrastructure at the end of the term of the arrangement.

The control or regulation referred to in condition (a) could be by contract or otherwise (such as through a regulator). The activities of the electricity distribution operators, including distribution tariffs, are regulated by ANRE.

The concession contracts are concluded for a period of 49 years and may be extended for a period equal to no more than half of that period. As a price for the concession, the operators pay an annual royalty fee recognized in the distribution tariff of 1/1000 of the revenues from electricity distribution. According to the concession contracts, the operators use the assets representing the distribution network owned by them located in the above-mentioned territory for electricity distribution. According to the concession contracts, the grantor will buy at the end of the term of concession contract the ownership right of the "relevant assets", that are mainly the electricity distribution networks, at a price equal to the value of the regulated assets base at the end of the concession.

Within the arrangements, the Group incurs significant expenditure in relation to the development and maintenance of the infrastructure. The construction works are either outsourced by the Group to sub-contractors, or performed internally. Significant management judgment is involved in accounting for the concession arrangements under IFRIC 12, including those in respect of the recognition of revenue based on the stage of completion of the services and separation of construction or upgrade services from operation services.

Commissions

Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements except for collection of radio and TV taxes. If the Group acts in the capacity of an agent rather than as the principal in a transaction, then the income recognised is the net amount of commission earned by the Group.

(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 k), l) – assumptions regarding the useful life of the intangible assets related to concession arrangements and other intangible assets;
- Notes 18 and 31 – assumptions and estimates about the recoverability of trade receivables;
- Note 6 j) – estimates regarding the useful lives of property, plant and equipment;
- Note 22 - assumptions regarding the revalued amount of property, plant and equipment;
- Note 33 – assumptions and estimates regarding the measurement of assets of the subsidiaries under financial distress;
- Note 17 – recognition of deferred tax assets: availability of future taxable profit against which tax loss carried forward can be used;
- Notes 29 and 34 – recognition and measurement of provisions and contingencies;
- Note 15 – measurement of defined benefit obligations and other long-term employee benefits: key actuarial assumptions.

Measurement of fair values

A number of the Group'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 Group uses market observable data as far as possible. Fair values are categorised into different levels in a 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 might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group 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 made in measuring fair values is included in the following notes:

- Note 31 – financial instruments;
- Note 22 – property, plant and equipment.

5 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the land and buildings which are measured based on revaluation model. The assets and liabilities of the subsidiaries in financial distress are not recognised on a going concern basis but on an alternate basis, as disclosed in Note 3.

6 Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date on which control ceases.

(ii) Loss of control

On the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently that retained interest is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(iii) Non-controlling interests

The Group measures any non-controlling interests in the subsidiary at their proportionate share of the subsidiary's identifiable net assets.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Revenue

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group, and the amount of the revenue can be measured reliably. 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.

Supply and distribution of electricity

The revenue from supply and distribution of electricity to consumers is recognized when electricity is delivered to consumers (consumed by consumers), based on meter readings and based on estimates for electricity delivered and for which no reading was performed yet. The invoicing of electricity sales is performed on a monthly basis. Monthly electricity invoices are based on meter readings or on estimated consumptions based on the historical data of each consumer. Electricity supplied to consumers which is not yet billed as at the reporting date is accrued on the basis of recent average consumption or based on subsequent meter readings. Differences between estimated and actual amounts are recorded in subsequent periods.

The revenues from supply and distribution of electricity also includes the cost of green certificates recharged by the Group to final consumers (see paragraph (h)).

Rendering of services

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

Sales of goods

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

Service concession arrangement

Revenue related to construction or upgrade services under service concession arrangement is recognised based on the stage of completion of the work performed, consistent with the accounting policy on recognising revenue on construction contracts, as follows:

- Contract revenue includes the initial amount agreed plus any variation in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably.
- If the outcome of a construction contract can be estimated reliably, then contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. The stage of completion is assessed with reference to surveys of work performed. Otherwise, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable.
- Contract expenses are recognized as incurred unless they create an asset related to future contract activity. An expected loss on a contract is recognised immediately as expense.

(c) Commissions

Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements except for collection of radio and TV taxes. If the Group acts in the capacity of an agent rather than as the principal in a transaction, then the income recognised is the net amount of commission earned by the Group.

(d) Finance income and finance costs

The Group's finance income and finance costs include:

- interest income;
- interest expense;
- 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.

(e) 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.

(f) 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 Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(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 Group'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, discounting that amount.

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 Group 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, taking into account 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 Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iv) Other long-term employee benefits

The Group'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 Group can no longer withdraw the offer of those benefits and when the Group 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.

(g) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination or items recognised 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 on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. 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 at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

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

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 has become probable that the future taxable profits will be available against which they can be used.

(h) Green certificates

The cost of green certificates is accrued in the profit or loss based on the quantitative quota determined by the regulator representing the amount of the green certificates that the Group has to purchase for the year and based on the price of green certificates acquired on the centralized market. The obligation for covering the annual acquisition quota is accrued in profit or loss.

(i) Inventories

Inventories consist mainly of consumables, goods for resale and other inventories.

Inventories are measured at the lower of cost and net realizable value.

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.

Consumables used for the repairs and maintenance of the electricity network are included in profit and loss when consumed and presented in "Repairs, maintenance and materials".

(j) 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 other items of property, plant and equipment are measures at cost less any accumulated depreciation and any accumulated impairment losses.

Until 31 December 2003 the Group has restated the cost of property, plant and equipment according to IAS 29 "Financial Reporting in Hyperinflationary Economies", with its effect being recognized in retained earnings.

Revaluations of land and buildings are made with sufficient regularity to ensure that the carrying amount does not differ materially from that 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 Group.

(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 Group will obtain ownership by the end of the lease term. Land and construction in progress are not depreciated.

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

Category	**Useful lives**
Buildings	60-70 (average 67 years)
Equipment	4-12 (average 7 years)
Motor vehicles and office equipment	3-10 (average 7 years)

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

(k) Intangible asset in a service concession arrangement

(i) Recognition and measurement

The Group recognises an intangible asset arising from a service concession arrangement when it has a right to charge for use of the concession infrastructure. An intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value on initial recognition with reference to the fair value of the services provided. Subsequent to initial recognition, the intangible asset is measured at cost, less accumulated amortization and accumulated impairment losses.

(ii) Amortization

The amortization method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset, and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits. The Group determined that the amortization method that reflects appropriately the expected pattern of consumption of the expected future economic benefits is correlated with the amortisation of the regulated asset base "RAB" (refer to Note 1). The remaining useful life of the intangible assets related to the concession arrangements is 10 years at 31 December 2017 (useful life 25 years).

(l) Other intangible assets

(i) Recognition and measurement

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization 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 generally recognised in profit or loss.

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

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

(m) Assets held for distribution to shareholders

Non-current assets, or disposal groups 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 disposal groups, are measured at the lower of their carrying amount and fair value less costs of distribution. Impairment losses on initial classification as held-for-distribution and subsequent gains and losses on re-measurement are recognised in profit or loss.

Once classified as held-for-distribution, equity-accounted investee is no longer equity accounted.

(n) Financial instruments

The Group classifies non-derivative financial assets into the following categories: loans and receivables and held to maturity investments.

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

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

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

The Group derecognises 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 derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group 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 recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

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

Trade receivables

Trade receivables include mainly unsettled invoices issued until reporting date for supply and distribution of electricity and services, late payment penalties and accrued revenue for electricity delivered and services rendered until the end of the year, but invoiced after the end of the year.

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 acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group 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, they are measured at amortized cost using the effective interest method.

(iii) Non-derivative financial liabilities – measurement

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

Other financial liabilities include bank borrowings, bank overdrafts, Financing for network construction related to concession agreements and trade payables.

Bank overdrafts that are repayable on demand and form an integral part of the Group'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 recognised as a deduction from equity.

Repurchase and reissue of ordinary shares (treasury shares)
When shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are 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.

(v) 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 Group on terms that the Group would not consider otherwise;
- 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 measurable decrease in expected cash flows from a group of financial assets.

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets 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 Group 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. For household customers the receivables are written off when the Group considers that there are no realistic prospects of recovery of the asset. For customers other than households, 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 related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

(ii) Non-financial assets

At each reporting date, the Group 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 recognised.

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

(o) Revaluation reserve

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

If an asset's carrying amount is increased as a result of a revaluation, the increase is recognised and accumulated in equity under the heading of revaluation reserve. However, the increase is recognised 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.

(p) Dividends

Dividends are recognized as a deduction from equity in the period in which their distribution is approved and recognised 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.

(q) Pre-paid 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.

(r) Provisions

A provision is recognised if, as a result of a past event, the Group 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 Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

(s) Contingent assets and liabilities

A contingent liability is:

a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

b) a present obligation that arises from past events but is not recognized because:

i. it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

ii. the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognized in the Group's financial statements, but disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

A contingent asset is not recognized in the Group's financial statements but disclosed when an inflow of economic benefits is probable.

(t) Leases

(i) Determining whether an arrangement contains a lease

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

At inception or on reassessment of an arrangement that contains a lease, the Group 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 Group 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 Group's incremental borrowing rate.

(ii) Leased assets

Assets held by the Group under leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets and finance lease liability are measured initially 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 Group's consolidated 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) Rental income

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

(u) Segment reporting

Segment results that are reported to the Company's Board of Directors (the chief operating decision maker) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly deferred taxes.

(v) Subsequent events

Events occurring after the reporting date 31 December 2017, which provide additional information about conditions prevailing at the reporting date (adjusting events) are reflected in the consolidated 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 consolidated 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 Group started to apply IFRS 9 on 1 January 2018. The Group concluded that the new requirements, if applied at 31 December 2017, would not had a material impact on its consolidated 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 Group started to apply IFRS 15 on 1 January 2018.

  Rendering of services

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

  Transition

  The Group adopted IFRS 15 at 1 January 2018, using the retrospective approach. As a result, the Group 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 Group 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 Group 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 entity'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 Operating segments

(a) Basis for segmentation

The following summary describes the operations of each reportable segment.

Reportable segments	**Operations**
Electricity supply	Buying and supplying electricity to final consumers (includes Electrica Furnizare SA and the supply activity of Electrica SA)
Electricity distribution	Electricity distribution service (includes Societatea de Distributie a Energiei Electrice Transilvania Sud SA, Societatea de Distributie a Energiei Electrice Transilvania Nord SA, Societatea de Distributie a Energiei Electrice Muntenia Nord SA, Electrica Serv SA and the investments in distribution activity done by Societatea Energetica Electrica SA)
External electricity network maintenance	Repairs, maintenance and other services for electricity networks owned by other distributors (includes Servicii Energetice Oltenia SA and Servicii Energetice Muntenia SA).
Headquarter	Includes corporate services at parent level

The Board of Directors of the Company reviews management reports of each segment. Segment earnings before interest, tax, depreciation and amortisation (EBITDA) is used to measure performance because management believes that such information is the most relevant in evaluating the results of the segments.

(All amounts are in THOUSAND RON, if not otherwise stated)

Information about reportable segments

Year ended 31 December 2017	**Electricity supply**	**Electricity distribution**	**External electricity network maintenance**	**Headquarter**	**Total for reportable segments**	**Consolidation eliminations and adjustments**	**Consolidated total**
External revenues	4,125,678	1,437,646	39,911	-	5,603,235	-	**5,603,235**
Inter-segment revenue	98,975	1,238,100	13,821	-	1,350,896	(1,350,896)	**-**
Segment revenue	**4,224,653**	**2,675,746**	**53,732**	**-**	**6,954,131**	**(1,350,896)**	**5,603,235**
Segment profit before tax	**(1,607)**	**243,190**	**17,368**	**285,013**	**543,964**	**(337,213)**	**206,751**
Net finance (cost)/income	1,131	(8,505)	108	364,324	**357,058**	(347,341)	**9,717**
Depreciation, amortization and impairment, net	(12,664)	(392,085)	343	-	**(404,406)**	-	**(404,406)**
Gain on control loss over subsidiaries	-	-	-	-	**-**		**-**
EBITDA*	9,926	650,413	6,006	(77,366)	**588,979**	12,461	**601,440**
Segment net profit (loss)	1,164	205,227	17,368	285,013	**508,772**	(337,213)	**171,559**
Employee benefits	(78,591)	(522,060)	(15,919)	(25,848)	**(642,418)**	-	**(642,418)**
Segment assets	**1,067,230**	**5,769,629**	**144,458**	**1,222,115**	**8,203,432**	**(586,097)**	**7,617,335**
Trade and other receivables	697,069	447,032	27,909	297	**1,172,307**	(312,412)	**859,895**
Cash and cash equivalents	219,306	208,391	8,802	125,994	**562,493**	-	**562,493**
Restricted cash	-	-	-	320,000	**320,000**	-	**320,000**
Deposits, treasury bills and government bonds	-	-	-	746,981	**746,981**	-	**746,981**
Trade and other payables, and short term employee benefits	710,796	482,322	58,397	12,449	**1,263,964**	(320,975)	**942,989**
Bank overdrafts	-	247,904	-	-	**247,904**	-	**247,904**
Financing for network construction related to concession agreements and bank borrowings	-	363,831	-	-	**363,831**	-	**363,831**
Capital expenditure	10,626	776,901	2,136	1,199	**790,862**	-	**790,862**

(All amounts are in THOUSAND RON, if not otherwise stated)

The breakdown of the Electricity distribution reportable segment is as follows:

Year ended 31 December 2017	**Distribution Muntenia Nord**	**Distribution Transilvania Nord**	**Distribution Transilvania Sud**	**Electricity network maintenance**	**Eliminations**	**Total Electricity distribution**
External revenues	446,055	469,517	473,767	48,307	-	**1,437,646**
Inter-segment revenue	416,919	383,428	398,949	310,745	(271,941)	**1,238,100**
Segment revenue	**862,974**	**852,945**	**872,716**	**359,052**	**(271,941)**	**2,675,746**
Segment profit /(loss) before tax	**35,823**	**79,190**	**117,660**	**10,516**	**1**	**243,190**
Net finance (cost)/income	(1,928)	(2,873)	(2,374)	(1,330)	-	**(8,505)**
Depreciation, amortization and impairment, net	(117,911)	(133,304)	(135,455)	(12,807)	7,392	**(392,085)**
EBITDA*	154,904	215,367	255,489	24,653	-	**650,413**
Net profit	26,567	63,645	101,169	13,846	-	**205,227**
Employee benefits	(139,519)	(138,917)	(134,589)	(120,933)	11,898	**(522,060)**
Segment assets	**1,908,339**	**1,772,965**	**1,691,300**	**469,321**	**(72,296)**	**5,769,629**
Trade and other receivables	138,621	129,961	150,196	100,550	(72,296)	**447,032**
Cash and cash equivalents	96,140	23,972	59,367	28,912	-	**208,391**
Deposits, treasury bills and government bonds	-	-	-	-	-	**-**
Trade and other payables, and short term employee benefits	155,541	185,121	159,883	54,073	(72,296)	**482,322**
Bank overdrafts	21,185	128,511	98,208	-	-	**247,904**
Financing for network construction related to concession agreements and bank borrowings	99,139	121,127	143,565	-	-	**363,831**
Capital expenditure	267,009	253,576	254,180	2,136	-	**776,901**

(All amounts are in THOUSAND RON, if not otherwise stated)

Year ended 31 December 2016	**Electricity supply**	**Electricity distribution**	**External electricity network maintenance**	**Headquarter**	**Total for reportable segments**	**Consolidation eliminations and adjustments**	**Consolidated total**
External revenues	4,346,816	1,141,823	29,163	-	5,517,802	-	**5,517,802**
Inter-segment revenue	84,922	1,355,800	13,079	-	1,453,801	(1,453,801)	**-**
Segment revenue	**4,431,738**	**2,497,623**	**42,242**	**-**	**6,971,603**	**(1,453,801)**	**5,517,802**
Segment profit (loss) before tax	**173,781**	**397,660**	**70,491**	**318,439**	**960,371**	**(371,338)**	**589,033**
Net finance (cost)/income	(1,346)	(12,093)	14	387,944	**374,519**	(371,338)	**3,181**
Depreciation, amortization and impairment, net	(10,197)	(350,352)	(7,622)	(5,620)	**(373,791)**	-	**(373,791)**
Gain on control loss over subsidiaries	-	-	73,693	-	**73,693**	-	**73,693**
EBITDA*	185,324	760,105	78,099	(63,885)	**959,643**	-	**959,643**
Segment net profit (loss)	139,174	311,612	71,011	318,439	**840,236**	(371,339)	**468,897**
Employee benefits	(81,864)	(529,382)	(22,634)	(20,503)	**(654,383)**	-	**(654,383)**
Segment assets	**1,225,799**	**5,128,477**	**154,704**	**2,224,487**	**8,733,467**	**(335,314)**	**8,398,153**
Trade and other receivables	669,372	544,644	24,080	-	1,238,096	(440,077)	**798,019**
Cash and cash equivalents	464,551	214,105	13,142	197,043	888,841	-	**888,841**
Cash restricted	-	-	-	134,492	134,492	-	**134,492**
Deposits, treasury bills and government bonds	-	7,939	-	1,867,115	1,875,054	-	**1,875,054**
Trade and other payables, and short term employee benefits	802,107	455,444	80,578	13,821	1,351,950	(349,597)	**1,002,353**
Bank overdrafts	-	142,626	-	-	142,626	-	**142,626**
Financing for network construction related to concession agreements and bank borrowings	-	254,863	-	-	254,863	-	**254,863**
Capital expenditure	10,143	546,480	-	-	556,623	-	**556,623**

(All amounts are in THOUSAND RON, if not otherwise stated)

The breakdown of the Electricity distribution reportable segment is as follows:

Year ended 31 December 2016	**Distribution Muntenia Nord**	**Distribution Transilvania Nord**	**Distribution Transilvania Sud**	**Electricity network maintenance**	**Eliminations**	**Total Electricity distribution**
External revenues	339,275	423,131	350,164	29,253	-	**1,141,823**
Inter-segment revenue	461,592	434,348	439,666	335,657	(315,463)	**1,355,800**
Segment revenue	**800,867**	**857,479**	**789,830**	**364,910**	**(315,463)**	**2,497,623**
Segment profit (loss) before tax	**118,606**	**144,913**	**130,208**	**3,933**	**-**	**397,660**
Net finance (cost)/income	(6,110)	(896)	(4,739)	(348)	-	**(12,093)**
Depreciation, amortization and impairment, net	(102,308)	(123,030)	(121,510)	(13,179)	9,675	**(350,352)**
EBITDA*	227,024	268,839	256,457	17,460	(9,675)	**760,105**
Net profit	97,538	108,609	107,728	(2,263)	-	**311,612**
Employee benefits	(124,314)	(123,078)	(118,655)	(168,535)	5,200	**(529,382)**
Segment assets	**1,687,859**	**1,543,364**	**1,493,920**	**484,109**	**(80,775)**	**5,128,477**
Trade and other receivables	136,248	134,422	138,631	216,118	(80,775)	**544,644**
Cash and cash equivalents	127,658	16,691	56,454	13,302	-	**214,105**
Deposits, treasury bills and government bonds	7,939	-	-	-	-	**7,939**
Trade and other payables, and short term employee benefits	133,472	154,223	148,129	100,395	(80,775)	**455,444**
Bank overdrafts	-	100,474	42,152	-	-	**142,626**
Financing for network construction related to concession agreements and bank borrowings	50,611	107,364	96,888	-	-	**254,863**
Capital expenditure	162,395	234,244	148,104	1,737	-	**546,480**

EBITDA (Earnings before interest, tax, depreciation and amortisation) for operating segments is defined and calculated as segment profit (loss) before tax of a given operating segment adjusted for i) depreciation, amortization and impairment/ reversal of impairment of property, plant and equipment and intangible assets in the operating segment, ii) net finance (cost)/income in the operating segment. EBITDA is not an IFRS measure and should not be treated as an alternative to IFRS measures. Moreover, EBITDA is not uniformly defined. The method used to calculate EBITDA by other companies may differ significantly from that used by the Group. As a consequence, the EBITDA presented in this note cannot, as such, be relied upon for the purpose of comparison to EBITDA of other companies.

(All amounts are in THOUSAND RON, if not otherwise stated)

(b) Reconciliation of information on reportable segments to IFRS measures

	31 December 2017	31 December 2016
Total assets		
Total assets for reportable segments	8,203,432	8,733,467
Elimination of inter-segment assets	(627,197)	(373,733)
Unallocated amounts	41,100	38,419
Consolidated total assets	**7,617,335**	**8,398,153**
Trade and other receivables		
Trade and other receivables for reportable segments	1,172,307	1,238,096
Elimination of inter-segment trade and other receivables	(312,412)	(438,828)
Unallocated amounts	-	(1,249)
Consolidated trade and other receivables	**859,895**	**798,019**
Trade and other payables and short term employee benefits		
Trade and other payables and short term employee benefits for reportable segments	1,263,964	1,351,950
Elimination of inter-segment trade and other payables and short term employee benefits	(320,975)	(348,348)
Unallocated amounts	-	(1,249)
Consolidated trade and other payables and short term employee benefits	**942,989**	**1,002,353**

9 Revenue

	2017	2016
Electricity distribution and supply	4,728,726	4,892,158
Construction revenue related to concession agreements (Note 26)	760,240	537,872
Repairs and maintenance and other services rendered	101,711	69,544
Re-connection fees	9,542	9,454
Sales of merchandise	3,016	8,774
Total	**5,603,235**	**5,517,802**

10 Electricity Purchased

The cost of electricity purchased increased in the period ended at 31 December 2017, following the significant increase of the prices on the Romanian energy market, mainly in the period January – March 2017, in the context of the highest electricity consumption from the last decades, when record prices were registered, that affected the entire market, generating chain reactions, including abnormal behaviours of some players in the market.

11 Income and expenses

(a) Other income

	2017	2016
Rent income	93,576	87,985
Late payment penalties from customers	21,909	24,443
Revenue from clients' notifications	19,478	26,274
Commissions for the collection of radio and TV taxes (Note 28)	3,633	14,312
Compensations received from energy suppliers	5,300	-
Gain on loss of control over subsidiaries (Note 33)	-	73,693
Other	29,591	16,747

Total	**173,487**	**243,454**

(b) Other operating expenses

	2017	2016
Rent	70,075	67,332
Meter readings	35,452	34,855
Printing and distribution of invoices	32,901	33,041
Cash collection services	26,095	30,964
IT services	26,192	32,258
Postage and telecommunication	11,622	18,984
Utilities	31,226	27,115
Security	7,010	9,921
Call centre	8,805	7,747
Penalties for late payment and other payments to the State	3,181	63,140
Commercial penalties	25,809	-
Other taxes and duties	46,895	48,262
Legal and consultancy fees	4,413	3,819
Cost of merchandise sold	1,881	4,791
Bank commissions	1,091	2,271
Recontracting costs	8,502	-
Other	58,641	57,459
Total	**399,791**	**441,959**

"Penalties for late payment and other payment to the State" in 2016 includes an amount of RON 58,127 thousand in connection with disputes with the National Agency for Fiscal Administration "NAFA", for several claims related to a prior fiscal inspection reports.

In 2010, Electrica SA 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 25,048 thousand and to the payment of the court charges amounting RON 762 thousand. Therefore the amount of RON thousand 25,809 „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.

12 Net finance income

	2017	2016
Interest income	20,052	17,935
Other finance income	64	2,102
Total finance income	**20,116**	**20,037**
Interest expense	(3,390)	(4,439)
Interest (cost)/income for employee benefits (Note 15)	(6,346)	(10,728)
Foreign exchange losses	(663)	(1,689)
Total finance costs	**(10,399)**	**(16,856)**
Net finance income	**9,717**	**3,181**

(All amounts are in THOUSAND RON, if not otherwise stated)

13 Earnings per share

The calculation of basic and diluted earnings per share has been 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	127,730	356,566
Profit attributable to ordinary shareholders	**127,730**	**356,566**

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

	2017	2016
Issued ordinary shares at 1 January (Note 24)	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, treasury share (6,890,593 shares) were not treated as outstanding ordinary shares and were deducted from the number of issued ordinary shares.

Earnings per share	**2017**	**2016**
Basic and diluted earnings per share (RON)	**0.38**	**1.05**

14 Short-term employee benefits

	31 December 2017	31 December 2016
Personnel payables	34,162	36,743
Current portion of defined benefit liability and other long-term employee benefits	8,216	10,260
Social security charges	27,890	27,859
Tax on salaries	8,650	9,059
Termination benefits payable	-	51
Total	**78,918**	**83,972**

For details of the related employee benefit expenses, see Note 16.

In Romania, all employers and employees, as well as other persons, are contributors to the state social security system. The social security system covers pensions, allocations for children, temporary inability to work, risks of works and professional diseases and other social assistance services, unemployment benefits and incentives for employers creating new workplaces.

15 Post-employment and other long-term employee benefits

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

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

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

(All amounts are in THOUSAND RON, if not otherwise stated)

	31 December 2017	31 December 2016
Defined benefit liability	105,451	124,445
Other long-term employee benefits	68,213	78,780
Total	**173,664**	**203,225**
- Current portion*	8,216	10,260
- Non-current portion	165,448	192,965

*****\ *included in Personnel payables in Note 14*

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

The following tables shows a reconciliation from the opening balances to the closing balances for the defined benefit liability and other long-term employee benefits and its components. There are no plan assets.

Defined benefit liability	**2017**	**2016**
Balance at 1 January	**124,445**	**126,322**
Included in profit or loss		
Current service cost	668	2,383
Interest (income) / cost	4,608	8,003
Included in other comprehensive income		
Remeasurements loss (gain)		
- Actuarial loss /(gain)	(19,173)	(4,792)
Other		
Benefits paid	(5,097)	(7,471)
Balance at 31 December	**105,451**	**124,445**

Other long-term employee benefits	**2017**	**2016**
Balance at 1 January	**78,780**	**79,790**
Included in profit or loss		
Current service cost	2,494	2,331
Actuarial gain	(11,770)	(3,432)
Interest cost /(income)	1,738	2,725
Benefits paid	(3,029)	(2,634)
Balance at 31 December	**68,213**	**78,780**

(ii) Actuarial assumptions

The following were the main actuarial assumptions at each reporting date:

(a) *Macroeconomic assumptions*:

- inflation. The actuaries used information from *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%	2.2%
2020	2%	2%
2021+	1.8%	2%

- the discount rate used was the yield for Romanian government bonds maturing in 15 years at the reporting date, of 4.5% for the year 2017 (2016: 3.63%);

(All amounts are in THOUSAND RON, if not otherwise stated)

- the electricity price per KWh used 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) *Group 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 Group 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 determined considering the expected staff variation for the year, and for the following years the historical data for 2013-2017 were considered;
- Jubilee and retirement bonuses granted based on seniority per the collective labour contract, as follows:

Jubilee bonus 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 bonus based on years of service in the Group

Seniority	**No of gross monthly base salaries**	
	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.

Termination benefits

(a) Termination benefits for individual lay-off at the Group's initiative

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

Period of service	**No of gross monthly base salaries**
1 - 5 years	4
5 - 10 years	6
10 - 20 years	7
More than 20 years	10

(All amounts are in THOUSAND RON, if not otherwise stated)

(b) Termination benefits for collective lay-offs at the Group's initiative

For collective lay-offs, according to the Collective labour contract, the Group pays termination benefits to the employees depending on their period of service, as follows:

Period of service	**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 stipulations do not apply to employees that obtained other higher cumulative salary compensation rights, provided by legal regulations regarding the Group's reorganization and restructuring. Employees who are re-employed within the Group after lay-off are not entitled to the above mentioned benefits.

(c) Termination benefits for voluntary redundancies

In accordance with the Agreement dated 13 August 2015 signed between the Group and the Unions and the Addendums to Collective Labour Contract, in case the individual labour contracts are terminated as voluntary redundancy from the employee, the Group pays termination benefits depending on the period to reach the standard retirement age, the period of service in the Group and the seniority. The number of gross monthly base salaries paid as termination benefits vary between 4 and 18.

16 Employee benefit expenses

	2017	**2016**
Average number of employees	9,210	10,000
Number of employees at 31 December	8,792	9,685

	2017	**2016**
Wages and salaries*	463,413	481,867
Social security contributions	117,005	118,865
Meal tickets	22,006	19,433
Termination benefits	51,892	39,418
Total employees benefits for the year	**654,316**	**659,583**
Capitalised employee benefit expenses	(11,898)	(5,200)
Total employees benefits in the statement of profit or loss	**642,418**	**654,383**

* *Wages and salaries includes also current service cost, defined benefits and other long-term employee benefits.*

The overall decrease of wages and salaries is generated mainly by the decrease in the number of employees.

Termination benefits represent compensation payments in case of employees' voluntary departure as well as management compensation in case of mandate contracts termination.

Management remuneration is disclosed in Note 32 b).

17 Income taxes

In determining the amount of current and deferred tax, the Group 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 Group considers that the accounting records for taxes due are adequate for all open tax 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 Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(All amounts are in THOUSAND RON, if not otherwise stated)

(i) Amounts recognised in profit or loss

	2017	**2016**
Current tax expense	42,049	85,473
Deferred tax expense/(income)	(6,857)	26,117
Adjustments for prior years' current tax	-	8,546
Total income tax expense	**35,192**	**120,136**

(ii) Amounts recognised in other comprehensive income

	2017			**2016**		
	Before tax	**Tax (expense) benefit**	**Net of tax**	**Before tax**	**Tax (expense) benefit**	**Net of tax**
Remeasurement of defined benefit liability	19,173	(1,300)	17,873	4,792	(768)	4,024
Revaluation of property, plant and equipment	55,873	(8,940)	46,934	-	-	-
Total	**75,046**	**(10,240)**	**64,807**	**4,792**	**(768)**	**4,024**

(iii) Reconciliation of effective tax rate

	2017		**2016**	
Profit before tax		**206,751**		**589,033**
Tax using Company's domestic tax rate	**16%**	33,080	**16%**	**94,245**
Non-deductible expenses	4%	7,540	1%	3,892
Effect of share of profit of equity-accounted investees	0%	-	-	-
Non-taxable income	-2%	(3,862)	-1%	(7,397)
Deduction of legal reserves	-1%	(1,734)	-1%	(3,285)
Other tax effects	-1%	(2,437)	-2%	(9,226)
Adjustment for prior years	1%	3,036	1%	8,546
Recognition of tax effect of previously unrecognised tax losses	-3%	(5,242)	-	-
Current-year tax losses for which no deferred tax asset is recognised	6%	11,667	1%	8,614
Deferred tax asset derecognized	0%	-	1%	7,089
Change in recognised temporary differences	-3%	(6,857)	3%	17,658
Income tax	**17%**	**35,192**	**20%**	**120,136**

(All amounts are in THOUSAND RON, if not otherwise stated)

(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**	**Effect of loss of control over subsidiary**	**Net**	**Deferred tax assets**	**Deferred tax liabilities**
Property, plant and equipment	56,914	(5,685)	8,940	-	60,169	-	60,169
Intangible assets related to concession agreements	159,146	1,018			160,164	-	160,164
Employee benefits	(12,801)	1,891	1,300	-	(9,610)	(9,610)	-
Impairment of trade receivables	(44,124)	15,671	-	-	(28,453)	(28,453)	-
Tax loss carried forward	(2,544)	(22,572)	-	-	(25,116)	(25,116)	-
Other items	(570)	2,820	-	-	2,250	-	2,250
Tax liabilities (assets) before set-off	**156,021**	**(6,857)**	**10,240**	**-**	**159,404**	**(63,179)**	**222,583**
Set off of tax						22,079	(22,079)
Net tax liabilities (assets)						**(41,100)**	**200,504**

					Balance at 31 December 2016		
2016	**Net balance at 1 January 2016**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Effect of loss of control over subsidiary**	**Net**	**Deferred tax assets**	**Deferred tax liabilities**
Property, plant and equipment	60,438	(2,004)	-	(1,520)	56,914	-	56,914
Intangible assets related to concession agreements	154,608	4,538	-	-	159,146	-	159,146
Employee benefits	(14,916)	1,347	768	-	(12,801)	(12,801)	-
Impairment of trade receivables	(48,360)	4,236	-	-	(44,124)	(44,124)	-
Tax loss carried forward	(14,001)	11,457	-	-	(2,544)	(2,544)	-
Other items	(7,113)	6,543	-	-	(570)	(570)	-
Tax liabilities (assets) before set-off	**130,656**	**26,117**	**768**	**(1,520)**	**156,021**	**(60,039)**	**216,060**
Set off of tax						20,371	(20,371)
Net tax liabilities (assets)	**130,656**	**26,117**	**768**	**(1,520)**	**156,021**	**(39,668)**	**195,689**

(v) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the certain tax losses generated by several Companies within the Group, because it is not probable that future taxable profit will be available against which the entity generating it can use the benefits therefrom.

	2017	**2016**
Tax losses	387,199	349,362

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)	72,920	**-**
2016 (expiring in 2023)	49,337	53,838

(All amounts are in THOUSAND RON, if not otherwise stated)

	Tax losses	
Year when the tax loss was generated:	**2017**	**2016**
2015 (expiring in 2022)	37,486	51,439
2014 (expiring in 2021)	84,206	84,206
2013 (expiring in 2020)	62,179	62,179
2012 (expiring in 2019)	70,175	70,175
2011 (expiring in 2018)	10,896	10,896
2010 (expiring in 2017)	-	16,629
Total	**387,199**	**349,362**

18 Trade receivables

	31 December 2017	31 December 2016
Trade receivables, gross	1,863,868	1,906,093
Bad debt allowance	(1,059,507)	(1,128,104)
Total trade receivables, net	**804,361**	**777,989**

Trade receivables from related parties are presented in Note 32.

Trade receivables gross comprise:

	31 December 2017	31 December 2016
Electricity distribution and supply	741,351	755,151
Late payment penalties receivable	87,276	113,781
Electricity receivables and late payment penalties from clients in litigation, insolvency and bankruptcy	924,696	926,148
Repairs, maintenance and other services	37,842	26,936
Other	72,703	84,077
Total trade receivables, gross	**1,863,868**	**1,906,093**

The movement in the bad debt allowance for trade receivables is as follows:

Bad debt allowance	**2017**	**2016**
Balance as at 1 January	**1,128,104**	**1,125,117**
Impairment recognized	46,234	74,145
Impairment reversed	(26,726)	(28,918)
Amounts written off	(88,105)	(42,240)
Balance as at 31 December	**1,059,507**	**1,128,104**

For the aging of trade receivables refer to Note 31.

A significant part of the bad debt allowances refers to clients in litigation, insolvency or bankruptcy procedures, many of them being older than four years. The Group will derecognize these receivables together with the related allowances after the finalization of the bankruptcy process.

Impairment recognized during the period refers mainly to doubtful receivables from Fidelis Energy SRL (RON 11,218 thousand), Transenergo Com S.A. (RON 5,367 thousand), Electra Management (RON 2,100 thousand), Arelco Power (RON 2,105 thousand), as well as several other traders of electricity which entered insolvency procedures given the recent adverse changes in prices on the electricity spot market.

In 2016, impairment recognized refers mainly to doubtful receivables from Transenergo Com S.A., a trader of electricity whose financial situation deteriorated given the recent adverse changes in prices on the electricity spot market. Electrica has initiated foreclosure proceedings against this client due to non-payment of invoices starting September 2016. On 1

(All amounts are in THOUSAND RON, if not otherwise stated)

February 2017 Transenergo Com S.A. entered into the insolvency procedure. The gross outstanding amount receivable from Transenergo Com S.A as at 31 December 2016 was of RON 44,426 thousand, out of which Electrica SA benefits from an insurance policy for RON 4,000 thousand.

Amounts written off in 2017 refer mainly to Filiala Balan S.A., (subsidiary of C.N.C.A.F. MINVEST S.A.) (RON 48,482 thousand) and Metal S.R.L. (RON 19,017 thousand), clients of Electrica Furnizare for which the bankruptcy procedure was closed.

Amounts written off in 2016 refer mainly to RON 35,483 thousand from Tractorul UTB Brasov, client of Electrica Furnizare, for which the bankruptcy procedure was closed.

19 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	462,739	1,757,746
Deposits with maturity of more than three months	284,242	117,308
Total deposits, treasury bills and government bonds	**746,981**	**1,875,054**

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, Marfin Bank, ING Bank. Treasury bills and government bonds were classified as held to maturity investments.

20 Other receivables

	31 December 2017	31 December 2016
Good performance guarantees	3,382	7,127
VAT receivable	26,067	2,301
Interest receivable	17	43
Structural funds	11	72
Other receivables	48.078	39,152
Bad debt allowance	(22.021)	(28,665)
Total other receivables, net	**55.534**	**20,030**

The movement in the bad debt allowance for other receivables is as follows:

Bad debt allowance	**2017**	**2016**
Balance as at 1 January	**28,665**	**35,862**
Impairment recognized	118	-
Amounts written off	-	(2,584)
Impairment reversed	(6,762)	(4,613)
Balance as at 31 December	**22,021**	**28,665**

21 Cash and cash equivalents

	31 December 2017	31 December 2016
Bank current accounts	330,562	148,111
Call deposits	231,769	740,487
Cash in hand	162	243
Total cash and cash equivalents in the consolidated statement of financial position	**562,493**	**888,841**
Overdrafts used for cash management purposes	(247,904)	(142,626)

(All amounts are in THOUSAND RON, if not otherwise stated)

	31 December 2017	31 December 2016
Total cash and cash equivalents in the consolidated statement of cash flows	**314,589**	**746,215**

As at 31 December 2017, Electrica SA has collateral deposits at BRD - Groupe Societe Generale as guarantees for the long term borrowings received from BRD by Societatea de Distributie a Energiei Electrice Transilvania Sud, Societatea de Distributie a Energiei Electrice Transilvania Nord and Societatea de Distributie a Energiei Electrice Muntenia. The amount of the collateral deposits as at 31 December 2017 is RON 320,000 thousands (31 December 2016: RON 134,492 thousands) presented in the statement of financial position as long-term restricted cash.

The Group has overdrafts from Raiffeisen Bank and BCR as follows:

Bank	Contract date	Facility type	Maturity	Overdraft limit (th RON)	Balance at 31 December 2017
Raiffeisen Bank S.A.	November 2017	overdraft facility for financing working capital	Until November 2018	100,000	98,208
BCR	January 2017	Overdraft facility	Until March 2018	180,000	128,511
BCR	May 2017	overdraft facility for financing working capital	Until October 2018	95,000	21,185
Raiffeisen Bank S.A.	August 2017	overdraft facility for financing working capital	August 2018	67,000	-
Total				**442,000**	**247,904**

Bank	Contract date	Facility type	Maturity	Overdraft limit (th RON)	Balance at 31 December 2016
BCR	28-Jan-16	overdraft facility for financing current activity	until 31 March 2017	150,000	100,474
ING Bank N.V. and BRD Groupe Societe Generale	8-Dec-16	working capital financing and issuance of potential commitments	1 year for overdraft, 2 years for potential commitments	80,000	42,152
Total				**230,000**	**142,626**

The security for these overdrafts is presented in Note 35 d).

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

Non-cash activity includes:

- set-off between trade receivables and trade payables of RON 150 million in 2017 (2016: RON 101 million);
- effect of loss of control over subsidiaries under financial distress (see Note 33).

(All amounts are in THOUSAND RON, if not otherwise stated)

22 Property, plant and equipment

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

	Land and land improvements	Buildings	Equipment	Vehicles, furniture and office equipment	Construction in progress	Total
Gross carrying amount						
Balance at 1 January 2016	**299,670**	**261,695**	**269,319**	**98,323**	**71,894**	**1,000,901**
Additions	2,283	-	5,515	227	3,196	11,221
Transfer from construction in progress	-	2,164	12,096	-	(14,260)	-
Disposals	(7,695)	(16,038)	(867)	(1,078)	-	(25,948)
Effect of loss of control over subsidiaries (Note 33)	(16,158)	(22,436)	-	(5,653)	-	(44,247)
Balance at 31 December 2016	**277,830**	**225,385**	**286,063**	**91,189**	**60,830**	**941,927**
Additions	-	1,548	6,271	1,486	4,203	**13,508**
Transfer from construction in progress	-	5,513	862	801	(7,176)	**-**
Disposals	(461)	(5,373)	(26,259)	(679)	(144)	**(32,916)**
Revaluation recognized in profit or loss, net	(1,907)	(2,901)	-	-	-	**(4,808)**
Revaluation recognized in other comprehensive income, net	14,287	28,487	13,099	-	-	**55,873**
Gross book value netted off against the accumulated depreciation at revaluation	-	(24,213)	(13,268)	-	-	**(37,481)**
Balance at 31 December 2017	**289,749**	**228,446**	**266,768**	**92,797**	**57,713**	**935,473**
Accumulated depreciation and impairment losses						
Balance at 1 January 2016	**2,500**	**34,508**	**75,651**	**79,728**	**29,250**	**221,637**
Depreciation	-	8,010	27,957	4,919	-	40,886
Accumulated depreciation of disposals	-	(4,189)	(867)	(1,078)	-	(6,134)
Impairment loss	-	695	-	-	-	695
Effect of loss of control over subsidiaries (Note 33)	(2,500)	(8,966)	-	(5,653)	-	(17,119)
Balance at 31 December 2016	**-**	**30,058**	**102,741**	**77,916**	**29,250**	**239,965**
Depreciation	-	9,729	20,617	1,667	-	**32,013**
Accumulated depreciation of disposals	-	(251)	(3,624)	(656)	-	**(4,531)**
Impairment loss	-	860	3,137	-	-	**3,997**
Reversal of impairment loss	-	-	-	-	-	-
Accumulated depreciation netted off against gross book value at revaluation	-	(24,213)	(13,268)	-	-	**(37,481)**
Balance at 31 December 2017	**-**	**16,183**	**109,603**	**78,927**	**29,250**	**233,963**
Net carrying amounts						
At 1 January 2016	**297,170**	**227,187**	**193,668**	**18,595**	**42,644**	**779,264**
At 31 December 2016	**277,830**	**195,327**	**183,322**	**13,903**	**31,580**	**701,962**
At 31 December 2017	**289,749**	**212,263**	**157,165**	**13,870**	**28,463**	**701,510**

(All amounts are in THOUSAND RON, if not otherwise stated)

The tangible assets include mainly land, buildings and the Automatic Meter Reading system ("AMR"). At December 31, 2017, the Group performed the revaluation of land, buildings and equipments.

The restrictions on property, plant and equipment are presented in Note 35 d).

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 of 31 December 2017, 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 recent transactions.	• Adjustment for liquidity, location, size	The estimated fair value would increase (decrease) if: • Adjustment for liquidity, location, size was lower (higher)
Buildings	*Market approach and discounted cash-flows (DCF) method* Buildings were evaluated using the following methods, depending on the best use and the availability and credibility of available market information: *Market approach* The market approach is based on the selling price per square meter for buildings with similar characteristics, adjusted for liquidity, location, size etc. *The DCF method* The valuation model based on the DCF method estimates the present value of net cash flows to be generated by a building taking into account occupancy rate and costs not paid by tenants. The discount rate estimation considers, inter alia, the quality of a building and its location.	• Occupancy rates (between 80% and 90%) • Discount rates (between 9% and 11%) • Costs not paid by tenants (between 7% and 13%) • Annual rent per sqm (between 2.5 and 10 EUR/sqm)	The estimated fair value would increase (decrease) if: • Occupancy rates were higher (lower) • Discount rates were lower (higher) • Costs not paid were lower (higher) • Annual rent per sqm was higher (lower)
Other PPE	*Market Approach and net replacement cost approach* The market approach was applied for equipments with an active market (automobiles, office equipment etc.) The net replacement cost has been applied for specialised assets, for which there is no no market where these can be valued.	• Price adjustments (market approach) depending on the availability of trading negotiation and the current market conditions at each comparable level • Adjustments for physical depreciation, functional wear and economic wear	The estimated fair value would increase (decrease) if: • Price adjustments would be positive (negative) • Adjustments for wear would be lower (higher)

(All amounts are in THOUSAND RON, if not otherwise stated)

23 Intangible Assets

Intangible assets include mainly intangible assets related to distribution service concession agreements recorded in accordance with IFRIC 12 "Service Concession Arrangements", licenses and costs of implementation of SAP ERP, customer management and billing system, and automation software, as follows:

	Intangible assets related to concession agreements	Software and licenses	Intangible assets in progress	Total
Gross book value				
Balance at 1 January 2016	**5,986,667**	**169,404**	**1,604**	**6,157,675**
Additions	537,872	7,530	-	545,402
Disposals	-	(359)	-	(359)
Balance at 31 December 2016	**6,524,539**	**176,575**	**1,604**	**6,702,718**
Additions	776,901	2,392	1,971	781,264
Disposals	-	(1,621)	(316)	(1,937)
Balance at 31 December 2017	**7,301,440**	**177,346**	**3,259**	**7,482,045**
Accumulated amortization and impairment losses				
Balance at 1 January 2016	**2,286,456**	**156,713**	**-**	**2,443,169**
Amortization	327,695	4,515	-	332,210
Accumulated amortization of disposals	-	(267)	-	(267)
Balance at 31 December 2016	**2,614,151**	**160,961**	**-**	**2,775,112**
Amortization	356,380	7,208	-	363,588
Accumulated amortization of disposals	-	(1,617)	-	(1,617)
Balance at 31 December 2017	**2,970,531**	**166,552**	**-**	**3,137,083**
At 1 January 2016	**3,700,211**	**12,691**	**1,604**	**3,714,506**
At 31 December 2016	**3,910,388**	**15,614**	**1,604**	**3,927,606**
At 31 December 2017	**4,330,909**	**10,794**	**3,259**	**4,344,962**

The distribution subsidiaries (as operators) concluded concession contracts with the Ministry of Economy concerning the operation of electricity distribution service in the established territory (Transilvania Nord, Transilvania Sud, Muntenia Nord), on the risk and responsibility of the operators and taking into account the technical regulations applicable to the operation, modernization, rehabilitation and development of energy distribution networks specified in the Electricity Law, the terms and conditions of the licenses for electricity distribution and the regulations issued by ANRE.

The Group applies IFRIC 12 for the accounting of the transactions under these concession contracts. (See further details in Notes 5(a), 6(b) and 6(k)).

For the year ended 31 December 2017 the Group has recognized construction revenue related to the concession agreements of RON 776,901 thousand (2016: RON 537,872 thousand) and construction costs of RON 745,332 thousand (2016: RON 528,372 thousand).

Intangible assets in progress as at 31 December 2017 and 2016 include the cost of implementation for IT applications that imply a certain implementation period.

(All amounts are in THOUSAND RON, if not otherwise stated)

24 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 (2016: 345,939,929) with a nominal value of RON 10 per share. The holders of ordinary shares are entitled to receive dividends as declared, and are entitled to one vote per share at meetings of the Company, except for the 6,890,593 treasury shares purchased by the Company in July 2014, for the prices stabilization. All shares rank equally with regard to the Company's residual assets, except for treasury shares.

The Company recognizes changes in share capital only after their approval in the General Shareholders Meeting and their registration by the Trade Register. The contributions made by the shareholders which are not yet registered with the Trade Register at year end are recognized as pre-paid capital contributions from shareholders.

The share premium resulted at IPO was RON 103,049 thousand. The transaction costs of RON 68,079 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 nominal share capital of Electrica as of December 31, 2017 is RON 3,459,399 thousand, and the adjustments reflecting the IAS 29 impact have a value of RON 354,843 thousand. The total represents the share capital presented in the Consolidated Statement of Financial Position, having a value of RON 3,814,242 thousand.

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

(c) Revaluation reserve

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

	2017	2016
Balance at 1 January	**104,681**	**140,358**
Reserve from the revaluation of property, plant and equipment, attributable to the owners	55,874	-
Related tax	(8,940)	
Release of revaluation reserve to retained earnings corresponding to depreciation and disposals of property, plant and equipment	(27,867)	(29,251)
Loss of control over subsidiaries	-	(6,426)
Balance as at 31 December	**123,748**	**104,681**

(d) Legal reserves

Legal reserves are set up as 5% of the gross profit for the year in the statutory individual financial statements of the companies within the Group, until the total legal reserves reach 20% of the paid-up nominal share capital of each company, according to the legislation. These reserves are deductible for income tax purposes and are not distributable.

	Legal reserves
Balance at 1 January 2016	**273,899**
Set-up of legal reserves	28,337
Balance at 31 December 2016	**302,236**
Set-up of legal reserves	24,543
Balance at 31 December 2017	**326,779**

(All amounts are in THOUSAND RON, if not otherwise stated)

(e) Dividends

Romanian companies may distribute dividends from statutory earnings only, as per separate financial statements prepared in accordance with Romanian accounting regulations.

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

	Distribution of dividends	
	2017	**2016**
To the owners of the Company	251,405	291,582
To non-controlling interests	97,869	105,724
Total	**349,274**	**397,306**

The dividends per share were: 2017: RON 0.7415, 2016: RON 0.8600, per share.

For the calculation of dividends shares to be paid to the owners of the Company, treasury share (6,890,593 shares) were not treated as outstanding ordinary shares and were deducted from the number of issued ordinary shares.

Out of the dividends declared by the Company of RON 251,405 thousand (2016: RON 291,582 thousand), the dividends paid were RON 250,944 thousand (2016: RON 291,198 thousand), the remaining differences represents dividends unclaimed by the shareholders from the Depositary.

25 Non-controlling interests

Acquisition of non-controlling interest

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 subsidiaries (i.e. SDEE Muntenia Nord S.A., SDEE Transilvania Sud S.A., SDEE Transilvania Nord S.A. and Electrica Furnizare S.A.), this increasing the ownership percentage of Electrica over these subsidiaries. Below is detailed the impact of the transaction on the equity attributable to the owners of the Company:

	Distributie Muntenia Nord	**Distributie Transilvania Nord**	**Distributie Transilvania Sud**	**Electrica Furnizare**	**Intra-group eliminations**	**Total**
Carrying amount of NCI as of 1 January 2017	290,261	229,124	226,231	89,332	1,658	**836,606**
Profit allocated to NCI	11,767	18,849	19,947	(6,734)		**43,829**
Other comprehensive income allocated to NCI						
Dividends paid to NCI during the year	(19,337)	(22,116)	(21,708)	(34,708)		**(97,869)**
Carrying amount of NCI as of the date of acquisition	**282,691**	**225,857**	**224,470**	**47,890**	**1,658**	**782,566**
Consideration paid to NCI	**(209,745)**	**(201,702)**	**(173,504)**	**(167,079)**	**-**	**(752,030)**
Increase in retained earnings to owners of the Company	**72,946**	**24,155**	**50,966**	**(119,189)**	**1,658**	**30,536**

(All amounts are in THOUSAND RON, if not otherwise stated)

In the table below, it is summarised the information related to each of the Group's subsidiaries that has material non-controlling interest ("NCI"), before any intra-group elimination:

31 December 2017	**Distributie Muntenia Nord**	**Distributie Transilvania Nord**	**Distributie Transilvania Sud**	**Electrica Furnizare**	**Intra-group eliminations**	**Total**
NCI percentage until the acquisition date	**22%**	**22%**	**22%**	**22%**		
Revenues	862,974	852,945	872,716	3,857,855		**6,446,490**
Net profit	35,650	72,588	110,113	2,022		**220,373**
Other comprehensive income	-	-	-	-		-
Total comprehensive income	**35,650**	**72,588**	**110,113**	**2,022**		**220,373**
Profit allocated to NCI	11,767	18,849	19,947	(6,734)		43,829
-						
Cash flows from operating activities	126,180	191,490	240,867	(70,675)		487,862
Cash flows used in investing activities	(59,084)	(264,569)	(289,176)	(16,362)		(629,191)
Cash flows used in financing activities**	(120,284)	52,322	(134,566)	(158,215)		(360,744)
Net increase/(decrease) in cash and cash equivalents*	**(53,188)**	**(20,757)**	**(182,875)**	**(245,252)**		**(502,072)**
Dividends paid to NCI during the year	**(19,337)**	**(22,116)**	**(21,708)**	**(34,708)**		**(97,869)**

31 December 2016	**Distributie Muntenia Nord**	**Distributie Transilvania Nord**	**Distributie Transilvania Sud**	**Electrica Furnizare**	**Intra-group eliminations**	**Total**
NCI percentage	**22%**	**22%**	**22%**	**22%**		
Non-current assets	1,353,880	1,333,005	1,224,097	131,081		
Current assets	278,756	154,189	195,248	1,066,256		
Non-current liabilities	(139,224)	(175,814)	(123,059)	(71,462)		
Current liabilities	(174,077)	(269,906)	(267,963)	(719,819)		
Net assets	**1,319,335**	**1,041,474**	**1,028,323**	**406,056**		
Carrying amount of NCI	**290,254**	**229,124**	**226,231**	**89,332**	**1,658**	**836,599**
Revenues	800,867	857,479	789,830	4,140,730		
Net profit	107,122	115,760	114,885	172,520		
Other comprehensive income	1,445	1,287	2,597	(626)		
Total comprehensive income	**108,567**	**117,047**	**117,482**	**171,894**		
Profit allocated to NCI	**23,587**	**25,476**	**25,295**	**37,973**		**112,331**
Other comprehensive income allocated to NCI	**318**	**283**	**571**	**(137)**		**1,035**
Cash flows from operating activities	213,603	218,964	237,674	257,786		
Cash flows used in investing activities	(55,516)	(213,423)	(149,812)	(19,667)		
Cash flows used in financing activities**	(154,414)	(95,039)	(134,565)	(111,480)		
Net increase/(decrease) in cash and cash equivalents*	**3,673**	**(89,498)**	**(46,703)**	**126,639**		

(All amounts are in THOUSAND RON, if not otherwise stated)

31 December 2016	Distributie Muntenia Nord	Distributie Transilvania Nord	Distributie Transilvania Sud	Electrica Furnizare	Intra-group eliminations	Total
Dividends paid to NCI during the year	**26,896**	**27,960**	**26,345**	**24,523**		**105,724**

**Amounts presented represent cash flows of the subsidiaries*
***Cash flows from financing activities include dividends paid to NCI*

26 Financing for network construction related to concession agreements

Financing for network construction related to concession agreements is based on suppliers' credit. The amounts are denominated in EUR and are backed by promissory notes issued by the Group to its suppliers. Part of these promissory notes are discounted by the suppliers at banks for early settlement. Such financing is measured at amortized cost, by using an average effective interest rate of 2.065% in 2017 (2016: 1.93%).

The amounts are due as follows:

	31 December 2017	31 December 2016
Less than 1 year	32,709	85,513
Between 1 and 5 years	11,122	41,617
Total	**43,831**	**127,130**

27 Trade payables

	31 December 2017	31 December 2016
Electricity suppliers	346,692	308,056
Capital expenditure suppliers	237,077	214,749
Other suppliers	105,636	200,025
Total	**689,405**	**722,830**

Electricity suppliers are mainly state-owned power generators, as detailed in Note 32, but also other participants on the electricity market.

Other suppliers include suppliers of services, materials, consumables, etc.

28 Other payables

	31 December 2017		31 December 2016	
	Current	Non-current	Current	Non-current
VAT payable	85,832	-	85,346	-
Liabilities to the State	21,003	-	29,837	-
Payables related to radio and TV tax	-	-	9,981	-
Liabilities related to green certificates acquisition obligation	6,665	-	13,980	-
Other liabilities	20,726	40,440	21,746	44,921
Total	**134,226**	**40,440**	**160,890**	**44,921**

In accordance with Law no. 533/2003, that amended Law no. 41/1994 regarding the organization and functioning of Romanian Radio Company and Romanian Television Company, radio and TV taxes are collected by Electrica Furnizare SA on behalf of these companies. The payable of the Group to the above mentioned institutions represents radio and TV tax collected that should be paid according to the contract in the month following the reporting month. In accordance with Law no. 1/2017, beginning with 1 February 2017, the taxes for public radio broadcasting and television services were eliminated from the electricity invoices.

(All amounts are in THOUSAND RON, if not otherwise stated)

Other liabilities include mainly guarantees and sundry creditors. Other non-current liabilities refer to guarantees from customers related to electricity supply.

29 Provisions

	Fiscal risks	Restructuring	Other	Total
Balance at 1 January 2017	**35,533**	**12,715**	**14,159**	**62,407**
Provisions made	12,200	-	16,750	28,950
Provisions used	(7,583)	(12,715)	(900)	(21,198)
Provisions reversed	(32,906)	-	(7,364)	(40,270)
Balance at 31 December 2017	**7,244**	**-**	**22,645**	**29,889**

As at 31 December 2017, provisions refer mainly to:

- RON 7,827 thousand representing potential tax charges of the Group (including interest and penalties);
- RON 22,645 thousand representing mainly the provision for the fine from Competition Council, RON 10,801 thousand, and other provisions for claims for which the Group might have the obligation to pay the amounts subject to litigations and other in the future;

The provisions made in 2017 refer mainly to:

- RON 12,200 thousand represent Group's estimate of additional taxes and penalties which might result from the Group's dispute with the National Agency of Fiscal Administration ("NAFA"). This provision was also reversed in 2017, since the management considers that are high chances of winning the litigation, based on the Court's admission of Electrica's action (for further details please see note 34).
- RON 10,801 thousand based on the Competition Council's decision (for further information please see the details below)
- RON 1,472 thousand, for the litigations in which Distributie Transilvania Nord has the role of defendant and for which there is a risk that will have the obligation in the future to pay the amounts claimed by the claimants; the provisions refer to compensations claimed by natural/legal persons.

The provisions used in 2017 refer mainly to:

- payment of lay-off indemnities in respect of restructuring programme of Electrica Serv of RON 12,715 thousand;
- payment of the amount due to NAFA, RON 7,583 thousand, provisioned previously as a result of the fiscal inspection performed at Electrica Furnizare for the period 2011 – 2016.

Provisions reversed in 2017 refer mainly to:

- reversal of provision related to the control performed by the Court of Accounts at Distributie Transilvania Sud, amounting to RON 20,706 thousand, following the closure of the fiscal inspection on 22.12.2017;
- reversal of the provision made for the NAFA litigation, presented above;
- provisions for litigations cancelled during 2017 for settled litigations (for which the sentence has been issued by the Court) amounting to RON 2,551 thousand.

Competition Council

On 4 January 2018, Electrica 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, in 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 10,801 thousand representing 2.98% of the total turnover 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.

(All amounts are in THOUSAND RON, if not otherwise stated)

Reorganization plan for the distribution segment

In the context of the Group's plan regarding the implementation of a new target operating model of the distribution segment, the Board of Directors' intent is to implement a program for activities streamline, which might involve collective lay-offs based on the analysis of indirect and direct productive employees and future targets. No restructuring plan has been approved until the reporting date. Therefore, the management assessed that the conditions for recognizing restructuring provisions are not met as of 31 December 2017.

As at 31 December 2016, provisions refer mainly to:

- RON 35,533 thousand representing potential tax charges of the Group (including interest and penalties);
- RON 12,715 thousand representing restructuring provision in respect of Electrica Serv;
- RON 3,043 thousand representing claims with a customer who claims reimbursement of connection fees.

30 Long-term bank borrowings

	31 December 2017	31 December 2016
Long-term bank borrowings	320,000	127,733
Total	**320,000**	**127,733**

On 17 October 2016 the Company's distribution subsidiaries (Societatea de Distributie a Energiei Electrice Transilvania Sud, Societatea de Distributie a Energiei Electrice Muntenia Nord and Societatea de Distributie a Energiei Electrice Transilvania Nord) concluded long term loan contracts with BRD – Groupe Societe Generale, in which Electrica SA has the quality of guarantor. These are fully reimbursable at maturity (16 October 2017).

Lender	Facility type	Maturity	Loan amount	Balance at 31 December 2017	Balance at 31 December 2016
BRD	term loan, non-revolving facility, financing the treasury deficit generated by the investment activity	until 16 October 2021	80,000	80,000	-
BRD	term loan, non-revolving facility, financing the treasury deficit generated by the investment activity	until 16 October 2021	114,000	114,000	95,502
BRD	term loan, non-revolving facility, financing the treasury deficit generated by the investment activity	until 16 October 2021	126,000	126,000	32,231
Total			**320,000**	**320,000**	**127,733**

These loans are guaranteed with collateral deposits (see Note 21).

31 Financial instruments - fair values and risk management

(a) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

(All amounts are in THOUSAND RON, if not otherwise stated)

		Carrying amount				Fair value			
31 december 2017	***Note***	**Loans and receivables**	**Held to maturity financial assets**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets not measured at fair value									
Trade receivables	18	804,361	-	-	804,361				
Deposits, treasury bills and government bonds			746,981	-	746,981				
Cash and cash equivalents	21	562,493	-	-	562,493				
Restricted cash		320,000	-	-	320,000				
Total		**1,686,854**	**746,981**	**-**	**2,433,835**				
Financial liabilities not measured at fair value									
Bank overdrafts	21	-	-	247,904	247,904				
Financing for network construction related to concession agreements	26	-	-	43,831	43,831		45,367		45,367
Long-term bank borrowings		-	-	320,000	320,000				
Trade payables	27	-	-	689,405	689,405				
Total		-	-	**1,301,140**	**1,301,140**				

		Carrying amount				Fair value			
31 December 2016	***Note***	**Loans and receivables**	**Held to maturity financial assets**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets not measured at fair value									
Trade receivables	18	777,989	-	-	777,989				
Deposits, treasury bills and government bonds			1,875,054	-	1,875,054				
Cash and cash equivalents	21	888,841	-	-	888,841				
Restricted cash		134,492	-	-	134,492				
Total		**1,801,322**	**1,875,054**		**3,676,376**				
Financial liabilities not measured at fair value									
Bank overdrafts	21	-	-	142,626	142,626				
Financing for network construction related to concession agreements	26	-	-	127,130	127,130		129,383		129,383
Long-term bank borrowings		-	-	127,733	127,733				
Trade payables	27	-	-	722,830	722,830				
Total		-	-	**1,120,319**	**1,120,319**				

(All amounts are in THOUSAND RON, if not otherwise stated)

(b) Measurement of fair values

The following table shows the valuation techniques used in measuring Level 2 fair values, as well as the significant unobservable inputs used.

Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Other financial liabilities	*Discounted cash flows (DCF) method* The discount rates used are the average 12 M ROBID-ROBOR interest rates of 1.22% as at 31 December 2016 (2017: 0.98%).	Not applicable;

(c) Financial risk management

The Group has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk.

(i) Credit risk

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

Cash, bank deposits, treasury bills and government bonds are placed in financial institutions, which are considered to have minimal risk of default.

The carrying amount of financial assets represents the maximum credit exposure.

Trade receivables

The Group's credit risk in respect of receivables is was concentrated in the past around state-controlled companies and in the recent years refers to clients that are facing financial difficulties in their industries due to specific changes in circumstances in their industry sector. The Group is in process of setting up a policy regarding insurance of the trade receivables. Also the electricity supply contracts include termination clauses in certain circumstances.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables.

Impairment

The aging of trade receivables was as follows:

	31 December 2017		31 December 2016	
	Gross value	**Bad debt allowance**	**Gross value**	**Bad debt allowance**
Neither past due nor impaired	530,412	(7,541)	603,467	-
Past due 1-90 days	274,512	(5,881)	209,205	(46,494)
Past due 90-180 days	25,297	(22,344)	16,616	(11,673)
Past due 180-360 days	60,469	(56,416)	14,087	(11,514)
Past due 1-2 years	34,794	(28,941)	30,872	(26,577)

(All amounts are in THOUSAND RON, if not otherwise stated)

	31 December 2017		31 December 2016	
	Gross value	**Bad debt allowance**	**Gross value**	**Bad debt allowance**
Past due 2-3 years	92,634	(92,634)	21,618	(21,618)
Past due more than 3 years	845,750	(845,750)	1,010,228	(1,010,228)
Total	**1,863,868**	**(1,059,507)**	**1,906,093**	**(1,128,104)**

	Net trade receivables	
	31 December 2017	**31 December 2016**
Neither past due nor impaired	522,871	603,467
Past due 1-90 days	268,631	162,711
Past due 90-180 days	2,953	4,943
Past due 180-360 days	4,053	2,573
Past due 1-2 years	5,853	4,295
Total	**804,361**	**777,989**

Details of the main movements in the allowances for doubtful debts are disclosed in Note 18.

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses.

The Group aims to maintain the level of its cash and cash equivalents at an amount in excess of expected cash outflows on financial liabilities. The Group also monitors the level of expected cash inflows on trade receivables together with expected cash outflows on trade and other payables. In addition, the Group maintains overdrafts (refer to Note 21).

Also starting 2016, certain subsidiaries contracted also long-term loans in order to improve their liquidity position.

Exposure to liquidity risk

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

		Contractual cash flows				
Financial liabilities	**Carrying amount**	**Total**	**less than 1 year**	**1-2 years**	**2-5 years**	**More than 5 years**
31 December 2017						
Bank overdrafts	247,904	247,904	247,904	-	-	-
Financing for network construction related to concession agreements	43,831	50,579	33,906	15,265	1,408	-
Long term bank borrowings	320,000	332,775	2,555	2,555	327,665	-
Trade payables	689,405	689,405	689,405	-	-	-
Total	**1,301,140**	**1,320,663**	**973,770**	**17,820**	**329,073**	**-**
31 December 2016						
Bank overdrafts	142,626	142,626	142,626	-	-	-
Financing for network construction related to concession agreements	127,130	130,452	86,636	39,720	4,096	-
Long-term bank borrowings	127,733	140,508	2,555	2,555	135,398	-

		Contractual cash flows				
Financial liabilities	**Carrying amount**	**Total**	**less than 1 year**	**1-2 years**	**2-5 years**	**More than 5 years**
Trade payables	722,830	722,830	722,830	-	-	-
Total	**1,120,319**	**1,136,416**	**954,647**	**42,275**	**139,494**	**-**

(iii) Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates and interest rates – will affect the Group'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 optimising the return.

Currency risk

The Group 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 Group. The functional currency of all entities belonging to the Group is the Romanian Leu (RON).

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

Exposure to currency risk

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

	31 December 2017	**31 December 2017**
in thousands of RON	EUR	USD
Cash and cash equivalents	95	-
Other investments	1,236	56
Deposits (deposits, treasury bills and government bonds)	-	-
Financing for network construction related to concession agreements	(43,766)	-
Net statement of financial position exposure	**(42,435)**	**56**

	31 December 2016	**31 December 2016**
in thousands of RON	EUR	USD
Cash and cash equivalents	2,533	4,669
Deposits (deposits, treasury bills and government bonds)	-	-
Financing for network construction related to concession agreements	(127,130)	-
Net statement of financial position exposure	**(124,597)**	**4,669**

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

	Average rate		**Year-end spot rate**	
RON	**2017**	**2016**	**2017**	**2016**
EUR 1	4.5681	4.4900	4,6597	4.5411
USD 1	4.0525	4.0569	3,8915	4.3033

Sensitivity analysis

A reasonably possible strengthening (weakening) of the EUR against RON at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and profit before tax by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

(All amounts are in THOUSAND RON, if not otherwise stated)

	Profit before tax	
Effect	**Strengthening**	**Weakening**
31 December 2017		
EUR (5% movement)	(2,122)	2,122
31 December 2016		
EUR (5% movement)	(6,230)	6,230

A reasonably possible strengthening (weakening) of the USD against RON at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and profit before tax by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

	Profit before tax	
Effect	**Strengthening**	**Weakening**
31 December 2017		
USD (5% movement)	3	(3)
31 December 2016		
USD (5% movement)	233	(233)

Interest rate risk

Until 2016 the Group's policy was to mainly use supplier credit for financing its capital investments. Starting 2016 the Group started to use also medium term bank loans (please see Note 30).

Exposure to interest rate risk

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

	31 December 2017	31 December 2016
Fixed-rate instruments		
Financial assets		
Call deposits	231,769	740,487
Deposits, treasury bills and government bonds	746,981	1,875,054
Financial liabilities		
Financing for network construction related to concession agreements	(43,831)	(127,130)
Long-term bank borrowings	(320,000)	(127,733)
	614,919	**2,360,678**
Variable-rate instruments		
Financial liabilities		
Bank overdrafts	(247,904)	(142,626)
	(247,904)	**(142,626)**

Fair value sensitivity analysis for fixed-rate instruments

The Group 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.

(All amounts are in THOUSAND RON, if not otherwise stated)

Cash flow sensitivity analysis for variable-rate instruments

A reasonably possible change of 50 basis pboints in interest rates at the reporting date would have increased (decreased) profit before tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	Profit before tax	
	50 bp increase	**50 bp decrease**
31 December 2017		
Variable-rate instruments	(1,240)	1,240
31 December 2016		
Variable-rate instruments	(713)	713

32 Related parties

(a) Main shareholders

As at 31 December 2017 and 2016, the main 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 second largest shareholder is the European Bank for Reconstruction and Development with 6,9247% (2016: 8,66%).

(b) Management and administrators' compensation

	2017	**2016**
Executive Management compensation	**8,461**	**4,573**

Executive management compensation refers to the managers with mandate contract, which are the General Managers of each subsidiary and the managers of 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	**2,436**	**3,322**

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.

In 2016 the composition of the Board of Directors of the subsidiaries was modified by the increase in the number of administrators from Electrica SA, who are not remunerated for this activity; therefore there was a significant decrease in the administrators' remuneration at subsidiaries level.

No loans were granted to directors or administrators in 2017 and 2016.

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

The Group has transactions with companies in which the state has control or significant influence in the ordinary course of its business, related mainly to the acquisition of electricity, transmission and system services and sale of electricity. Significant purchases and balances are mainly with energy suppliers, as follows:

(All amounts are in THOUSAND RON, if not otherwise stated)

Supplier	Purchases (without VAT)		Balance (including VAT)	
	2017	2016	31 December 2017	31 December 2016
Nuclearelectrica	256,342	305,597	22,176	30,893
Transelectrica	639,036	614,439	94,150	141,474
Complexul Energetic Oltenia	194,358	57,166	42,700	8,395
Hidroelectrica	343,775	550,038	16,840	52,297
OPCOM	721,591	302,239	4,298	3,889
Electrocentrale Bucuresti	6,312	24,998	-	-
SNGN ROMGAZ	24	56,331	-	-
Societatea Comerciala "Cupru Min"	-	1,887	-	1,887
CN Posta Romana SA	1,742	348	22	6
E-Distributie Muntenia	11,015	25,460	1,997	4,230
E-Distributie Banat	3,008	9,286	514	1,731
E-Distributie Dobrogea	5,306	7,473	743	2,041
Others	16,727	12,453	4,119	2,544
Total	**2,199,237**	**1,967,715**	**187,559**	**249,387**

The Group also makes sales to companies in which the state has control or significant influence representing electricity supplied, of which the most important transactions are the following:

	Sales (without VAT)	Balance, gross (including VAT)	Allowance (including VAT)	Balance, net
Client	**2017**	**31 December 2017**		
CFR Telecomunicatii	21	1	-	1
Electrificare CFR	8,646	944	-	944
SNGN ROMGAZ	16,674	1,279	-	1,279
OPCOM	24,879	3,662	-	3,662
Societatea Comerciala "Cupru Min"	32,264	6,635	-	6,635
Transelectrica	14,566	1,841	-	1,841
CN Romarm	9,547	286	-	286
CN Remin SA	366	71,219	(71,148)	71
C.N.C.A.F. MINVEST S.A.	-	29,903	29,903	-
Oltchim	-	715,259	(715,259)	-
Baita SA	820	822	(726)	96
E.ON Energie Romania	55,290	11,351	-	11,351
E-Distributie Muntenia	4	-	-	-
Enel Energie Muntenia SA	26,959	6,187	-	6,187
ENEL ENERGIE SA	19,739	5,651	-	5,651
Others	41,772	15,546	(6,817)	8,729
Total	**251,547**	**870,586**	**(823,853)**	**46,733**

	Sales (without VAT)	Balance, gross (including VAT)	Allowance (including VAT)	Balance, net
Client	**2016**	**31 December 2016**		
CFR Telecomunicatii	44,861	4,474	(53)	4,421
Electrificare CFR	10,839	1,203	-	1,203
SNGN ROMGAZ	14,151	1,256	-	1,256
OPCOM	28,285	2,590	-	2,590
Societatea Comerciala "Cupru Min"	26,627	-	-	-
Transelectrica	14,734	1,361	-	1,361
CN Romarm	9,635	62	-	62
CN Remin SA	343	71,180	(71,148)	32

(All amounts are in THOUSAND RON, if not otherwise stated)

	Sales (without VAT)	Balance, gross (including VAT)	Allowance (including VAT)	Balance, net
Client	**2016**	**31 December 2016**		
C.N.C.A.F. MINVEST S.A.	-	78,735	(78,735)	-
Oltchim	-	715,259	(715,259)	-
Baita SA	1,541	5,002	(4,334)	668
E-Distributie Muntenia	18,034	9,101	-	9,101
Others	32,723	10,103	(6,713)	3,390
Total	**201,773**	**900,326**	**(876,242)**	**24,084**

33 Subsidiaries in financial distress

The Company's subsidiary Servicii Energetice Moldova entered in bankruptcy in January 2016 and consequently the Company discontinued its consolidation as of the date as it no longer has control over this entity.

The individual assets and liabilities of Servicii Energetice Moldova at the date the Company ceased its consolidation (31 January 2016) were as follows:

	Carrying amount
	Servicii Energetice Moldova as of 31 January 2016
Property, plant and equipment	21,709
Trade receivables	2,027
Cash and cash equivalents	1,609
Total assets	**25,345**
Trade payables	2,685
Other payables	41,931
Employee benefits	52,902
Deferred tax liabilities	1,520
Total liabilities	**99,038**
Gain on loss of control	**73,693**

In January 2014 the Board of Directors of Servicii Energetice Oltenia and in October 2014, the Board of Directors of Servicii Energetice Muntenia decided the commencement of the insolvency procedure with a view to reorganization. The insolvency processes were initiated in 2014.

Due to the above conditions that indicated the existence of significant uncertainties that cast significant doubt on the ability of these subsidiaries to continue to operate as going concerns, the Group has measured the carrying amounts of the assets and liabilities of these subsidiaries on a liquidation basis starting the commencement of their insolvency procedures.

As at 31 December 2017 the carrying amount of the assets and liabilities of these companies included in the consolidated financial information were as follows:

31 December 2017	**Servicii Energetice Muntenia**	**Servicii Energetice Oltenia**	**Total**
Property, plant and equipment	89,989	20,399	110,388
Trade receivables	9,464	8,957	18,421
Cash and cash equivalents	6,657	2,145	8,802
Total assets	**106,110**	**31,501**	**137,611**
Trade payables	(15,404)	(3,071)	(18,475)
Payables to the State budget	(406)	(5,128)	(5,534)
Social security and other salary taxes	(483)	(5,250)	(5,733)
Provisions, employee benefits and deferred taxes	(19,349)	(9,066)	(28,415)
Total liabilities	**(35,642)**	**(22,515)**	**(58,157)**

(All amounts are in THOUSAND RON, if not otherwise stated)

31 December 2016	**Servicii Energetice Muntenia**	**Servicii Energetice Oltenia**	**Total**
Property, plant and equipment	93,894	23,588	**117,482**
Trade receivables	8,251	8,406	**16,657**
Cash and cash equivalents	10,154	2,988	**13,142**
Total assets	**112,299**	**34,982**	**147,281**
Trade payables	(21,615)	(4,232)	**(25,847)**
Payables to the State budget	(183)	(8,859)	**(9,042)**
Social security and other salary taxes	(434)	(5,916)	**(6,350)**
Provisions, employee benefits and deferred taxes	(24,412)	(12,572)	**(36,984)**
Total liabilities	**(46,644)**	**(31,579)**	**(78,223)**

The Group has not classified the assets and liabilities of these subsidiaries as held for sale as at 31 December 2017, as the assets or disposal groups were not actively marketed for sale, the Group is not committed to a plan to sell the assets or disposal groups, and it has not initiated an active programme to locate a buyer and complete the disposal plan. Consequently, the Group has not presented these subsidiaries as discontinued operations in the income statement for the year ended 31 December 2017.

The reorganization programs for Servicii Energetice Muntenia and Servicii Energetice Oltenia, which are due to finalize in 2018 and in 2019 respectively**,** will result either in their liquidation or in the continuation of their activities.

34 Contingencies

a) Contingent Liabilities

Tax inspection report for Electrica Serv

In May 2017 a tax inspection at Electrica Serv was finalized and the tax authorities concluded that additional tax obligations of RON 12,281 thousand should be paid by the subsidiary. This amount represents VAT (and related interest and penalties) that was deducted in the period 2012-2013 in relation with certain invoices issued by a lease supplier who was inactive at that time. Management is in process of opening legal action against the tax authorities. Management estimates that it is likely that a favorable outcome will result out of this dispute, based on, among other aspects, similar case favourable settled at the Court of Justice of the European Union.

Litigation with National Agency of Fiscal Administration ("NAFA")

In May 2017, after the revision of Electica's tax record, the tax authorities issued an enforcement order for additional interest and penalties of RON 39,248 thousand as a result of certain tax record allocations for prior periods. Electrica 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 Electrica in the prior years of RON 73,460 thousand and which were settled by enforced payments in 2016. Since there were uncertainties regarding the outcome of these legal actions, Electrica recognized a provision of RON 12,200 thousand which was the management best estimate as of the end of the first semester 2017.

In February 2018, Electrica has obtained a favourable Supreme Court ruling in one of the litigations with NAFA, which essentially maintains into force a prior Court of Appeal decisions, which is favourable for the Group, 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 Electrica shall be able to obtain favourable Court rulings with the end result of no future cash outflows. As a result, the previous recognized provision of RON 12,200 thousand 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.

(All amounts are in THOUSAND RON, if not otherwise stated)

Other litigations and claims

The Group is involved in many litigations and claims (ie. with Property Fund, ANRE, ANAF, Court of Accounts, claims for damages, claims over land titles, labour related litigations etc.).

As summarised in Note 29, the Group set-up provisions for the litigations or claims for which the management assessed as probable the outflow of resources embodying economic benefits due to low chances of favourable outcomes of those litigations or disputes. The Group does not present information in the financial statements and did not set-up provisions for items for which the management assessed as remote the possibility of outflow of economic benefits.

The Group discloses below information on the most significant items of litigations or claims for which the Group did not set-up provisions as they relate to possible obligations that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Group (ie. litigations for which different inconsistent sentences were issued by the Courts, or litigations which are in early stages and no preliminary ruling were issued so far):

- In 2015 Electrica SA was sued by Hidroelectrica S.A., which claimed the payment of RON 5,445 thousand and other damages, representing claims related to acquisition of electricity by the Company from Hidroelectrica S.A. at a price alleged to be unfair. As of the date of these financial statements, both parties have filed an appeal.

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 demonstrate inconsistency in interpretation of the law.

Income tax returns may be subject to revision and corrections by tax authorities, generally for a five year period after they are completed.

As disclosed in Notes 11 (b) and 28, the Group incurred significant expense related to previous years' tax adjustments as a result of controls and litigations with tax authorities. The management of the Group believes that adequate provisions and liabilities were recorded in the consolidated financial statements for all significant tax obligations; however a risk persists that the tax authorities might have different positions.

35 Commitments

(a)Contractual commitments

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

	Amount
Purchase of electricity	1,242,080
Purchase of green certificates	136,713
Purchase of property, plant and equipment and intangible assets	396,987
	1,775,780

(All amounts are in THOUSAND RON, if not otherwise stated)

(b)Operating leases

The main operating leases refer to vehicles and equipment leased by Electrica Serv, as follows:

Supplier	**Contractual amount**
Operational Autoleasing SRL	60,241
Electrical Business Center SRL	77,467
Energopetroleum Top Service SRL	7,578
Center TEA & Co SRL	12,179
RCI Finantare Romania SRL	1,327
Total	**158,792**

The future lease payments related to the operating lease contracts mentioned above are as follows:

	31 December 2017	**31 December 2016**
Less than 1 year	25,136	25,544
Between 1 and 5 year	17,682	33,163
Total	**42,818**	**58,707**

(c)Investment program

The investment program approved for the year 2018 is as follows:

	2018
Distribution activity	970,000
Supply activity	34,000
Maintenance activity	2,000
Other/ shared	4,000
Total	**1,010,000**

The amounts actually incurred may differ from the ones planned.

(d)Guarantees and pledges

At 31 December 2017 and 2016, the Group has guarantees on its bank accounts opened at ING, BRD and BCR for the overdrafts contracted (please see Note 21). At 31 December 2017 the Group has outstanding bank letters of guarantee of RON 332,753 thousand (2016: RON 459,421 thousand) issued in favour of its suppliers.