



SOCIETATEA ENERGETICA ELECTRICA S.A.

Condensed Consolidated Interim Financial Statements

as at and for the nine month period ended

30 September 2018

prepared in accordance with

International Accounting Standard 34 – “Interim Financial Reporting”, as
adopted by the European Union

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS AT AND FOR THE NINE MONTH
PERIOD ENDED 30 SEPTEMBER 2018
PREPARED IN ACCORDANCE WITH IAS 34 "INTERIM FINANCIAL REPORTING" AS ADOPTED BY THE EUROPEAN
UNION

Contents

Condensed consolidated statement of financial position	1
Condensed consolidated statement of profit or loss	3
Condensed consolidated statement of comprehensive income	5
Condensed consolidated statement of changes in equity	7
Condensed consolidated statement of cash flows	9

Notes to the condensed consolidated interim financial statements

1. Reporting entity and general information	11
2. Basis of accounting	12
3. Basis of measurement	13
4. Significant accounting policies	13
5. Operating segments	15
6. Revenue	19
7. Other income	20
8. Electricity purchased	20
9. Earnings per share	20
10. Dividends	21
11. Income taxes	21
12. Trade receivables	21
13. Cash and cash equivalents	22
14. Deposits, treasury bills and government bonds	23
15. Other payables	23
16. Bank borrowings	23
17. Provisions	24
18. Financial instruments - fair values	25
19. Related parties	27
20. Subsidiaries in financial distress	29
21. Contingencies	30
22. Subsequent events	31

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2018

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

	Note	30 September 2018 (unaudited and not reviewed)	31 December 2017 (audited)
ASSETS			
Non-current assets			
Intangible assets related to concession arrangements		4,543,821	4,330,909
Other intangible assets		10,100	14,053
Property, plant and equipment		664,893	701,510
Restricted cash	13	320,000	320,000
Deferred tax assets		23,701	41,100
Other non-current assets		1,849	1,305
Total non-current assets		5,564,364	5,408,877
Current assets			
Trade receivables	12	727,490	804,361
Other receivables		28,750	55,534
Cash and cash equivalents	13	620,476	562,493
Deposits, treasury bills and government bonds	14	405,743	746,981
Inventories		25,230	21,620
Prepayments		5,530	3,692
Green certificates		6,085	12,643
Income tax receivable		-	1,134
Total current assets		1,819,304	2,208,458
Total assets		7,383,668	7,617,335
EQUITY AND LIABILITIES			
Equity			
Share capital		3,814,242	3,814,242
Share premium		103,049	103,049
Treasury shares reserve		(75,372)	(75,372)
Pre-paid capital contributions in kind from shareholders		5,144	5,144
Revaluation reserve		115,040	123,748
Legal reserves		326,779	326,779
Retained earnings		1,436,214	1,357,966
Total equity attributable to the owners of the Company		5,725,096	5,655,556
Total equity		5,725,096	5,655,556

(Continued on page 2)

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2018

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

	Note	30 September 2018 (unaudited and not reviewed)	31 December 2017 (audited)
Liabilities			
Non-current liabilities			
Financing for network construction related to concession agreements		3,137	11,122
Deferred tax liabilities		211,893	200,504
Employee benefits		165,448	165,448
Other payables	15	41,768	40,440
Long-term bank borrowings	16	320,000	320,000
Total non-current liabilities		742,246	737,514
Current liabilities			
Financing for network construction related to concession agreements		17,093	32,709
Bank overdrafts	13	77,067	247,904
Trade payables		522,327	689,405
Other payables	15	172,276	134,226
Deferred revenue		5,685	7,364
Employee benefits		73,186	78,918
Provisions	17	29,941	29,889
Current income tax liability		18,751	3,850
Total current liabilities		916,326	1,224,265
Total liabilities		1,658,572	1,961,779
Total equity and liabilities		7,383,668	7,617,335

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

Chief Executive Officer

Georgeta Corina Popescu

Chief Financial Officer

Mihai Darie

November 14th 2018

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
 (All amounts are in THOUSAND RON, except per share data)

	Note	Nine month period ended	
		30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Revenue	6	4,009,957	4,034,965
Other income	7	116,332	134,716
Electricity purchased	8	(1,855,561)	(2,201,782)
Green certificates		(257,723)	(277,087)
Construction costs related to concession agreements		(492,517)	(450,197)
Employee benefits		(469,365)	(472,497)
Repairs, maintenance and materials		(64,353)	(55,483)
Depreciation and amortization		(323,033)	(293,343)
Impairment of property, plant and equipment, net		1,422	758
Impairment of trade and other receivables, net		(2,805)	(11,005)
Change in provisions, net		(52)	(2,354)
Other operating expenses		(278,347)	(291,057)
Operating profit		383,955	115,634
Finance income		10,126	14,232
Finance costs		(4,094)	(3,402)
Net finance income		6,032	10,830
Profit before tax		389,987	126,464
Income tax expense	11	(75,077)	(31,145)
Profit for the period		314,910	95,319
Profit for the period attributable to:			
- owners of the Company		314,910	64,066
- non-controlling interests		-	31,253
Profit for the period		314,910	95,319
Earnings per share			
Basic and diluted earnings per share (RON)	9	0.93	0.19

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

Chief Executive Officer
Georgeta Corina Popescu

Chief Financial Officer
Mihai Darie

November 14th 2018

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
 (All amounts are in THOUSAND RON, except per share data)

	Note	Three month period ended	
		30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Revenue	6	1,356,408	1,359,575
Other income	7	41,453	44,593
Electricity purchased	8	(586,833)	(670,319)
Green certificates		(103,053)	(94,176)
Construction costs related to concession agreements		(203,008)	(191,057)
Employee benefits		(171,992)	(155,269)
Repairs, maintenance and materials		(22,027)	(25,680)
Depreciation and amortization		(106,997)	(96,457)
Impairment of property, plant and equipment, net		1,235	12
Impairment of trade and other receivables, net		(334)	6,055
Change in provisions, net		(131)	2,751
Other operating expenses		(82,148)	(82,090)
Operating profit		122,573	97,938
Finance income		4,216	2,730
Finance costs		(683)	(788)
Net finance income		3,533	1,942
Profit before tax		126,106	99,880
Income tax expense	11	(20,820)	(12,728)
Profit for the period		105,286	87,152
Profit for the period attributable to:			
- owners of the Company		105,286	70,565
- non-controlling interests		-	16,587
Profit for the period		105,286	87,152
Earnings per share			
Basic and diluted earnings per share (RON)	9	0.31	0.21

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

Chief Executive Officer
Georgeta Corina Popescu

Chief Financial Officer
Mihai Darie

November 14th 2018

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
(All amounts are in THOUSAND RON, if not otherwise stated)

	Nine month period ended	
	30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Profit for the period	314,910	95,319
Other comprehensive income	-	-
Total comprehensive income	314,910	95,319
Total comprehensive income attributable to:		
- owners of the Company	314,910	64,066
- non-controlling interests	-	31,253
Total comprehensive income	314,910	95,319

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

Chief Executive Officer
 Georgeta Corina Popescu

Chief Financial Officer
 Mihai Darie

November 14th 2018

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
 (All amounts are in THOUSAND RON, if not otherwise stated)

	Three month period ended	
	30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Profit for the period	105,286	87,152
Other comprehensive income	-	-
Total comprehensive income	105,286	87,152
Total comprehensive income attributable to:		
- owners of the Company	105,286	70,565
- non-controlling interests	-	16,587
Total comprehensive income	105,286	87,152

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

Chief Executive Officer
 Georgeta Corina Popescu

Chief Financial Officer
 Mihai Darie

November 14th 2018

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
 (All amounts are in THOUSAND RON, if not otherwise stated)

Note	Attributable to the owners of the Company							Total equity
	Share capital	Share premium	Treasury shares reserve	Pre-paid capital contributions in kind from shareholders	Revaluation reserve	Legal reserves	Retained earnings	
Balance at 1 January 2018 (audited)	3,814,242	103,049	(75,372)	5,144	123,748	326,779	1,357,966	5,655,556
Comprehensive income								
Profit for the period (unaudited and not reviewed)	-	-	-	-	-	-	314,910	314,910
Total comprehensive income (unaudited and not reviewed)	-	-	-	-	-	-	314,910	314,910
Transactions with owners of the Company (unaudited and not reviewed)								
Contributions and distributions								
Dividends to the owners of the Company	-	-	-	-	-	-	(245,370)	(245,370)
Total transactions with the owners of the Company (unaudited and not reviewed)	-	-	-	-	-	-	(245,370)	(245,370)
Other changes in equity (unaudited and not reviewed)								
Transfer of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment	-	-	-	-	(8,708)	-	8,708	-
Balance at 30 September 2018 (unaudited and not reviewed)	3,814,242	103,049	(75,372)	5,144	115,040	326,779	1,436,214	5,725,096

(Continued on page 8)

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
 (All amounts are in THOUSAND RON, if not otherwise stated)

Note	Attributable to the owners of the Company							Total	Non-controlling interests	Total equity	
	Share capital	Share premium	Treasury shares reserve	Pre-paid capital contributions in kind from shareholders	Revaluation reserve	Legal reserves	Retained earnings				
Balance at 1 January 2017 (audited)	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 period (unaudited and not reviewed)	-	-	-	-	-	-	64,066	64,066	31,253	95,319	
Total comprehensive income (unaudited and not reviewed)	-	-	-	-	-	-	64,066	64,066	31,253	95,319	
Transactions with owners of the Company (unaudited and not reviewed)											
Contributions and distributions											
Dividends to the owners of the Company	10	-	-	-	-	-	(251,405)	(251,405)	-	(251,405)	
Total transactions with the owners of the Company (unaudited and not reviewed)		-	-	-	-	-	(251,405)	(251,405)	-	(251,405)	
Other changes in equity (unaudited and not reviewed)											
Dividends to non-controlling interests	10	-	-	-	-	-	-	-	(97,869)	(97,869)	
Transfer of revaluation reserve to retained earnings due to depreciation and disposals of property, plant and equipment		-	-	-	-	(6,322)	6,322	-	-	-	
Balance at 30 September 2017 (unaudited and not reviewed)		3,814,242	103,049	(75,372)	5,144	98,359	302,236	1,248,891	5,496,549	769,983	6,266,532

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

Chief Executive Officer
 Georgeta Corina Popescu

Chief Financial Officer
 Mihai Darie

November 14th 2018

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
 (All amounts are in THOUSAND RON, if not otherwise stated)

		Nine month period ended	
Note		30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Cash flows from operating activities			
	Profit for the period	314,910	95,319
	Adjustments for:		
	Depreciation	30,510	34,937
	Amortisation	292,523	258,406
	Reversal of impairment of property, plant and equipment, net	(1,422)	(758)
	(Gain)/Loss on disposal of property, plant and equipment	(241)	1,646
	Impairment of trade and other receivables, net	2,805	11,005
17	Change in provisions, net	52	2,354
	Net finance income	(6,032)	(10,830)
11	Income tax expense	75,077	31,145
		708,182	423,224
	Changes in:		
	Trade receivables	39,924	37,959
	Other receivables	44,773	4,248
	Deposits, treasury bills and government bonds	9,489	7,755
	Prepayments	(1,838)	(5,773)
	Green certificates	6,558	(9,071)
	Restricted cash	-	(168,072)
	Inventories	(3,610)	(9,232)
	Trade payables	(55,355)	(287,274)
	Other payables	16,904	(27,352)
	Employee benefits	(5,732)	(24,666)
	Deferred revenue	(1,679)	3,947
	Cash generated from/(used in) operating activities	757,616	(54,307)
	Interest paid	(2,188)	(1,076)
	Income tax paid	(30,270)	(24,666)
	Net cash from/(used in) operating activities	725,158	(80,050)

(Continued on page 10)

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
 (All amounts are in THOUSAND RON, if not otherwise stated)

		Nine month period ended	
Note		30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Cash flows (used in)/from investing activities			
	Payments for purchases of property, plant and equipment	(1,951)	(18,042)
	Payments for network construction related to concession agreements	(577,998)	(403,046)
	Payments for purchases of intangible assets	(1,732)	-
	Proceeds from sale of property, plant and equipment	13,150	758
14	Purchase of treasury bills and government bonds	(95,339)	(543,114)
14	Proceeds from maturity of treasury bills and government bonds	466,722	1,463,073
	Increase in deposits with maturity of 3 months or longer	(563,000)	(615,625)
	Proceeds from deposits with maturity of 3 months or longer	525,000	126,870
	Interest received	8,492	13,982
	Net cash (used in)/from investing activities	(226,656)	24,856
Cash flows used in financing activities			
	Proceeds from long term bank loans	-	174,821
	Proceeds from short term bank loans	-	62,265
	Repayment of short term bank borrowings	-	(36,000)
	Repayment of financing for network construction related to concession agreements	(24,964)	(65,868)
	Dividends paid	(244,718)	(251,042)
	Net cash used in financing activities	(269,682)	(115,824)
	Net increase/(decrease) in cash and cash equivalents	228,820	(171,018)
	Cash and cash equivalents at 1 January	314,589	746,215
13	Cash and cash equivalents at 30 September	543,409	575,197

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

The non-cash transactions are disclosed in Note 13.

Chief Executive Officer
 Georgeta Corina Popescu

Chief Financial Officer
 Mihai Darie

November 14th 2018

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
(All amounts are in THOUSAND RON, if not otherwise stated)

1 Reporting entity and general information

These financial statements are the condensed consolidated interim financial statements of Societatea Energetica Electrica S.A. ("the Company" or "Electrica SA") and its subsidiaries (together "the Group") as at and for the nine month period ended 30 September 2018.

The registered office of the Company is no. 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 30 September 2018 and 31 December 2017 the main shareholder of Societatea Energetica Electrica S.A. is the Romanian State, represented by the Ministry of Energy (48.78%).

The Company's subsidiaries are the following:

Subsidiary	Activity	Sole registration code	Head Office	% shareholding as at 30 September 2018	% shareholding as at 31 Dec 2017
Societatea de Distribuție a Energiei Electrice Muntenia Nord S.A.	Electricity distribution in the geographical area of Muntenia Nord	14506181	Ploiesti	99,9999696922382%	99,9999696922382%
Societatea de Distribuție a Energiei Electrice Transilvania Nord S.A.	Electricity distribution in the geographical area of Transilvania Nord	14476722	Cluj-Napoca	99,9999829770757%	99,9999829770757%
Societatea de Distribuție a Energiei Electrice Transilvania Sud S.A.	Electricity distribution in the geographical area of Transilvania Sud	14493260	Brasov	99,999976413243%	99,999976413243%
Electrica Furnizare S.A.	Electricity Supply	28909028	Bucuresti	99,9998390431663%	99,9998390431663%
Electrica Serv S.A.	Services in the energy sector (maintenance, repairs, construction)	17329505	Bucuresti	100%	100%
Servicii Energetice Muntenia S.A. (in insolvency)	Services in the energy sector (maintenance, repairs, construction)	29384120	Bucuresti	100%	100%
Servicii Energetice Oltenia S.A. (in insolvency)	Services in the energy sector (maintenance, repairs, construction)	29389861	Craiova	100%	100%

The main activities of the Group include operation and construction of electricity distribution networks and 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 electrical substations and power lines of 0.4 kV to 110 kV.

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
(All amounts are in THOUSAND RON, if not otherwise stated)

The electricity distribution tariffs approved by National Authority for Energy Regulation ("ANRE") are as follows (RON/MWh, presented cumulatively for medium and low voltage levels):

	Order 115,114,116/12.12.2017			Order 113,114,112/14.12.2016		
	1 January-31 December 2018			1 January-31 December 2017		
	High voltage	Medium voltage	Low voltage	High Voltage	Medium voltage	Low voltage
Transilvania Nord	18.73	60.11	157.35	19.05	60.98	157.71
Transilvania Sud	20.29	60.38	160.80	20.63	61.64	165.37
Muntenia Nord	14.79	46.33	155.71	14.79	48.46	157.81

In September 2018, ANRE issued the following two orders containing changes to the electricity distribution tariff regulations, namely:

- ANRE's Order no. 168/17.09.2018 that approves the regulated rate of return (RRR) of 5.66% starting with January 1st, 2019;
- ANRE's Order no. 169/18.09.2018 that approves the new Tariffs Methodology for the Electricity Distribution Service. Regarding the value of the regulated rate of return, the methodology stipulates an incentive of 1% (RRR = 6.66%) for the investments in the network put in function starting with January 1st, 2019.

2 Basis of accounting

These condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union. They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("IFRS-EU") and these should be read together with the Annual Consolidated Financial Statements as at and for the year ended 31 December 2017. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2017.

These condensed consolidated interim financial statements have been prepared for submission to the Bucharest Stock Exchange. These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 14th 2018.

The Company also issues an original version of these condensed consolidated interim financial statements prepared in Romanian language.

Judgements and estimates

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

The significant professional judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements as at and for the year ended 31 December 2017.

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
(All amounts are in THOUSAND RON, if not otherwise stated)

3 Basis of measurement

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

4 Significant accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the Group's annual consolidated financial statements as at and for the year ended 31 December 2017, except for the adoption of new standards effective as of January 1st 2018.

Starting with January 1st 2018, the Group has applied for the first time two new standards, IFRS 9 „*Financial instruments*” and IFRS 15 „*Revenues from contracts with customers*”.

IFRS 15 „*Revenues from contracts with customers*”

IFRS 15 „*Revenues from contracts with customers*” introduces a comprehensive model for revenue recognition and measurement. The standard replaces the existing criteria for revenue recognition, replacing the standards IAS 18 „*Revenue*”, IAS 11 „*Construction Contracts*” and IFRIC 13 „*Customer Loyalty Programmes*”. Under the new standard, revenue is recognized when or as the customer acquires control over the goods or services rendered, at the amount which reflects the price at which the Group is expected to be entitled to receive in exchange of those goods or services.

Being permitted by the standard, the Group adopted IFRS 15 starting with January 1st 2018 using the modified retrospective method, with cumulated adjustments from the initial application recognised in equity as of January 1st 2018 and without restating the figures of the comparative periods. The initial application has no impact on the Group's Retained Earnings.

In applying IFRS 15, the Group has identified that it acts in the capacity of an agent in case of transactions as Balancing Responsible Party („BRP”). Thus, in its quality as an agent, the Group recognizes revenue for the commission earned in exchange for facilitating the transfer of goods or services. According to the new standard, the valuation is made by considering whether the Group holds control over the specific goods or services before transferring them to the customer, rather than taking into account whether it has exposure to significant risks and rewards associated with the sale of the respective goods or services.

Any holder of a production/supply/distribution license must be established as a Balancing Responsible Party or must delegate this responsibility to a Balancing Responsible Party. By delegating this responsibility to a BRP, there is the benefit of imbalance aggregation in the meaning of Balancing Market cost reduction by comparison with the case where the producer/supplier/distributor would form itself as a Balancing Responsible Party.

Electrica S.A., and subsequently starting with April 1st 2018 Electrica Furnizare S.A. acts as BRP for a large number of participants, electricity producers as well as electricity suppliers and distribution operators. For the settlement of imbalances, BRP Electrica is using the „method of internal redistribution of payments”, ensuring benefits of imbalance aggregation for all the participants included in the BRP. BRP Electrica provides the transmission of physical notifications to CNTEE Transelectrica SA and its role is to balance the differences between the electricity contracted and the electricity measured at the level of the entire BRP.

Without the adoption of the new standard IFRS 15, the *Revenue* and *Electricity purchased* captions of the consolidated condensed statement of profit or loss for the nine month period ended 30 September 2018 would have been higher with RON 74,955 thousand, having no impact on the margin.

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
(All amounts are in THOUSAND RON, if not otherwise stated)

IFRS 9 „Financial instruments“

IFRS 9 introduces changes regarding the recognition and measurement of financial assets and results in an earlier recognition of bad debt allowances for receivables.

Being permitted by the standard, the Group adopted IFRS 9 starting with January 1st 2018 using the modified retrospective method, with cumulated adjustments from the initial application recognised in equity as of January 1st 2018 and without restating the figures of the comparative period. For the categories of the Group's financial assets, there are no significant differences between the initial evaluation method according to IAS 39 and the new evaluation criteria under IFRS 9.

Also, a number of other amendments and interpretations have been effective starting with January 1st 2018, but do not have a significant effect on these condensed consolidated interim financial statements.

IFRS 16 „Leases“

Starting with January 1st 2019, the Group will adopt the new standard IFRS 16 „Leases“, using the modified retrospective method. IFRS 16 is effective for annual periods beginning on or after January, 1st 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 Group is currently performing a detailed assessment of the impact resulting from the application of IFRS 16.

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
(All amounts are in THOUSAND RON, if not otherwise stated)

5 Operating segments

(a) Information about reportable segments

Nine month period ended 30 September 2018 (unaudited and not reviewed)	Electricity supply	Electricity distribution	External electricity network maintenance	Headquarter	Total for reportable segments	Consolidation eliminations and adjustments	Consolidated total
External revenues	2,911,934	1,062,856	35,167	-	4,009,957	-	4,009,957
Inter-segment revenue	20,448	843,367	824	-	864,639	(864,639)	-
Segment revenue	2,932,382	1,906,223	35,991	-	4,874,596	(864,639)	4,009,957
Segment profit/(loss) before tax	195,142	215,630	(4,645)	303,408	709,535	(319,548)	389,987
Net finance income/(cost)	3,691	(6,213)	24	310,022	307,524	(301,492)	6,032
Depreciation, amortization and impairment, net	(10,662)	(307,624)	(1,114)	(3,917)	(323,317)	1,706	(321,611)
EBITDA*	202,113	529,467	(3,555)	(2,697)	725,328	(19,762)	705,566
Segment net profit/(loss)	163,263	172,432	(4,645)	303,408	634,458	(319,548)	314,910
Employee benefits	(58,646)	(368,986)	(20,123)	(21,610)	(469,365)	-	(469,365)
Capital expenditure	981	502,366	10	191	503,548	-	503,548
Nine month period ended 30 September 2017 (unaudited and not reviewed)							
External revenues	3,046,246	958,178	30,541	-	4,034,965	-	4,034,965
Inter-segment revenue	185,019	933,527	52	-	1,118,598	(1,118,598)	-
Segment revenue	3,231,265	1,891,705	30,593	-	5,153,563	(1,118,598)	4,034,965
Segment profit/(loss) before tax	(64,338)	205,200	4,309	296,301	441,472	(315,008)	126,464
Net finance income/(cost)	1,431	(2,579)	67	359,252	358,171	(347,341)	10,830
Depreciation, amortization and impairment, net	(9,529)	(283,046)	(76)	(692)	(293,343)	-	(293,343)
EBITDA*	(56,240)	494,810	16,183	(62,259)	392,494	15,725	408,219
Segment net profit/(loss)	(54,854)	164,571	16,171	296,301	422,189	(326,870)	95,319
Employee benefits	(60,675)	(379,016)	(17,493)	(15,313)	(472,497)	-	(472,497)
Capital expenditure	3	459,139	2,064	434	461,640	-	461,640

SOCIETATEA ENERGETICA ELECTRICA S.A.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018

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

At 30 September 2018 (unaudited and not reviewed)	Electricity supply	Electricity distribution	External electricity network maintenance	Headquarter	Total for reportable segments	Consolidation eliminations and adjustments	Consolidated total
Segment assets	1,014,896	6,454,990	145,440	871,926	8,487,252	(1,103,584)	7,383,668
Trade and other receivables	557,771	444,282	21,778	48,477	1,072,308	(316,068)	756,240
Cash and cash equivalents	328,815	255,749	5,078	30,834	620,476	-	620,476
Restricted cash	-	-	-	320,000	320,000	-	320,000
Deposits, treasury bills and government bonds	-	25,000	-	380,743	405,743	-	405,743
Trade and other payables and short term employee benefits	643,593	448,044	48,798	5,595	1,146,030	(336,473)	809,557
Bank overdrafts	-	77,067	-	-	77,067	-	77,067
Financing for network construction related to concession agreements and bank loans	-	340,230	-	-	340,230	-	340,230
At 31 December 2017 (audited)							
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 loans	-	363,831	-	-	363,831	-	363,831

SOCIETATEA ENERGETICA ELECTRICA S.A.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018

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

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

Nine month period ended 30 September 2018 (unaudited and not reviewed)	Distribution Muntenia Nord	Distribution Transilvania Nord	Distribution Transilvania Sud	Electricity network maintenance	Eliminations	Total Electricity distribution
External revenues	338,419	357,518	346,746	20,173	-	1,062,856
Inter-segment revenue	293,041	271,906	272,885	99,921	(94,386)	843,367
Segment revenue	631,460	629,424	619,631	120,094	(94,386)	1,906,223
Segment profit (loss) before tax	38,333	86,991	71,140	19,166	-	215,630
Net finance income/(cost)	(2,585)	(3,250)	(1,042)	664	-	(6,213)
Depreciation, amortization and impairment, net	(95,091)	(103,460)	(102,263)	(6,810)	-	(307,624)
EBITDA*	136,009	193,701	174,445	25,312	-	529,467
Net profit	28,324	68,543	58,710	16,855	-	172,432
Employee benefits	(119,318)	(108,355)	(116,013)	(25,300)	-	(368,986)
Capital expenditure	179,935	174,753	147,678	-	-	502,366
Nine month period ended 30 September 2017 (unaudited and not reviewed)						
External revenues	289,817	308,127	327,135	33,099	-	958,178
Inter-segment revenue	313,849	284,445	296,407	209,383	(170,557)	933,527
Segment revenue	603,666	592,572	623,542	242,482	(170,557)	1,891,705
Segment profit (loss) before tax	41,317	74,334	95,258	(5,710)	1	205,200
Net finance income/(cost)	(163)	(715)	(1,537)	(164)	-	(2,579)
Depreciation, amortization and impairment, net	(84,724)	(99,460)	(95,967)	(7,639)	4,744	(283,046)
EBITDA*	125,446	174,509	192,762	2,093	-	494,810
Net profit	34,353	60,904	75,231	(5,917)	-	164,571
Employee benefits	(96,465)	(93,093)	(89,553)	(107,541)	7,636	(379,016)
Capital expenditure	154,106	150,586	152,383	2,064	-	459,139

SOCIETATEA ENERGETICA ELECTRICA S.A.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018

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

At 30 September 2018 (unaudited and not reviewed)	Distribution Muntenia Nord	Distribution Transilvania Nord	Distribution Transilvania Sud	Electricity network maintenance	Eliminations	Total Electricity distribution
Segment assets	2,210,390	2,041,212	1,845,423	396,783	(38,818)	6,454,990
Trade and other receivables	128,625	131,096	127,415	95,964	(38,818)	444,282
Cash and cash equivalents	134,949	22,155	70,692	27,953	-	255,749
Deposits, treasury bills and government bonds	-	-	-	25,000	-	25,000
Trade and other payables and short term employee benefits	109,820	165,011	186,825	25,206	(38,818)	448,044
Bank overdrafts	-	57,491	19,576	-	-	77,067
Financing for network construction related to concession agreements and bank loans	86,650	116,986	136,594	-	-	340,230
At 31 December 2017 (audited)	1,908,339	1,772,965	1,691,300	469,321	(72,296)	5,769,629
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 loans	99,139	121,127	143,565	-	-	363,831

**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 and ii) net finance 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.*

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
(All amounts are in THOUSAND RON, if not otherwise stated)

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

	30 September 2018 (unaudited and not reviewed)	31 December 2017 (audited)
Total assets		
Total assets for reportable segments	8,487,252	8,203,432
Elimination of inter-segment assets	(1,127,285)	(627,197)
Unallocated amounts	23,701	41,100
Consolidated total assets	7,383,668	7,617,335
Trade and other receivables		
Trade and other receivables for reportable segments	1,072,308	1,172,307
Elimination of inter-segment trade and other receivables	(316,068)	(312,412)
Consolidated trade and other receivables	756,240	859,895
Trade and other payables and short term employee benefits		
Trade and other payable and short term employee benefits for reportable segments	1,146,030	1,263,964
Elimination of inter-segment trade and other payables and short term employee benefits	(336,473)	(320,975)
Consolidated trade and other payables and short term employee benefits	809,557	942,989

6 Revenue

	Nine month period ended	
	30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Electricity distribution and supply	3,432,722	3,490,386
Construction revenue related to concession agreements	502,366	459,139
Repairs, maintenance and other services rendered	65,267	77,144
Re-connection fees	5,960	7,488
Sales of merchandise	3,642	808
Total	4,009,957	4,034,965

Starting with January 1st 2018, with the adoption of the new IFRS 15 „Revenues from contracts with customers“, the Group identified that it acts in the capacity of an agent in case of transactions as Balancing Responsible Party. Without the adoption of the new standard IFRS 15, Revenues from supply and distribution of electricity for the nine month period ended 30 September 2018 would have been higher with RON 74,955 thousands.

In respect to the timing of the revenue recognition, most of the Group’s services provided are transferred to the customer over time, only a small part amounting to RON 1,572 thousand being transferred at a point in time (e.g. metering services provided by the distribution companies, providing periodic data analysis to the customer for certain taxes collected on behalf of the customer).

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
(All amounts are in THOUSAND RON, if not otherwise stated)

7 Other income

	Nine month period ended	
	30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Rental income	76,534	69,874
Revenues from notices	12,076	15,125
Late payment penalties from customers	11,558	13,581
Commissions for the collection of radio, TV and habitat taxes	1,469	3,144
Other	14,695	32,992
Total	116,332	134,716

8 Electricity purchased

Starting with January 1st 2018, with the adoption of the new IFRS 15 „Revenues from contracts with customers“, the Group identified that it acts in the capacity of an agent in case of transactions as Balancing Responsible Party. Without the adoption of the new standard IFRS 15, Electricity purchased for the nine month period ended 30 September 2018 would have been higher with RON 74,955 thousands.

9 Earnings per share

The calculation of basic and diluted earnings per share has been based on the following profit or loss attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

Profit or loss attributable to ordinary shareholders

	Nine month period ended	
	30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Profit for the period attributable to the owners of the Company	314,910	64,066
Profit attributable to ordinary shareholders	314,910	64,066

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

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

The weighted average number of outstanding ordinary shares (unaudited and not reviewed) as at 30 September 2018 is of 339,049,336 (30 September 2017: 339,049,336).

Earnings per share

	Nine month period ended	
	30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Basic and diluted earnings per share (RON per share)	0.93	0.19

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
(All amounts are in THOUSAND RON, if not otherwise stated)

10 Dividends

On 27 April 2018 the General Shareholders Meeting of the Company approved dividend distribution of RON 245,370 thousand. The dividend per share distributed is RON 0.7237 per share.

During the nine month period ended 30 September 2017, dividends of RON 97,869 thousand were approved for distribution to non-controlling interests - Fondul Proprietatea S.A., by the General Shareholders Meeting of the following subsidiaries: Electrica Furnizare, Societatea de Distributie a Energiei Electrice Muntenia Nord S.A., Societatea de Distributie a Energiei Electrice Transilvania Nord S.A. and Societatea de Distributie a Energiei Electrice Transilvania Sud S.A.. In 2018, Fondul Proprietatea is no longer a shareholder of the above mentioned subsidiaries.

11 Income taxes

	Nine month period ended	
	30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Current period tax expense	46,289	36,908
Deferred tax expense/(income)	28,788	(5,763)
Total income tax expense	75,077	31,145

12 Trade receivables

	30 September 2018 (unaudited and not reviewed)	31 December 2017 (audited)
Trade receivables, gross	1,783,412	1,863,868
Bad debt allowance	(1,055,922)	(1,059,507)
Total trade receivables, net	727,490	804,361

Receivables from related parties are disclosed in Note 19.

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

	Bad debt allowance
Balance as at 1 January 2018 (audited)	1,059,507
Impairment recognized	15,891
Impairment reversed	(13,079)
Amounts written off	(6,397)
Balance as at 30 September 2018 (unaudited and not reviewed)	1,055,922

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

Starting with January 1st 2018, the Group has applied for the first time the new standard IFRS 9 „Financial instruments“, resulting in an earlier recognition of bad debt allowances for receivables. Being permitted by the standard, the Group

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
(All amounts are in THOUSAND RON, if not otherwise stated)

adopted IFRS 9 starting with January 1st 2018 using the modified retrospective method, with cumulated adjustments from the initial application recognised in equity as of January 1st 2018 and without restating the figures of the comparative period. For the Group's trade receivables, there are no significant differences between the initial evaluation method according to IAS 39 and the new evaluation criteria under IFRS 9.

13 Cash and cash equivalents

	30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Total cash and cash equivalents in the condensed consolidated statement of financial position	620,476	745,874
Overdrafts used for cash management purposes	(77,067)	(170,677)
Total cash and cash equivalents in the condensed consolidated statement of cash flows	543,409	575,197

The Group has overdrafts as follows:

Bank	Contract date	Facility type	Maturity	Overdraft limit (th RON)	Balance at 30 September 2018 (unaudited and not reviewed)
BRD Groupe Societe Generale	29-May-18	overdraft facility for financing the current activity	Until 29 May 2019	95,000	-
Raiffeisen Bank	19-Jan-18	overdraft facility for financing the current activity	Until 15 April 2019	135,000	57,491
Raiffeisen Bank	6-Nov-17	overdraft facility for financing current activity	Until 6 November 2019	100,000	19,576
Total				330,000	77,067

As at 30 September 2018, Electrica SA has collateral deposits at BRD - Groupe Societe Generale set up 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 Nord. The amount of the collateral deposits as at 30 September 2018 is RON 320,000 thousands (31 December 2017: RON 320,000 thousands) presented in the statement of financial position as long-term restricted cash. Refer also to Note 16.

The following information is relevant in the context of the statement of cash-flows. Non-cash activity includes:

- set-off between trade receivables and trade payables of RON 34 million during the nine month period ended 30 September 2018 (nine month period ended 30 September 2017: RON 180 million).

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
(All amounts are in THOUSAND RON, if not otherwise stated)

14 Deposits, treasury bills and government bonds

	30 September 2018 (unaudited and not reviewed)	31 December 2017 (audited)
Treasury bills and government bonds denominated in RON with original maturity of more than three months	86,322	462,739
Deposits with maturity of more than three months	319,421	284,242
Total deposits, treasury bills and government bonds	405,743	746,981

Treasury bills and government bonds with original maturity of more than three months have an average interest rate (yield) of 2.16% (2017: 1.34%). Treasury bills and government bonds were classified as held to maturity investments.

15 Other payables

	30 September 2018 (unaudited and not reviewed)		31 December 2017 (audited)	
	Current	Non-current	Current	Non-current
VAT payable	100,006	-	85,832	-
Liabilities towards the State	8,366	-	21,003	-
Other liabilities	63,904	41,768	27,391	40,440
Total	172,276	41,768	134,226	40,440

Other liabilities include mainly guarantees, sundry creditors, connection fees, habitat tax and cogeneration contribution. Other non-current liabilities refer to guarantees from customers related to electricity supply.

16 Long-term bank borrowings

	30 September 2018 (unaudited and not reviewed)	31 December 2017 (audited)
Long-term bank borrowings	320,000	320,000
Total	320,000	320,000

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 2021). Details of the long term bank borrowings are as follows:

Lender	Facility type	Maturity	Loan amount	Balance at 30 September 2018 (unaudited and not reviewed)	Balance at 31 December 2017 (audited)
BRD	term loan, non-revolving facility, financing the treasury deficit generated by the investment activity	until 16 October 2021	80,000	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	114,000

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
(All amounts are in THOUSAND RON, if not otherwise stated)

Lender	Facility type	Maturity	Loan amount	Balance at 30 September 2018 (unaudited and not reviewed)	Balance at 31 December 2017 (audited)
BRD	term loan, non-revolving facility, financing the treasury deficit generated by the investment activity	until 16 October 2021	126,000	126,000	126,000
Total			320,000	320,000	320,000

17 Provisions

	Provisions
Balance at 1 January 2018 (audited)	29,889
Provisions recorded during the period	5,830
Provisions used	(4,935)
Provisions reversed	(843)
Balance at 30 September 2018 (unaudited and not reviewed)	29,941

As at 30 September 2018, provisions refer mainly to:

- RON 3,481 thousand representing potential tax charges of the Group (including interest and penalties);
- RON 1,745 thousand referring to work litigations;
- RON 24,715 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 claims in the future. The fine amounting to RON 10,801 thousand received from the Competition Council was executed by ANAF in October 2018.

The provisions recorded during the nine period ended 30 September 2018 refer mainly to:

- RON 2,007 thousand for a litigation of Societatea de Distributie a Energiei Electrice Muntenia Nord S.A. with Sinaia City Hall;
- RON 1,397 thousand representing claims in work litigations.

The provisions used during the nine month period ended 30 September 2018 refer mainly to:

- the payment obligation of RON 4,670 thousand based on the decision issued and communicated by tax authorities to Electrica Furnizare S.A. following the completion of the fiscal inspections. The amount represents additional fiscal obligations in the form of interest and penalties.

As at 31 December 2017, provisions refer mainly to:

- RON 7,244 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 claims in the future.

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
(All amounts are in THOUSAND RON, if not otherwise stated)

18 Financial instruments – fair values

(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.

30 September 2018 (unaudited and not reviewed)	Carrying amount				Fair value			
	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	727,490	-	-	727,490				
Deposits, treasury bills and government bonds	-	405,743	-	405,743				
Cash and cash equivalents	620,476	-	-	620,476				
Restricted cash	320,000	-	-	320,000				
Total	1,667,966	405,743	-	2,073,709				
Financial liabilities not measured at fair value								
Bank overdrafts	-	-	77,067	77,067				
Financing for network construction related to concession agreements	-	-	20,230	20,230		20,455		20,455
Long-term bank borrowings	-	-	320,000	320,000				
Trade payables	-	-	522,327	522,327				
Total	-	-	939,624	939,624				
31 December 2017 (audited)								
	Carrying amount				Fair value			
	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	804,361	-	-	804,361				
Deposits, treasury bills and government bonds	-	746,981	-	746,981				
Cash and cash equivalents	562,493	-	-	562,493				
Restricted cash	320,000	-	-	320,000				
Total	1,686,854	746,981	-	2,433,835				

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
(All amounts are in THOUSAND RON, if not otherwise stated)

31 December 2017 (audited)	Carrying amount			Total	Fair value			Total
	Loans and receivables	Held to maturity financial assets	Other financial liabilities		Level 1	Level 2	Level 3	
Financial liabilities not measured at fair value								
Bank overdrafts	-	-	247,904	247,904				
Financing for network construction related to concession agreements	-	-	43,831	43,831		45,367		45,367
Long-term bank borrowings	-	-	320,000	320,000				
Trade payables	-	-	689,405	689,405				
Total	-	-	1,301,140	1,301,140				

(b) Measurement of fair values

Fair value hierarchy

The fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: unobservable inputs for the asset or liability.

The following table describes the valuation techniques used in measuring Level 2 fair values.

Financial instruments not measured at fair value

Type	Valuation technique
Other financial liabilities	<i>Discounted cash flows (DCF) method</i>
	The discount rates used are the average 12 M ROBID-ROBOR interest rates of 3.34% as at 30 September 2018 (31 December 2017: 2.07%).

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
(All amounts are in THOUSAND RON, if not otherwise stated)

19 Related parties

(a) Main shareholders

As at 30 September 2018 and 31 December 2017 the main shareholder of Societatea Energetica Electrica S.A. is the Romanian State, represented by the Ministry of Energy (48.78%).

(b) Management and administrators' compensation

	Nine month period ended	
	30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Executive Management compensation	18,212	14,190

Executive management compensation refers to both the managers with mandate contract and those with labor contract, from both the subsidiaries and Electrica S.A.

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

	Nine month period ended	
	30 September 2018 (unaudited and not reviewed)	30 September 2017 (unaudited and not reviewed)
Members of Board of Directors	2,393	1,852

(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 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:

Supplier	Purchases (excluding VAT)		Balance (including VAT)	
	Nine month period ended 30 September 2018 (unaudited and not reviewed)	Nine month period ended 30 September 2017 (unaudited and not reviewed)	30 September 2018 (unaudited and not reviewed)	31 December 2017 (audited)
Transelectrica	335,250	568,608	74,296	94,150
OPCOM	321,787	541,656	4,451	4,298
Hidroelectrica	242,732	228,321	8,346	16,840
Complexul Energetic Oltenia	234,704	56,105	25,857	42,700
Nuclearelectrica	159,087	155,968	24,767	22,176
Electrocentrale Bucuresti	25,100	-	1,522	-
Electrocentrale Galati	4,345	-	-	-
Others	4,449	13,655	875	4,141
Total	1,327,454	1,564,313	140,114	184,305

SOCIETATEA ENERGETICA ELECTRICA S.A.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018

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

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

Client	Sales (excluding VAT)	Balance, gross (including VAT)	Allowance	Balance, net
	Nine month period ended 30 September 2018 (unaudited and not reviewed)		30 September 2018 (unaudited and not reviewed)	
Societatea Comerciala "Cupru Min"	23,282	6,066	-	6,066
OPCOM	15,516	1,948	-	1,948
SNGN Romgaz	12,684	1,289	-	1,289
Transelectrica	11,035	1,563	-	1,563
CN Romarm	7,463	179	-	179
Hidroelectrica	6,541	467	-	467
CFR Electrificare	5,690	350	-	350
CNCF CFR Bucuresti SA	1,937	65	-	65
CN Posta Romana	1,808	47	-	47
ANAR - Administratia Nationala				
Apele Romane	1,078	51	-	51
CN Remin SA	278	71,200	(71,148)	52
CET Braila	15	4,125	(4,125)	-
C.N.C.A.F. MINVEST S.A.	-	29,903	(29,903)	-
Oltchim	-	715,259	(715,259)	-
Termoelectrica	-	1,508	(1,508)	-
Others	13,780	3,313	(1,838)	1,475
Total	101,107	837,333	(823,781)	13,552

Client	Sales (excluding VAT)	Balance, gross (including VAT)	Allowance	Balance, net
	Nine month period ended 30 September 2017 (unaudited and not reviewed)		31 December 2017 (audited)	
Societatea Comerciala "Cupru Min"	24,202	6,635	-	6,635
OPCOM	14,598	3,662	-	3,662
Transelectrica	13,057	1,841	-	1,841
SNGN Romgaz	12,902	1,279	-	1,279
CFR Electrificare	9,384	944	-	944
CN Romarm	7,154	286	-	286
CN Remin SA	280	71,219	(71,148)	71
C.N.C.A.F. MINVEST S.A.	-	29,903	(29,903)	-
Oltchim	-	715,259	(715,259)	-
Others	51,551	16,369	(7,543)	8,826
Total	133,128	847,397	(823,853)	23,544

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
(All amounts are in THOUSAND RON, if not otherwise stated)

20 Subsidiaries in financial distress

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 procedures 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 30 September 2018 and at 31 December 2017, the carrying amount of the assets and liabilities of these companies included in the consolidated financial information are as follows:

30 September 2018 (unaudited and not reviewed)	Servicii Energetice Muntenia	Servicii Energetice Oltenia	Total
Property, plant and equipment	100,114	18,427	118,541
Trade receivables	7,082	9,356	16,438
Cash and cash equivalents	3,630	1,448	5,078
Total assets	110,826	29,231	140,057
Trade payables	(5,298)	(3,266)	(8,564)
Payables to the State budget	(526)	(7,618)	(8,144)
Social security and other salary taxes	(539)	(5,272)	(5,811)
Provisions, employee benefits and deferred taxes	(24,138)	(12,534)	(36,672)
Total liabilities	(30,501)	(28,690)	(59,191)

31 December 2017 (audited)	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)

The Group has not classified the assets and liabilities of these subsidiaries as held for sale as at 30 September 2018, 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 nine month period ended 30 September 2018.

At the date of approval of these financial statements, Servicii Energetice Muntenia completed the reorganization plan, the payables included in the payment schedule being fully paid, thus the legal procedures for exiting the insolvency procedures can be completed in the following period.

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
(All amounts are in THOUSAND RON, if not otherwise stated)

As mentioned in Note 22, on October 31st 2018, the court decided the bankruptcy of Servicii Energetice Oltenia, at the request of the judicial administrator and cancelled its right of management. The term for enrolling in the creditors' table within the bankruptcy proceedings is on December 12, 2018.

21 Contingencies

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. The company appealed in court the measures imposed by the tax authorities, the action being in progress. Management estimates that it is likely that a favorable outcome will result out of this dispute, based on, among other aspects, a similar case of another company that was favourable settled at the Court of Justice of the European Union.

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

In May 2017, after the revision of Electrica'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 SA 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 SA has obtained a favourable Supreme Court ruling in one of the litigations with ANAF, which essentially maintains into force a prior Court of Appeal decisions, which is favourable for the Group. Based on this Court ruling and in conjunction with all other litigations with ANAF on the same historical amounts, for 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 SA 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 subsequent to 31 December 2017 related to ANAF litigations.

Other litigations and claims

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

As summarised in Note 17, 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):

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
(All amounts are in THOUSAND RON, if not otherwise stated)

- 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. The first court dismissed the exception of prescription of the material right for action as unreasonable and the action as unfounded. Both parties have filed an appeal, which were dismissed as unfounded. As of the date of these financial statements, both parties filed another appeal, being in the filter procedure at the High Court of Cassation and Justice.

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.

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.

22 Subsequent events

Change in the componse of the Board of Directors of Electrica SA

On October, 12 2018, Mrs. Arielle Malard de Rothschild decided to renounce her position as member of the Board of Directors of Electrica SA, continuing to perform her duties as member of the Board of Directors of Electrica SA until November, 11th 2018.

Change in the executive management of Electrica SA

On October, 15th 2018, the Board of Directors of Electrica SA has reached a mutual agreement with Mr. Dan Catalin Stancu regarding the termination of the mandate agreement as the Chief Executive Officer of Electrica SA, starting with November 1st 2018. At the same time, the Board of Directors decided the nomination of Mrs. Georgeta Corina Popescu, as interim CEO of Electrica SA, starting with November 1st 2018, for a one year period or until the nomination of a new CEO.

Actions in Court against ANRE Orders regarding the electricity distribution tariffs

In October 2018, Electrica SA together with its three electricity distribution subsidiaries filed two preliminary complaints to ANRE, having as object the full revocation request of ANRE President's Order no. 168/2018 regarding the establishment of the regulated rate of return applied for the approval of the tariffs for the electricity distribution service provided by the concession distribution operators starting with January, 1st 2019 and the partial revocation of ANRE President's Order no. 169/2018 that approves the new Tariffs Methodology for the Electricity Distribution Service. At the same time, two actions were filed based on the Administrative Contentious Law, having as the object the request for the full annulment of ANRE Order no. 168/2018 and partial annulment of ANRE Order no. 169/2018, the litigations being in an early stage.

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018
(All amounts are in THOUSAND RON, if not otherwise stated)

Bankruptcy of Servicii Energetice Oltenia

On October 31st 2018, the court decided the bankruptcy of Servicii Energetice Oltenia, at the request of the judicial administrator and cancelled its right of management. The term for enrolling in the creditors' table within the bankruptcy proceedings is on December 12, 2018.

Chief Executive Officer
Georgeta Corina Popescu

Chief Financial Officer
Mihai Darie

November 14th 2018