



SOCIETATEA ENERGETICA ELECTRICA S.A.

Condensed Consolidated Interim Financial Statements

as at and for the three month period ended

31 March 2019

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 THREE MONTH
PERIOD ENDED 31 MARCH 2019
PREPARED IN ACCORDANCE WITH IAS 34 "INTERIM FINANCIAL REPORTING" AS ADOPTED BY THE EUROPEAN
UNION

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

AS AT 31 MARCH 2019

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

	Note	31 March 2019 (unaudited and not reviewed)	31 December 2018 (audited)
ASSETS			
Non-current assets			
Intangible assets related to concession arrangements		4,851,070	4,810,340
Other intangible assets		12,242	13,899
Property, plant and equipment, net		589,479	601,178
Restricted cash	13	320,000	320,000
Deferred tax assets		33,598	28,895
Other non-current assets		1,613	1,842
Right of use asset		68,353	-
Total non-current assets		5,876,355	5,776,154
Current assets			
Trade receivables	12	922,342	806,293
Other receivables		30,857	38,461
Cash and cash equivalents	13	442,520	665,730
Deposits with maturity date more than three months	14	208,656	136,493
Inventories		69,316	63,585
Prepayments		8,883	2,666
Income tax receivable		15,821	16,481
Assets held for sale		22,605	23,209
Total current assets		1,721,000	1,752,918
Total assets		7,597,355	7,529,072
EQUITY AND LIABILITIES			
Equity			
Share capital		3,459,399	3,459,399
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		104,465	108,704
Legal reserves		352,038	352,038
Retained earnings		1,638,863	1,675,479
Total equity attributable to the owners of the Company		5,587,586	5,628,441
Total equity		5,587,586	5,628,441

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

AS AT 31 MARCH 2019

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

	Note	31 March 2019 (unaudited and not reviewed)	31 December 2018 (audited)
Liabilities			
Non-current liabilities			
Financing for network construction related to concession agreements		111	981
Finance lease liability – long term		30,236	-
Deferred tax liabilities		180,408	183,381
Employee benefits		186,721	186,857
Other payables	15	40,264	41,247
Long-term bank borrowings	16	320,000	320,000
Total non-current liabilities		757,740	732,466
Current liabilities			
Financing for network construction related to concession agreements		8,429	11,851
Finance lease liability – short term		39,664	-
Bank overdrafts	13	277,779	118,972
Trade payables		641,865	742,200
Other payables	15	191,473	181,117
Deferred revenue		4,904	5,037
Employee benefits		58,098	77,988
Provisions	17	28,724	29,106
Current income tax liability		1,093	1,894
Total current liabilities		1,252,029	1,168,165
Total liabilities		2,009,769	1,900,631
Total equity and liabilities		7,597,355	7,529,072

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

14 May 2019

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
 FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019
 (All amounts are in THOUSAND RON, if not otherwise stated)

	Note	Three month period ended	
		31 March 2019 (unaudited and not reviewed)	31 March 2018 (unaudited and not reviewed)
Revenue	7	1,583,715	1,349,760
Other income	8	42,569	39,667
Electricity purchased	9	(996,440)	(742,468)
Green certificates		(138,774)	(65,255)
Construction costs related to concession agreements		(138,258)	(120,846)
Employee benefits		(149,347)	(142,324)
Repairs, maintenance and materials		(21,537)	(17,743)
Depreciation and amortization		(121,568)	(110,282)
Reversal of impairment of property, plant and equipment, net		363	175
Impairment of trade and other receivables, net		(12,395)	(1,543)
Impairment of assets held for sale		(98)	-
Change in provisions, net		382	3,626
Other operating expenses		(95,680)	(112,077)
Operating (loss)/profit		(47,068)	80,690
Finance income		3,858	2,287
Finance costs		(3,568)	(880)
Net finance income		290	1,407
(Loss)/profit before tax		(46,778)	82,097
Income tax expense	11	5,923	(22,841)
(Loss)/profit for the period		(40,855)	59,256
(Loss)/profit for the period attributable to:			
- owners of the Company		(40,855)	59,256
(Loss)/profit for the period		(40,855)	59,256
Earnings per share			
Basic and diluted earnings per share	10	(0.12)	0.17

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

14 May 2019

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

	Three month period ended	
	31 March 2019 (unaudited and not reviewed)	31 March 2018 (unaudited and not reviewed)
(Loss)/Profit for the period	(40,855)	59,256
Other comprehensive income	-	-
Total comprehensive income	(40,855)	59,256
Total comprehensive income attributable to:		
- owners of the Company	(40,855)	59,256
Total comprehensive income	(40,855)	59,256

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

14 May 2019

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019
 (All amounts are in THOUSAND RON, if not otherwise stated)

	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 2019 (audited)	3,459,399	103,049	(75,372)	5,144	108,704	352,038	1,675,479	5,628,441
Comprehensive income								
Loss for the period (unaudited and not reviewed)	-	-	-	-	-	-	(40,855)	(40,855)
Total comprehensive income (unaudited and not reviewed)	-	-	-	-	-	-	(40,855)	(40,855)
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	-	-	-	-	(4,239)	-	4,239	-
Balance at 31 March 2019 (unaudited and not reviewed)	3,459,399	103,049	(75,372)	5,144	104,465	352,038	1,638,863	5,587,586

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SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019
 (All amounts are in THOUSAND RON, if not otherwise stated)

	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	
Restated balance at 1 January 2018 as reported previously (audited)	3,814,242	103,049	(75,372)	5,144	123,748	326,779	1,357,966	5,655,556
Restatement impact (please see Note 3)	(354,843)	-	-	-	-	-	354,843	-
Restated balance at 1 January 2018 (audited)	3,459,399	103,049	(75,372)	5,144	123,748	326,779	1,712,809	5,655,556
Comprehensive income								
Profit for the period (unaudited and not reviewed)	-	-	-	-	-	-	59,256	59,256
Total comprehensive income (unaudited and not reviewed)	-	-	-	-	-	-	59,256	59,256
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	-	-	-	-	(6,007)	-	6,007	-
Restated balance at 31 March 2018 (unaudited and not reviewed)	3,459,399	103,049	(75,372)	5,144	117,741	326,779	1,778,072	5,714,812

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

14 May 2019

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019
 (All amounts are in THOUSAND RON, if not otherwise stated)

	Note	Three month period ended	
		31 March 2019 (unaudited and not reviewed)	31 March 2018 (unaudited and not reviewed)
Cash flows from operating activities			
(Loss)/Profit for the period		(40,855)	59,256
Adjustments for:			
Depreciation		9,951	10,350
Amortisation		111,617	99,932
Reversal of impairment of property, plant and equipment, net		(363)	(175)
(Gain)/Loss on disposal of property, plant and equipment		(230)	31
Impairment of trade and other receivables, net		12,395	1,543
Impairment on assets held for sale		98	-
Change in provisions, net	17	(382)	(3,626)
Net finance income		(290)	(1,407)
(Income)/Expense with corporate income tax	11	(5,923)	22,841
		86,018	188,745
Changes in:			
Trade receivables		(143,396)	12,275
Other receivables		3,790	38,577
Deposits, treasury bills and government bonds		-	531
Prepayments		(6,217)	(6,484)
Green certificates		-	11,662
Inventories		(5,731)	(11,424)
Trade payables		84,378	(140,035)
Other payables		12,824	(1,606)
Employee benefits		(20,026)	(25,096)
Deferred revenue		(133)	(1,370)
		11,507	65,775
Interest paid		(1,789)	(795)
Income tax paid		(1,894)	(2,732)
		7,824	62,248

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SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019
 (All amounts are in THOUSAND RON, if not otherwise stated)

	Note	Three month period ended	
		31 March 2019 (unaudited and not reviewed)	31 March 2018 (unaudited and not reviewed)
Cash flows (used in)/from investing activities			
Payments for purchases of property, plant and equipment		(4,322)	(3,608)
Payments for network construction related to concession agreements		(305,338)	(127,207)
Payments for purchases of intangible assets		(49)	(135)
Proceeds from sale of property, plant and equipment		2,616	10,280
Purchase of treasury bills and government bonds	14	-	(26,524)
Proceeds from maturity of treasury bills and government bonds	14	-	422,091
Increase in deposits with maturity of 3 months or longer		(173,000)	(206,090)
Proceeds from deposits with maturity of 3 months or longer		101,000	-
Interest received		3,464	1,712
Net cash (used in)/from investing activities		(375,629)	70,519
Cash flows used in financing activities			
Payment of finance lease liabilities		(9,642)	-
Dividends paid		(108)	-
Repayment of financing for network construction related to concession agreements		(4,462)	(9,049)
Net cash used in financing activities		(14,212)	(9,049)
Net (decrease)/increase in cash and cash equivalents		(382,017)	123,718
Cash and cash equivalents at 1 January		546,758	314,589
Cash and cash equivalents at 31 March	13	164,741	438,307

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

14 May 2019

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019
(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 three month period ended 31 March 2019.

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 31 March 2019 and 31 December 2018 the major shareholder of Societatea Energetica Electrica SA is the Romanian State, represented by the Ministry of Energy with a share of ownership of 48.78% from the share capital.

As at 31 March 2019 and 31 December 2018, the Company's subsidiaries are the following:

Subsidiary	Activity	Tax code	Head Office	% shareholding as at 31 March 2019	% shareholding as at 31 Dec 2018
Societatea de Distributie a Energiei Electrice Muntenia Nord S.A. ("SDEE Muntenia Nord S.A.")	Electricity distribution in geographical area of Muntenia Nord	14506181	Ploiesti	99.9999719027621 %	99.9999696922382%
Societatea de Distributie a Energiei Electrice Transilvania Nord S.A. ("SDEE Transilvania Nord S.A.")	Electricity distribution in geographical area of Transilvania Nord	14476722	Cluj-Napoca	99.9999829770757 %	99.9999829770757%
Societatea de Distributie a Energiei Electrice Transilvania Sud S.A. ("SDEE Transilvania Sud S.A.")	Electricity distribution in 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.	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	n/a*	n/a*

**Societatea Energetica Electrica SA lost the control of Servicii Energetice Oltenia starting with 31 October 2018 when the bankruptcy proceedings of the subsidiary were initiated by the Court (see Note 20). As of this date, the Group ceased to consolidate this company.*

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 transformation station and 0.4 kV to 110 kV power lines.

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

The distribution tariffs approved by the 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			
1 January-31 December 2018			
	High voltage	Medium voltage	Low voltage
SDEE Transilvania Nord S.A.	18.73	60.11	157.35
SDEE Transilvania Sud S.A.	20.29	60.38	160.80
SDEE Muntenia Nord S.A.	14.79	46.33	155.71

Order 198,199,197/20.12.2018			
1 January-28 February 2019			
	High voltage	Medium voltage	Low voltage
SDEE Transilvania Nord S.A.	18.16	60.00	158.67
SDEE Transilvania Sud S.A.	20.27	60.10	160.31
SDEE Muntenia Nord S.A.	15.21	48.29	162.46

Order 25,26,24/25.02.2019			
1 March-31 December 2019			
	High voltage	Medium voltage	Low voltage
SDEE Transilvania Nord S.A.	18.58	61.40	162.38
SDEE Transilvania Sud S.A.	20.75	61.52	164.08
SDEE Muntenia Nord S.A.	15.56	49.40	166.20

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 2018. 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 2018.

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 14 May 2019.

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 has made 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 2018.

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

3 Restatements

Share capital restatement

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. Through the General Meeting of Shareholders decision no. 1/27.04.2015 was approved the use of the amount known as "Inflation adjustment to share capital" having a value of RON 354,843 thousand to cover the accumulated accounting losses. Therefore, the share capital should have been decreased to reflect the above mentioned operation.

As a consequence, the Share capital has been overstated and Retained earnings understated with the amount of RON 354,843 thousand. The Company reclassified in the statement of financial position the amount RON 354,843 thousand from Share capital to Retained earnings, by restating each of the affected financial statement line items for prior periods, the reclassification having no impact within the Equity line.

The following tables summarise the impact on the Group's consolidated financial statements:

Consolidated statement of financial position

	1 January 2018 as reported previously	1 January 2018 reclassifications	1 January 2018 as restated
Share capital	3,814,242	(354,843)	3,459,399
Share premium	103,049	-	103,049
Treasury shares reserve	(75,372)	-	(75,372)
Pre-paid capital contribution in kind from shareholders	5,144	-	5,144
Revaluation reserve	123,748	-	123,748
Legal reserves	326,779	-	326,779
Retained earnings	1,357,966	354,843	1,712,809
Total equity attributable to the owners of the Company	5,655,556	-	5,655,556
	31 March 2018 as reported previously	31 March 2018 reclassifications	31 March 2018 as restated
Share capital	3,814,242	(354,843)	3,459,399
Share premium	103,049	-	103,049
Treasury shares reserve	(75,372)	-	(75,372)
Pre-paid capital contribution in kind from shareholders	5,144	-	5,144
Revaluation reserve	117,741	-	117,741
Legal reserves	326,779	-	326,779
Retained earnings	1,423,229	354,843	1,778,072
Total equity attributable to the owners of the Company	5,714,812	-	5,714,812

4 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.

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

5 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 2018, except for the adoption of new standards effective as of January 1st 2019.

Starting with January 1st 2019, the Group has applied for the first time a new standard, IFRS 16 „Leases“.

Due to the transition methods chosen by the Group in applying this standard, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standard.

IFRS 16 „Leases“

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 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 over the lease term and the liability accrues interest. Interest expense is charged to profit or loss over the lease period on the remaining balance of the lease liability for each period. 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.

In addition, the Group has taken into consideration the following aspects for the contracts that fall under IFRS 16 incidence: i) did not recognize any right-of-use assets or lease liabilities for contracts which expire in 2019 (within 12 months since implementation date); and ii) did not recognize any right-of-use assets or lease liabilities for lower value contracts.

Being permitted by the standard, the Group adopted IFRS 16 starting with January 1st 2019 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 was recognised as an adjustment to the opening balance of retained earnings at January 1st 2019, with no restatement of comparative information.

The right-of-use assets for previous operating leases were measured at the date of initial application at the amount of the lease liability, adjusted by prepaid or accrued lease payments. The lease liabilities were measured at the present value of the lease payments over the remaining lease term, discounted using the incremental borrowing rate as of January 1st 2019. The weighted average lessee's incremental borrowing rate used by the Group as at January 1st 2019 is 2.03%.

Initial application of IFRS 16 resulted in the recognition of right-of-use assets as at 1st of January 2019 and also lease liabilities amounting to RON 77,891 thousand out of which short-term liabilities in amount of RON 38,840 thousand and long-term liabilities in amount of RON 39,051 thousand.

As at 31th March 2019, the Group has recognized right-of-use assets amounting to RON 68,352 thousand and lease liabilities amounting to RON 69,900 thousand out of which short-term liabilities in amount of RON 39,664 thousand and long-term liabilities in amount of RON 30,236 thousand.

The Group has lease contracts mainly for rental of vehicles, land, buildings, optical fibres etc.

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019
(All amounts are in THOUSAND RON, if not otherwise stated)

6 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 BRP activity of Electrica SA until 1 April 2018)
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 Muntenia SA and Servicii Energetice Oltenia SA - for the comparative period)
Headquarter	Includes corporate activities 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 one of the most relevant in evaluating the results of the segments.

There are varying levels of integration between the Electricity supply, Electricity distribution and External electricity network maintenance segments. This integration includes energy distribution, shared electricity network maintenance services, respectively. Inter-segment pricing policy is determined on an arm's length basis.

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

AS AT AND FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

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

(b) Information about reportable segments

Three month period ended 31 March 2019 (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	1,250,043	327,154	6,518	-	1,583,715	-	1,583,715
Inter-segment revenue	11,186	317,037	200	-	328,423	(328,423)	-
Segment revenue	1,261,229	644,191	6,718	-	1,912,138	(328,423)	1,583,715
Segment (loss)/profit before tax	(25,129)	(22,501)	(872)	1,979	(46,523)	(255)	(46,778)
Net finance income/(cost)	798	(11,847)	-	11,339	290	-	290
Depreciation, amortization and impairment, net	(3,724)	(111,650)	(882)	(5,312)	(121,568)	-	(121,568)
Impairment of property, plant and equipment, net	-	363	-	-	363	-	363
Impairment losses of trade receivables, net	(9,277)	(3,118)	-	-	(12,395)	-	(12,395)
EBITDA*	(22,203)	100,633	10	(4,048)	74,392	(255)	74,137
Segment net (loss)/profit	(20,426)	(21,303)	(850)	1,979	(40,600)	(255)	(40,855)
Employee benefits	(17,489)	(122,742)	(3,682)	(5,434)	(149,347)	-	(149,347)
Capital expenditure	353	142,750	213	171	143,487	-	143,487
Three month period ended 31 March 2018 (unaudited and not reviewed)							
External revenues	1,030,187	309,363	10,210	-	1,349,760	-	1,349,760
Inter-segment revenue	2,173	307,268	-	-	309,441	(309,441)	-
Segment revenue	1,032,360	616,631	10,210	-	1,659,201	(309,441)	1,349,760
Segment profit/(loss) before tax	46,960	47,934	(2,302)	(10,495)	82,097	-	82,097
Net finance income/(cost)	485	(168)	112	978	1,407	-	1,407
Depreciation, amortization and impairment, net	(2,785)	(105,733)	(472)	(1,292)	(110,282)	-	(110,282)
Impairment of property, plant and equipment, net	-	175	-	-	175	-	175
Impairment losses on trade receivables, net	(3,097)	1,553	1	-	(1,543)	-	(1,543)
EBITDA*	49,260	153,660	(1,942)	(10,181)	190,797	-	190,797
Segment net profit/(loss)	38,644	33,409	(2,302)	(10,495)	59,256	-	59,256
Employee benefits	(17,798)	(112,151)	(6,408)	(5,967)	(142,324)	-	(142,324)
Capital expenditure	1,762	123,263	10	90	125,125	-	125,125

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At 31 March 2019 (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	1,133,079	7,080,620	113,381	628,590	8,955,670	(1,358,315)	7,597,355
Trade and other receivables	758,001	489,196	9,147	5,398	1,261,742	(308,543)	953,199
Cash and cash equivalents	231,534	161,845	4,101	45,040	442,520	-	442,520
Restricted cash	-	-	-	320,000	320,000	-	320,000
Deposits with maturity date more than three months	-	40,000	-	168,656	208,656	-	208,656
Trade and other payables and short term employee benefits	824,477	356,173	5,151	5,028	1,190,829	(259,129)	931,700
Bank overdrafts	-	277,779	-	-	277,779	-	277,779
Finance lease	2,625	64,919	-	2,356	69,900	-	69,900
Financing for network construction related to concession agreements and bank loans	-	328,540	-	-	328,540	-	328,540
At 31 December 2018 (audited)							
Segment assets	1,021,229	6,990,308	116,330	687,934	8,815,801	(1,286,729)	7,529,072
Trade and other receivables	658,463	484,703	11,742	8,356	1,163,264	(318,510)	844,754
Cash and cash equivalents	243,741	248,702	3,332	169,955	665,730	-	665,730
Restricted cash	-	-	-	320,000	320,000	-	320,000
Deposits with maturity date more than three months	-	35,000	-	101,493	136,493	-	136,493
Trade and other payables, and short term employee benefits	714,093	578,130	30,967	13,241	1,336,431	(293,879)	1,042,552
Bank overdrafts	-	118,972	-	-	118,972	-	118,972
Financing for network construction related to concession agreements and bank loans	-	332,832	-	-	332,832	-	332,832

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

Three month period ended 31 March 2019 (unaudited and not reviewed)	Distribution Muntenia Nord	Distribution Transilvania Nord	Distribution Transilvania Sud	Electricity network maintenance	Eliminations	Total Electricity distribution
External revenues	88,542	108,227	126,175	4,210	-	327,154
Inter-segment revenue	111,149	98,390	105,491	30,551	(28,544)	317,037
Segment revenue	199,691	206,617	231,666	34,761	(28,544)	644,191
Segment (loss) / profit before tax	(15,557)	(721)	(9,521)	2,729	569	(22,501)
Net finance cost	(3,970)	(4,085)	(3,222)	(570)	-	(11,847)
Depreciation, amortization and impairment, net	(31,676)	(37,756)	(35,607)	(7,180)	569	(111,650)
Impairment of property, plant and equipment, net	363	-	-	-	-	363
Impairment losses of trade receivables, net	(865)	304	(2,557)	-	-	(3,118)
EBITDA*	19,726	41,120	29,308	10,479	-	100,633
Net (loss)/profit	(15,099)	(2,097)	(8,427)	3,751	569	(21,303)
Employee benefits	(38,827)	(37,032)	(39,330)	(7,553)	-	(122,742)
Capital expenditure	37,266	42,688	61,069	1,727	-	142,750
Three month period ended 31 March 2018 (unaudited and not reviewed)						
External revenues	91,684	110,463	97,926	9,290	-	309,363
Inter-segment revenue	106,439	98,125	100,777	32,642	(30,715)	307,268
Segment revenue	198,123	208,588	198,703	41,932	(30,715)	616,631
Segment profit (loss) before tax	454	26,078	15,264	6,138	-	47,934
Net finance income/(cost)	225	(405)	(192)	204	-	(168)
Depreciation, amortization and impairment, net	(33,113)	(35,929)	(34,385)	(2,306)	-	(105,733)
Impairment of property, plant and equipment, net	175	-	-	-	-	175
Impairment losses of trade receivables, net	230	(32)	1,355	-	-	1,553
EBITDA*	33,167	62,412	49,841	8,240	-	153,660
Net profit/(loss)	(869)	17,268	10,705	6,305	-	33,409
Employee benefits	(36,489)	(33,526)	(34,823)	(7,313)	-	(112,151)
Capital expenditure	42,021	49,116	32,126	-	-	123,263

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At 31 March 2019 (unaudited and not reviewed)	Distribution Muntenia Nord	Distribution Transilvania Nord	Distribution Transilvania Sud	Electricity network maintenance	Eliminations	Total Electricity distribution
Segment assets	2,441,251	2,200,899	2,054,294	428,967	(44,791)	7,080,620
Trade and other receivables	154,936	137,174	142,823	90,713	(36,450)	489,196
Cash and cash equivalents	110,535	19,403	6,993	24,914	-	161,845
Deposits with maturity date more than three months	-	-	-	40,000	-	40,000
Trade and other payables and short term employee benefits	103,360	129,070	137,681	22,512	(36,450)	356,173
Bank overdrafts	95,054	101,214	81,511	-	-	277,779
Finance lease	12,732	12,521	767	38,899	-	64,919
Financing for network construction related to concession agreements and bank loans	80,424	115,408	132,708	-	-	328,540
At 31 December 2018 (audited)						
Segment assets	2,415,082	2,189,664	2,045,814	389,512	(49,764)	6,990,308
Trade and other receivables	149,021	140,984	144,049	91,503	(40,854)	484,703
Cash and cash equivalents	125,119	25,171	71,720	26,692	-	248,702
Deposits with maturity date more than three months	-	-	-	35,000	-	35,000
Trade and other payables, and short term employee benefits	195,963	196,595	203,222	23,204	(40,854)	578,130
Bank overdrafts	-	29,153	89,819	-	-	118,972
Financing for network construction related to concession agreements and bank loans	82,026	116,202	134,604	-	-	332,832

*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.

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

	31 March 2019 (unaudited and not reviewed)	31 December 2018 (audited)
Total assets		
Total assets for reportable segments	8,955,670	8,815,801
Elimination of inter-segment assets	(1,391,913)	(1,315,624)
Unallocated amounts	33,598	28,895
Consolidated total assets	7,597,355	7,529,072
Trade and other receivables		
Trade and other receivables for reportable segments	1,261,742	1,163,264
Elimination of inter-segment trade and other receivables	(308,543)	(318,510)
Consolidated trade and other receivables	953,199	844,754
Trade and other payables and short term employee benefits		
Trade and other payable and short term employee benefits for reportable segments	1,190,829	1,336,431
Elimination of inter-segment trade and other payables and short term employee benefits	(259,129)	(293,879)
Consolidated trade and other payables and short term employee benefits	931,700	1,042,552

7 Revenue

	Three month period ended	
	31 March 2019 (unaudited and not reviewed)	31 March 2018 (unaudited and not reviewed)
Electricity distribution and supply	1,402,969	1,200,145
Supply of natural gas	23,221	-
Construction revenue related to concession agreements	141,023	123,263
Repairs, maintenance and other services rendered	14,577	21,447
Re-connection fees	1,769	1,856
Sales of merchandise	156	3,049
Total	1,583,715	1,349,760

Starting with 1 January 2018, with the adoption of 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. 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.

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 526 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).

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8 Other income

	Three month period ended	
	31 March 2019 (unaudited and not reviewed)	31 March 2018 (unaudited and not reviewed)
Rental income	30,154	28,333
Late payment penalties from customers	8,292	1,843
Revenues from notices	3,623	3,997
Other	500	5,494
Total	42,569	39,667

9 Electricity purchased

The cost of the electricity purchased increased during the three month period ended 31 March 2019 as compared to the same period of the previous year, as a result of the increase in the acquisition price of electricity on the market and the increase in the amount of electricity purchased on the supply segment.

10 Earnings per share

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

Profit or loss attributable to Company's shareholders

	Three month period ended	
	31 March 2019 (unaudited and not reviewed)	31 March 2018 (unaudited and not reviewed)
(Loss)/Profit for the period attributable to the owners of the Company	(40,855)	59,256
(Loss)/Profit attributable to Company's shareholders	(40,855)	59,256

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 31 March 2019 is of 339,049,336 (31 March 2018: 339,049,336).

Earnings per share

	Three month period ended	
	31 March 2019 (unaudited and not reviewed)	31 March 2018 (unaudited and not reviewed)
Basic and diluted earnings per share (RON)	(0.12)	0.17

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11 Income taxes

	Three month period ended	
	31 March 2019 (unaudited and not reviewed)	31 March 2018 (unaudited and not reviewed)
Current period tax expense	1,049	7,177
Deferred tax (income)/expense	(6,972)	15,664
Total income tax expense	(5,923)	22,841

12 Trade receivables

	31 March 2019 (unaudited and not reviewed)	31 December 2018 (audited)
Trade receivables, gross	1,960,240	1,832,007
Bad debt allowance	(1,037,898)	(1,025,714)
Total trade receivables, net	922,342	806,293

Receivables from related parties are disclosed in Note 19.

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

	Bad debt allowance
Balance as at 1 January 2019 (audited)	1,025,714
Impairment recognized	14,393
Impairment reversed	(1,998)
Amounts written off	(211)
Balance as at 31 March 2019 (unaudited and not reviewed)	1,037,898

Bad debt allowances are determined according to IFRS 9 "Financial instruments" based on "expected credit loss" model. In applying IFRS 9, the Group has identified 5 clusters of customers based on shared risk characteristics: 3 separate clusters for the distribution subsidiaries and 2 clusters (households and non-households) for the supply subsidiary.

A significant part of the bad debt allowances refers to clients in litigation, insolvency or bankruptcy procedures, many of them being older than five years. The Group will derecognize these receivables together with the related allowances after the finalization of the bankruptcy process. These receivables were treated separately in computing the allowance according to IFRS 9.

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13 Cash and cash equivalents

	31 March 2019 (unaudited and not reviewed)	31 March 2018 (unaudited and not reviewed)
Total cash and cash equivalents in the condensed consolidated statement of financial position	442,520	550,182
Overdrafts used for cash management purposes	(277,779)	(111,875)
Total cash and cash equivalents in the condensed consolidated statement of cash flows	164,741	438,307

The Group has overdrafts as follows:

Bank	Contract date	Facility type	Maturity	Overdraft limit	Balance as at 31 March 2019 (unaudited and not reviewed)*
BRD Groupe Societe Generale	May 2018	overdraft facility for financing working capital	May 2019	95,000	95,054
BRD Groupe Societe Generale	January 2019	overdraft facility for financing working capital	January 2020	180,000	101,214
Banca Comerciala Romana	March 2019	overdraft facility for financing working capital	March 2020	100,000	81,511
Total				375,000	277,779

Bank	Contract date	Facility type	Maturity	Overdraft limit	Balance as at 31 March 2018 (unaudited and not reviewed)*
Banca Comerciala Romana	May 2017	overdraft facility for financing working capital	May 2018	95,000	5,203
Raiffeisen Bank	January 2018	overdraft facility for financing working capital	January 2019	135,000	70,078
Raiffeisen Bank	November 2017	overdraft facility for financing working capital	November 2018	100,000	36,594
Total				330,000	111,875

**The balance of the overdrafts used also includes interest on the amounts used.*

As at 31 March 2019, 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 31 March 2019 is RON 320,000 thousands (31 December 2018: RON 320,000 thousands) presented in the consolidated statement of financial position as long-term restricted cash. Refer also to Note 16.

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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 14,952 thousand during the three month period ended 31 March 2019 (three month period ended 31 March 2018: RON 42,358 thousand).

During the three month period ended 31 March 2019, the Group made payments related to property, plant and equipment in amount of RON 309,660 thousand (three month period ended 31 March 2018: RON 130,815 thousand).

14 Deposits with maturity date more than three months

	31 March 2019 (unaudited and not reviewed)	31 December 2018 (audited)
Deposits with maturity of more than three months	208,656	136,493
Total deposits with maturity of more than three months	208,656	136,493

Deposits with original maturity of more than three months have an average interest rate (yield) of 2.35% (2018: 2.9%).

As at 31 March 2019, respectively 31 March 2018, the Group did not hold treasury certificates or government bonds.

15 Other payables

	31 March 2019 (unaudited and not reviewed)		31 December 2018 (audited)	
	Current	Non-current	Current	Non-current
VAT payable	99,906	-	85,293	-
Liabilities towards the State	9,435	-	8,489	-
Other liabilities	82,132	40,264	87,335	41,247
Total	191,473	40,264	181,117	41,247

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

	31 March 2019 (unaudited and not reviewed)	31 December 2018 (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 S.A, Societatea de Distributie a Energiei Electrice Muntenia Nord S.A and Societatea de Distributie a Energiei Electrice Transilvania Nord S.A) 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).

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Details of the long term bank borrowings are as follows:

Lender	Facility type	Maturity	Loan amount	Balance at 31 March 2019 (unaudited and not reviewed)	Balance at 31 December 2018 (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
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

	Fiscal	Other	Provisions
Balance at 1 January 2019 (audited)	13,961	15,145	29,106
Provisions recorded during the period	-	146	146
Provisions used	-	-	-
Provisions reversed	-	(528)	(528)
Balance at 31 March 2019 (unaudited and not reviewed)	13,961	14,763	28,724

As at 31 March 2019, provisions refer mainly to:

- RON 13,961 thousand representing potential tax charges of the Group (including interest and penalties);
- RON 4,892 thousand representing estimated payments upon termination of directors' contractual relations to cover non-compete clauses;
- RON 876 thousand referring to work litigations;
- RON 8,995 thousand for various claims and litigations involving the Group companies.

The provisions recorded during the three month period ended 31 March 2019 refer mainly to various claims and litigations involving the Group companies.

The provisions reversed during the three month period ended 31 March 2019 refer mainly to solved litigations during 2019 (for which the sentence was issued by the instance) in amount of RON 528 thousand.

As at 31 December 2018, provisions refer mainly to:

- RON 13,961 thousand representing potential tax charges of the Group (including interest and penalties);
- RON 4,892 thousand representing estimated payments upon termination of directors' contractual relations to cover non-compete clauses;
- RON 736 thousand referring to work litigations;
- RON 9,517 thousand for various claims and litigations involving the Group companies.

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18 Financial instruments – fair values

(a) Accounting classifications and fair values

According to IFRS 9, financial assets classified as held-to-maturity, loans and receivables are measured at amortised cost as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

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.

31 March 2019 (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	922,342	-	-	922,342				
Deposits with maturity date more than three months	-	208,656	-	208,656				
Cash and cash equivalents	442,520	-	-	442,520				
Restricted cash	320,000	-	-	320,000				
Total	1,684,862	208,656	-	1,893,518				
Financial liabilities not measured at fair value								
Bank overdrafts	-	-	277,779	277,779				
Financing for network construction related to concession agreements	-	-	8,540	8,540		8,458		8,458
Long-term bank borrowings	-	-	320,000	320,000				
Finance lease	-	-	69,900	69,900				
Trade payables	-	-	641,865	641,865				
Total	-	-	1,318,084	1,318,084		8,458		8,458

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31 December 2018 (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	806,293	-	-	806,293				
Deposits with maturity date more than three months	-	136,493	-	136,493				
Cash and cash equivalents	665,730	-	-	665,730				
Restricted cash	320,000	-	-	320,000				
Total	1,792,023	136,493	-	1,928,516				
Financial liabilities not measured at fair value								
Bank overdrafts	-	-	118,972	118,972				
Financing for network construction related to concession agreements	-	-	12,832	12,832		12,832		12,832
Long-term bank borrowings	-	-	320,000	320,000				
Trade payables	-	-	742,200	742,200				
Total	-	-	1,194,004	1,194,004		12,832		12,832

(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 31 March 2019 (31 December 2018: 3.32%).

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19 Related parties

(a) Main shareholders

As at 31 March 2019 and 31 December 2018, the major shareholder of Societatea Energetica Electrica SA is the Romanian State, represented by the Ministry of Energy with a share of ownership of 48.78% from the share capital.

(b) Management and administrators' compensation

	Three month period ended	
	31 March 2019 (unaudited and not reviewed)	31 March 2018 (unaudited and not reviewed)
Executive Management compensation	5,898	5,137

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:

	Three month period ended	
	31 March 2019 (unaudited and not reviewed)	31 March 2018 (unaudited and not reviewed)
Members of Board of Directors	756	572

(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 producers/suppliers, as follows:

Supplier	Purchases (excluding VAT)		Balance (including VAT)	
	Three month period ended 31 March 2019 (unaudited and not reviewed)	Three month period ended 31 March 2018 (unaudited and not reviewed)	31 March 2019 (unaudited and not reviewed)	31 December 2018 (audited)
OPCOM	203,077	123,219	4,924	6,883
Nuclearelectrica	142,407	61,320	43,807	21,323
Transelectrica	131,749	102,002	84,311	137,970
Complexul Energetic Oltenia	82,870	132,022	34,068	17,417
Hidroelectrica	78,744	57,773	30,572	9,069
Electrocentrale Bucuresti	47,510	-	-	-
ANRE	24,732	-	12,680	-
Others	1,030	9,427	765	694
Total	712,119	485,763	211,127	193,356

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

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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
	Three month period ended 31 March 2019 (unaudited and not reviewed)	31 March 2019 (unaudited and not reviewed)		
OPCOM	12,011	4,869	-	4,869
Transelectrica	6,760	1,877	-	1,877
Cupru Min S.A. Abrud	5,496	4,622	-	4,622
CNCF CFR Bucuresti SA	4,426	3,281	-	3,281
CN Romarm	4,169	2,213	-	2,213
SNGN Romgaz	3,126	1,354	-	1,354
CFR Electrificare	1,918	771	-	771
Hydroelectrica	1,177	571	-	571
CN Remin SA	146	71,269	(71,148)	121
CET Braila	10	4,128	(4,128)	-
Oltchim	-	670,526	(670,526)	-
C.N.C.A.F. MINVEST S.A.	-	29,903	(29,903)	-
Termoelectrica	-	1,507	(1,507)	-
Others	6,259	3,699	(1,264)	2,435
Total	45,498	800,590	(778,476)	22,114

Client	Sales (excluding VAT)	Balance, gross (including VAT)	Allowance	Balance, net
	Three month period ended 31 March 2018 (unaudited and not reviewed)	31 December 2018 (audited)		
Cupru Min S.A. Abrud	7,580	4,150	-	4,150
SNGN Romgaz	3,639	1,467	-	1,467
OPCOM	3,088	1,610	-	1,610
CN Romarm	2,772	1,119	-	1,119
Transelectrica	2,715	3,241	-	3,241
CFR Electrificare	1,723	360	-	360
CN Remin SA	114	71,307	(71,254)	53
Oltchim	-	670,526	(670,526)	-
C.N.C.A.F. MINVEST S.A.	-	29,903	(29,903)	-
CET Braila	-	4,132	(4,132)	-
Others	11,119	6,491	(2,774)	3,717
Total	32,750	794,306	(778,589)	15,717

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20 Subsidiaries in financial distress

On 31 October 2018, the court decided the bankruptcy of Servicii Energetice Oltenia, at the request of the judicial administrator and cancelled its right of management and consequently the Group discontinued its consolidation as of the date as it no longer has control over this entity.

The individual assets and liabilities of Servicii Energetice Oltenia at the date the Group ceased its consolidation (31 October 2018) were as follows:

	Carrying amount
	Servicii Energetice Oltenia as of 31 October 2018
Property, plant and equipment	18,265
Trade receivables	8,772
Cash and cash equivalents	1,205
Total assets	28,242
Trade payables	(2,981)
Other payables	(7,569)
Provisions	(262)
Employee benefits	(12,483)
Deferred tax liabilities	(5,248)
Total liabilities	(28,543)
Gain on loss of control	(301)

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 procedure was initiated in 2014.

As at 31 March 2019 and 31 December 2018 the carrying amount of the assets and liabilities of Servicii Energetice Muntenia included in the consolidated financial information were as follows:

	31 March 2019	31 December 2018
Servicii Energetice Muntenia		
Property, plant and equipment and inventories	100,547	101,254
Trade receivables	6,291	8,577
Cash and cash equivalents	4,101	3,332
Total assets	110,939	113,163
Trade payables	(3,447)	(4,142)
Payables to the State budget	(558)	(405)
Social security and other salary taxes	(282)	(519)
Provisions, employee benefits and deferred taxes	(15,825)	(15,730)
Total liabilities	(20,112)	(20,796)

The Group has not classified the assets and liabilities of this subsidiary as held for sale as at 31 March 2019, 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 this subsidiary as discontinued operations in the income statement for the three month period ended 31 March 2019.

At the date of approval of these consolidated interim financial statements, Servicii Energetice Muntenia went out of insolvency according to the decision of the Bucharest Tribunal dated April 3, 2019 (see Note 22).

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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 (including related interest and penalties) that was considered tax deductible in the period 2012-2013 by the subsidiary 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 ("NAFA")

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 39,249 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 filed 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 72,460 thousand. 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 NAFA, which essentially maintains into force a prior Court of Appeal decision, which is favourable for the Group. Based on this Court ruling and in conjunction with all other litigations with NAFA 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 was 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 NAFA litigations. The management has maintained the same assessment for the period ended 31 March 2019.

Also, in April 2019, Electrica SA obtained another favourable decision pronounced by the Bucharest Court of Appeal in one of the disputes with NAFA, whereby the court obliges NAFA to correct the evidence of the tax receivables so that it reflects the extinction by prescription of the amount of RON 16,916 thousand representing income tax as well as all the related accessories (see Note 22).

Other litigations and claims

The Group is involved in a series of litigations and claims (ie. with SAPE, ANRE, NAFA, 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.

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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. 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 consolidated interim financial statements, both parties filed another appeal, being in the filter procedure at the High Court of Cassation and Justice, with term on 18.09.2019.
- Electrica SA was sued by Societatea de Administrare a Participatiilor in Energie S.A. ("SAPE") for the joint payment of the amount of RON 1,569,144 thousand and the amount of EUR 458,381 thousand for the alleged damages suffered by the Romanian State as a result of the inaction regarding the monitoring, coordination and verification of the performance with the observance of the conditions of legality of the privatization contracts of Electrica SA subsidiaries. Electrica SA filed a pleading in which it invoked the exception of the lack of passive procedural quality, exception regarding the statute of limitation, as well as other arguments on the merit of the case against SAPE's allegations.

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

Multi-borrower credit agreement

On 1 April 2019, between Banca Comerciala Romana, as lender and Societatea Energetica Electrica SA, as guarantor and borrower, together with its distribution subsidiaries (SDEE Muntenia Nord SA, SDEE Transilvania Nord SA and SDEE Transilvania Sud SA) as borrowers, was concluded a contract for a multi-product revolving facility, as follows: Maximum loan amount: RON 125,000 thousand; Purpose of the loan: financing the current activity; Interest rate: 0.77% + ROBOR 1M p.a.; Maturity: March 16, 2020, with the possibility of 1-year extension under the same terms and conditions, with the prior notice of the other Party at least 30 calendar days before the due date. Repayment: in full, at maturity.

On 16 April 2019, between BNP PARIBAS, as lender and Societatea Energetica Electrica SA, as guarantor and borrower, together with its subsidiaries, Electrica Furnizare S.A. and Electrica Serv S.A as borrowers, was concluded a contract for a credit facility in the form of a credit line from the current accounts opened by borrowers to the lender, as follows: Maximum loan amount: RON 160,000 thousand; Purpose of the loan: financing the current activity; Interest rate: 0.60% + ROBOR 1M p.a.; Maturity: March 16, 2020, with the possibility of 1-year extension under the same terms and

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conditions, with the prior notice of the other Party at least 30 calendar days before the due date. Repayment: in full, at maturity.

Closure of the insolvency proceedings of Servicii Energetice Muntenia

Considering the positive effects of the measures established by the Reorganization Plan confirmed on 25 November 2015, the Bucharest Court, on 3 April 2019, established the closure of the insolvency proceedings and decided that all the necessary measures to be taken for the reinsertion of the company in the business activity, according to court clerk certificate issued on 4 April 2019 by the Bucharest Court.

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

On April 15, 2019, the Bucharest Court of Appeal accepted Electrica SA's claim in one of the litigations with NAFA and obliged NAFA to correct the evidence of tax receivables, so that it reflected the prescription of the amount of RON 16,916 thousand representing income tax as well as the related accessories. The court obliged NAFA to deduct these amounts from the fiscal records of Electrica SA as well as to pay the legal fees. The decision may be appealed by the NAFA, within 15 days of communication. By the date of authorization of these consolidated interim financial statements, the decision of the court of first instance was not communicated.

The resolution of the Ordinary General Meeting of Shareholders („OGMS”) of Societatea Energetica Electrica S.A.

Within the Ordinary General Meeting of Shareholders dated 25 April 2019, the distribution of dividends for the financial year 2018 was approved for the gross value of RON 247,506 thousand (the gross dividend per share is RON 0,73 and the payment date of the dividends is June 24, 2019).

The resolution of the Extraordinary General Meeting of Shareholders („EGMS”) of Societatea Energetica Electrica S.A.

Within the Extraordinary General Meeting of Shareholders dated 25 April 2019 was approved the initiation of the share capital increase operation of Electrica through in kind contribution, with a number of 9 (nine) plots of land with a total area of 55,524.46 sqm and of the request to appoint an expert evaluator by the Trade Register Office of Bucharest Tribunal to evaluate the land plots for the in kind contribution, according to the note that will be made available to the shareholders, according to the law.

Chief Executive Officer
Georgeta Corina Popescu

Chief Financial Officer
Mihai Darie

14 May 2019



2019 FIRST QUARTER CONSOLIDATED DIRECTORS' REPORT (Q1 2019)

**(based on the condensed consolidated interim financial statements prepared in accordance
with IAS 34)**

**REGARDING THE ECONOMIC AND FINANCIAL ACTIVITY OF SOCIETATEA ENERGETICA
ELECTRICA S.A.**

**in compliance with art. 67 of the Law no. 24/2017 on issuers of financial
instruments and market operations and with annex no. 13 to ASF Regulation no.
5/2018 and the Bucharest Stock Exchange Code**

for the three month period ended 31 March 2019

*Free translation from the Romanian version of the report, which will prevail in the event of any discrepancies with
the English version.*

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Glossary

ANRE	Romanian Energy Regulatory Authority
BoD	Board of Directors
BRP	Balance Responsible Party
BSE	Bucharest Stock Exchange
CAPEX	Capital Expenditure
CGC	Corporate Governance Code
CMC	Competitive Market Component
CMUS	Centralized Market for Universal Service
CNTEE	The National Transmission System Operator
DAM	Day Ahead Market
DSO	Distribution System Operator
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortization
EDN	Electrical Distribution Network
ELSA	Electrica S.A.
EGMS	Extraordinary General Meeting of Shareholders
EU	European Union
EUR	The monetary unit of several member states of the European Union
GC	Green Certificates
GDP	Gross Domestic Product
GDR	Global Depositary Receipts
GEO	Government Emergency Ordinance
GMS	General Meeting of Shareholders
HV	High Voltage
IAS	International Accounting Standard
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
IPO	Initial Public Offering
IR	Investor Relations
ISIN	International Securities Identification Number
KPI	Key Performance Indicators

kV	KiloVolt
LR	Last Resort
LV	Low Voltage
MV	Medium Voltage
MVA	Mega Volt Ampere
MWh	MegaWatt hour
MKP	Management Key Position
NAFA	National Agency for Fiscal Administration
NES	National Electricity System
NL	Network Losses
NRC	Nomination and Remuneration Committee
OMPF	Order of Ministry of Public Finances
OGMS	Ordinary General Meeting of Shareholders
OHS	Occupational Health and Safety
OPCOM	Romanian Gas and Electricity market operator
RAB	Regulated Asset Base
RM	Retail Market
RON	Romanian monetary unit
RRR	Regulated Rate of Return
SAD	Distribution Automation System
SCADA	Supervisory Control And Data Acquisition
SDMN	Societatea de Distributie a Energiei Electrice Muntenia Nord
SDTN	Societatea de Distributie a Energiei Electrice Transilvania Nord
SDTS	Societatea de Distributie a Energiei Electrice Transilvania Sud
SEM	Servicii Energetice Muntenia SA
SEO	Servicii Energetice Oltenia SA
SoLR	Supplier of last resort
TWh	TeraWatt hour
TSO	Transmission and system operator
UM	Unit of Measurement
US	Universal Service
VAT	Value Added Tax

1. Identification Details Of The Issuer

Report date: 14 May 2019

Company name: Societatea Energetica Electrica S.A.

Headquarters: 9 Grigore Alexandrescu Street, 1st District, Bucharest, Romania

Phone/fax no: 004-021-2085999/ 004-021-2085998

Fiscal Code: RO 13267221

Trade Registry registration number: J40/7425/2000

LEI Code (Legal Entity Identifier): 213800P4SUNUM5AUDX61

Subscribed and paid in share capital: RON 3,459,399,290

Main characteristic of issued shares: 345,939,929 ordinary shares of 10 RON nominal value, issued in dematerialized form and freely transferable, nominative, tradable and fully paid

Regulated market where the issued securities are traded: the Company's shares are listed on the Bucharest Stock Exchange (ticker: EL), and the Global Depositary Receipts (ticker: ELSA) are listed on the London Stock Exchange

Applicable accounting standards: International Financial Reporting Standards as approved by the European Union; interim financial statements based on the International Accounting Standard IAS 34 – Interim Financial Reporting

Reporting period: First quarter of 2019 (period 1 January – 31 March 2019)

Audit/Review: The condensed consolidated interim financial statements as of and for the three month period ended 31 March 2019 are not reviewed or audited by an independent financial auditor

	Ordinary Shares	GDR
ISIN	ROELECACNOR5	US83367Y2072
Bloomberg Symbol	0QVZ	ELSA:LI
Currency	RON	USD
Nominal Value	RON 10	RON 40
Stock Market	Bucharest Stock Exchange REGS	London Stock Exchange MAIN MARKET
Ticker	EL	ELSA

Source: Electrica

2. Highlights

Electrica Group is one of the main distributors and suppliers of electricity on the Romanian market. The Group's core business segments are the distribution of electricity to users and the supply of electricity to household and non-household consumers.

Electrica's distribution segment operates through its subsidiaries: Societatea de Distribuție a Energiei Electrice Muntenia Nord ("SDMN"), Societatea de Distribuție a Energiei Electrice Transilvania Nord ("SDTN"), Societatea de Distribuție a Energiei Electrice Transilvania Sud ("SDTS") and Electrica Serv ("ELSERV"), and it is geographically limited to Northern Muntenia, Northern Transylvania and Southern Transylvania, in what concerns the distribution subsidiaries. The Group holds exclusive distribution licenses for these regions available until 2027, and may be extended for another 25 years. Electrica Serv provides repair and other ancillary services to third parties and various services to the companies within the group (vehicles rental, building rental etc.)

The electricity supply segment operates through Electrica Furnizare ("EFSA") subsidiary, and the main activity is the supply of electricity to final customers, both as the supplier of last resort (in the geographic regions where the Group's distribution segment operates) and as a competitive supplier, all over Romania.

The Group holds an electricity supply license covering the entire territory of Romania, valid until 2021, with the possibility of extension, and a license for natural gas supply activity, valid until 2022.

2.1. Key Events during the period January – March 2019 (Q1 2019)

During the three month period ended 31 March 2019 and up to date, the following significant events for the main activity segments of the Group took place:

Events in the period January – March 2019 and up to date

General Meetings of Shareholders of Electrica (ELSA or the Company):

On 7 February 2019, the Ordinary General Meeting of Shareholders (OGMS) of ELSA took place, during which ELSA's shareholders elected, through the simple voting method, the members of the company's Board of Directors following the vacancy of the positions in the Board of Directors, after the renunciation to the mandate by Ms. Arielle Marie Malard de Rothschild, by Mr. Willem Jan Antoon Henri Schoeber and by Ms. Elena Doina Dascalu. Thus, the three new members elected are Mr. Radu Mircea Florescu, Mr. Dragos Andrei si Mr. Nicolae Havrilet. Their mandate period is equal to the period remaining until the expiry of the mandate for the vacant positions, i.e. until 27 April 2022.

The main decisions of ELSA's Board of Directors (BoD) referred to:

■ The composition of the Board of Directors' advisory committees:

Approval of the BoD committees' composition and election of their chairs, starting with 18 February 2019 and until 31 December 2019, as follows:

- The Strategy and Corporate Governance committee: Mr. Valentin Radu – Chair; Mr. Dragos Andrei – Member; Mr. Nicolae Havrilet – Member;
- The Audit and Risk committee: Ms. Ramona Ungur – Chair; Mr. Bogdan George Iliescu – Member; Mr. Radu Florescu – Member;
- The Nomination and Remuneration committee: Mr. Bogdan George Iliescu – Chair; Mr. Gicu Iorga – Member; Mr. Valentin Radu – Member.

■ Executive Management Change:

On 23 January 2019, ELSA's Board of Directors decided to appoint Ms. Georgeta Corina Popescu as CEO and to appoint Ms. Bibiana Constantin as Chief Human Resources Officer, both mandates starting on 1 February 2019, for a period of four years. We mention that Ms. Georgeta Corina Popescu has been appointed by the Board of Directors as interim CEO starting with 1 November 2018.

■ Corporate Governance - policies:

The most recent version of the Policy of Transactions with Related Parties was published on ELSA's website on 14 January 2019.

■ Consolidated investment plan (CAPEX)

During the meeting held on 19 February 2019, the Board of Directors approved the consolidated value of the Investment Plan (CAPEX) of Electrica Group for 2019, in total amount of RON 739 mn. Out of this value, RON 710 mn represents the investment plan (CAPEX) of the distribution subsidiaries.

Other key events:

- In January 2019, ELSA, together with its distribution subsidiaries, has filed in court applications for the annulment of the ANRE orders regarding the approval of the regulated specific tariffs for electricity distribution service and of the price for reactive electricity (ANRE Order no. 197/2018, ANRE Order no. 198/2018 and ANRE Order no. 199/2018).

At the same time, in each file, ANRE was required to recognize the amounts that were not included in the 2019 tariffs and to include these amounts in the tariffs' computation for the year following the final settlement of the disputes. The files are pending before the Bucharest Court of Appeal, in the regularization procedure or in course of settlement.

- EFSA filed to the Bucharest Court a lawsuit for damages (file no. 2869/3/2019). The object of the complaint is to order ELSA to:
 - pay the amount of RON 17,274,162, representing the value of the invoices paid by EFSA in the absence of supporting documents, as noted by the Court of Accounts through Report no. 2835/17 May 2013 and Decision no. 20/17 June 2013;
 - pay the legal interest in the amount of RON 3,213,445, due starting with the date when the defendant collected the amounts and until 31 March 2019, the legal interest calculated from 31 March 2019 until the date of the issuance of an enforceable court decision and the legal penalty interest calculated from the date of the enforceable court decision until the actual payment of the principal debit.

The file is in course of settlement, the Court postponing the pronouncement until 23 May 2019.

- SDTS filed to the Brasov Court a lawsuit for damages (file no. 4469/62/2018). The object of the complaint is to order ELSA to:
 - pay the amount of RON 8,951,811, representing the value of the services paid by SDTS and not provided by ELSA, during the period 2010-2014, based on the consultancy, mandate and service agreements concluded between the parties, as noted by the Court of Accounts through Report no. 700/23618/04 December 2013 and Decision no. 75/23 December 2013 (for the period 2010-2012), respectively by the plaintiff, as a result of the extension of the verifications ordered by the Court of Accounts (until 2014);
 - pay the legal interest calculated from the date of payment until the date of effective refund, as well as the difference between the value of the services paid by SDTS and not provided by ELSA and their value updated with the inflation rate for the period between the payment date and the action date.

The file is in the regularization procedure.

- EFSA filed a lawsuit for damages to the Bucharest Court (file no. 6665/3/2019) for ordering ELSA to pay the amount of RON 6,232,398, representing claims according to the Decision of the Court of Accounts no. 11/2016 and the Inspection Report of the Court of Accounts no. 5799/29.11.2016. EFSA also requested, within the same file, that ELSA to pay the amount of RON 793,234 representing the legal interest calculated from the date when ELSA collected the sums of money (the total amount of which is RON 6,232,398) until 31 March 2019, as well as the legal interest calculated from 31 March 2019 until the date of execution of an enforceable court decision and the legal interest calculated from the date of the enforceable court decision up to the date of effective payment by ELSA of the principals debit in the amount of RON 6,232,398.

Key events after the first quarter of 2019

The following significant events took place after the conclusion of the first quarter of 2019 and until the date of issue of this document:

- Considering the positive effects of the measures established through the Reorganization Plan confirmed on 25 November 2015, the Bucharest Court - Civil Division VII, on 3 April 2019, **established the closure of the insolvency proceedings and decided that all the necessary measures can be taken for the reinsertion of Servicii Energetice Muntenia in the business activity**. We mention that, on 26 November 2014, Servicii Energetice Muntenia entered into insolvency with reorganization proceedings in accordance with Law no. 85/2014, ordered by the Bucharest Court.
- On 17 April 2019, The High Court of Cassation and Justice has resolved the case no. 3883/2/2018 definitively, dismissing the request of suspension of the Competition Council Decision no. 77/20 December 2017, by which the Company was fined with the amount of RON 10,800,984, until the final resolution on the case no. 3889/2/2018, in which ELSA requested the cancellation of the sanction as being unlawful and unfounded and, alternatively, the reduction of the fine.

On 25 April 2019, ELSA's Ordinary General Meeting of Shareholders and ELSA's Extraordinary General Meeting of Shareholders (EGMS) of ELSA took place.

In the OGMS, ELSA's shareholders approved mainly the following:

- ELSA's 2018 audited financial statements and the 2019 revenue and expenses budget, at individual as well as at consolidated level;
- the 2018 profit distribution: total gross dividend value – RON 247.51 mn; gross dividend per share – RON 0.7237; ex-date – 6 June 2019; payment date – 24 June 2019;
- the discharge of liability of the members of ELSA's Board of Directors for the financial year 2018.

At the same time, OGMS rejected the following:

- the remuneration policy and the proposed mandate agreement of the members of the Board of Directors of the Company;
- the remuneration limits of Electrica's executive managers.

In the EGMS, the shareholders approved the following:

- the initiation of the share capital increase operation of Electrica through contribution in kind, with a number of 9 (nine) plots of land with a total area of 55,524.46 sqm and the request to appoint an expert evaluator by the Trade Register Office of Bucharest Tribunal to evaluate the land plots for the contribution in kind;
- the delegation to the Board of Directors of ELSA, for a period of three years, of the powers to increase ELSA's share capital by no more than RON 18,000,000, up to the maximum value of RON 3,477,399,290, representing

authorized share capital, as follows: (i) the contribution in kind of the Romanian State, represented by the Ministry of Energy, as a result of obtaining the land ownership certificates of 9 (nine) plots of land and (ii) the cash contribution of the other shareholders, resulted from exercising their preference right, granted as a result of the contribution in kind of the Romanian State through the Ministry of Energy, as well as the approval of mandating the Board of Directors of ELSA to take all measures in the name and on behalf of the Company, for initiating, carrying out and finalizing the share capital increase.

Distribution segment

After completing in 2018 the organizational transformation program initiated in 2017, the distribution companies of Electrica Group have gone through a stabilization and consolidation period, a necessary step before starting a new regulatory period (the fourth regulatory period - RP4). Currently, the implementation of the actions resulting from this program is continued, in connection with the regulatory framework, the revenue and expenses budget and the strategic directions of the Group. In this context, the strategic projects for RP4 have been validated and budgeted, the training sessions regarding the Project Management methodology have been continued and a set of identified Lean solutions has been implemented, activities to be carried out during the next period.

The priorities for the distribution segment are:

- orientation towards the smart grid concept by promoting on a wide scale the smart metering;
- reduction of distribution network losses;
- improving the distribution service quality;
- increasing operational efficiency;
- digitizing processes and improving the experience of network users.

■ Distribution activity:

ANRE has issued orders requesting additional efforts from distribution operators to comply with the new requirements:

a) Regulations regarding tariffs:

- On 25 February 2019, the new distribution tariffs were approved through ANRE orders no. 24, 25 and 26/2019, applicable from 1 March 2019. The new tariffs record an increase of approximately 2.3% as compared with the tariffs for the first two months of 2019, following the application of the GEO no. 114/2018 provisions on the increase of the monetary contribution paid to ANRE (from 0.1% to 2%).

b) Smart metering systems regulations:

- The Decision approving the smart metering systems implementation Calendar at national level, for the period 2019 – 2028 was submitted for public debate, and the deadline for any observations was 3 May 2019. For the Electrica Group DSOs were approved precisely the same values transmitted to ANRE.

c) Network connection regulations:

- ANRE order no. 36/2019 modifies the methodology for assessing the investment financing conditions for the counties' electrification, or for extending the electricity distribution network (EDN), and establishes an Appendix to calculate the investment's economic efficiency, applied at national level;
- In December 2018, ANRE approved the package of regulations regarding the prosumers that own electricity-generating units of renewable power of up to 27 kW installed power per consumption place:
 - (i) Order no. 226/2018 for the approval of trading rules of the electricity produced;
 - (ii) Order no. 227/2018 for the approval of the framework agreement for the sale and purchase of electricity produced;

- (iii) Order no. 228/2018 for the approval of the "Technical conditions for connection to public-interest electricity networks for prosumers with active power network injection".

d) Primary legislation:

- GEO no. 19/29 March 2019, for the amendment and completion of some normative acts, approves the regulated rate of return of 6.9% for 2019-2024 for electricity and natural gas distribution and transmission operators. ANRE has the obligation to amend the regulations in order to implement the provisions within 60 days from the date of entry into force of GEO no. 19.

■ Investments

- At the end of the first quarter of 2019, the three distribution companies of Electrica group realized and commissioned investments amounting to RON 60.6 mn, representing 9% of the commissioning program value planned for 2019 (i.e. RON 670.8 mn, out of which RON 612.5 mn for 2019 and RON 58.3 mn related to 2018 plan; from the first category, RON 41 mn were realized, and RON 20 mn represent recoveries related to 2018). The values achieved in Q1 2019 show a 3.5% increase compared with same period of 2018.
- The investment plans were drafted in accordance with the requirements stipulated by the regulatory authority in the "Procedure regarding the elaboration and approval of the investment programs of the economic operators concessionaires of the electricity distribution service" approved by the ANRE Order no. 8/2016 with subsequent amendments and completions.

Supply segment

■ Supply activity

Key Projects

- Starting from the significant changes in the energy market regarding the regulatory framework, as well as from the increasing competition, EFSA launched an ambitious internal transformation project which aims to successfully meet the current and future challenges, and of which mission is the transformation and optimization of sales and customer relations activities, along with the development of the entire staff's skills.
- In the first phase, the project will focus on developing the sales strategy. In the second phase, the effort will be focused on improving internal processes, the systems and technology, and, naturally, on upgrading organizational structures.

Regulatory Framework

- During January - February 2019, the application of the regulatory package approved by ANRE for the activity of supply of last resort/universal service activity (US) - applicable starting with S2 2018, continued – ANRE Order no. 27/2018, ANRE Order no. 26/2018 and ANRE Order no. 39/2018;
- As of 1 March 2019, the supply regulatory framework was modified in accordance with the provisions of GEO no. 114/2018, as follows:
 - ANRE Order no. 10/2019 - ANRE approves the Methodology of establishing the prices of electricity sold by producers based on regulated contracts and on the quantities of electricity from the regulated contracts concluded by the producers with the suppliers of last resort. Based on this methodology for the period March - December 2019, the suppliers of last resort have received part of the electricity needed to ensure the household customers consumption through agreements with regulated prices from producers;
 - ANRE Order no. 11/2019 (cancels order no. 39/2018) - ANRE approves the Methodology for setting the regulated tariffs and the prices applied by SoLRs to the final customers. The criteria and rules for determining the regulated tariffs for household consumers (different tariffs for bound and optional SoLRs) are established, as well as the criteria for endorsement of the universal service (US) price for each bound SoLR network area.

The regulated tariffs consist of: purchase component, supply component, adjustment component and service charges (transmission, distribution and system services). Based on this methodology, ANRE approved for EFSA, as bound SoLR, the regulated tariffs for household customers for the period 01 March 2019 – 31 December 2019 and approved the prices related to US for the period 01 March 2019 - 31 December 2019;

- ANRE Order no. 17/2019 - optional SoLR designation from 1 March 2019 for a period of one year, through a competitive process, based on the criteria of eligibility, availability and capability; EFSA is designated optional SoLR through the ANRE decision no. 334/28 February 2019 for the following network areas: Banat, Dobrogea, South Muntenia, Oltenia, Moldova.
- The tariffs for the transmission and system services were not changed, in the first quarter of 2019 being applicable the tariffs published by the ANRE order no. 108/2018; the distribution service tariffs were modified starting with 1 January 2019 through ANRE orders no. 194 - 201/2018, and also starting with 1 March through ANRE Orders no. 19 - 25/2019;
- **GEO no. 114/2018 completed with GEO no. 19/2019 regarding the establishment of measures in the field of public investments and fiscal-budgetary measures**, amendment and completion of some normative acts:
 - The monetary contribution from the license holders in electricity area equals 2% of the turnover achieved from the activities that are subject to the licenses granted by ANRE, according to the provisions of ANRE order no. 18/2019;
 - For the period 1 March 2019 – 28 February 2022, for household customers the electricity supply is made under regulated conditions;
 - The purchase cost differences between suppliers from 2018 and 2019, unrecoverable by the prices charged, will be recovered by 30 June 2022.
- The ANRE Order no. 207/2018 establishes the estimated mandatory quota for the purchase of certificates for the year 2019 at the value of 0.433 green certificates/MWh.

2.2. Summary of financial indicators

A summary of the main indicators is presented below:

- In the three month period ended 31 March 2019, EBITDA decreased to RON 74.1 mn, by RON 116.7 mn, as compared with the same period of 2018;
- The volume of the investments in the distribution network in the first three months of 2019 was of RON 138.3 mn, increasing by approx. RON 17.4 mn, or 14.4%, compared to RON 120.8 mn cummulated in the first quarter of 2018;
- The operating result of Q1 2019 is a loss of RON 47.1 mn, posting a significant decrease as compared with the same period of the previous year, when the Group recorded an operating profit of RON 80.7 mn, mainly due to the electricity prices recorded in 2019, the changed regulatory framework applicable for the distribution segment in Q1 2019, as well as the impact of the regulated supply segment particularly in January and February 2019;
- The cost of electricity purchased increased by RON 254 mn, or 34.2%, to RON 996.4 mn in the three month period ended 31 March 2019, compared to RON 742.5 mn recorded in the comparative period, mainly as a result of the increased electricity prices;
- Revenue from the distribution segment increased by RON 27.6 mn, or 4.5%, to RON 644.2 mn (out of which RON 327.2 mn external revenues), compared to Q1 2018; the contribution of the electricity distribution segment to the Group's consolidated revenue is of 20.7%;
- In the first quarter of 2019, the revenue from the electricity supply segment increased by RON 228.9 mn y-o-y, or 22.2%, to RON 1,261.2 mn (out of which RON 1,250 mn external revenues), both as a result of rising

selling prices and increase in the quantity of electricity and natural gas supplied; the contribution of the electricity supply segment to the Group's consolidated revenue is of 78.9%.

3. Organizational Structure

3.1. Group Structure

ELSA is the parent company for the Group, which comprises four subsidiaries in its distribution segment: SDTN, SDTS, SDMN and ELSERV, whereas the supply segment comprises one subsidiary, EFSA.

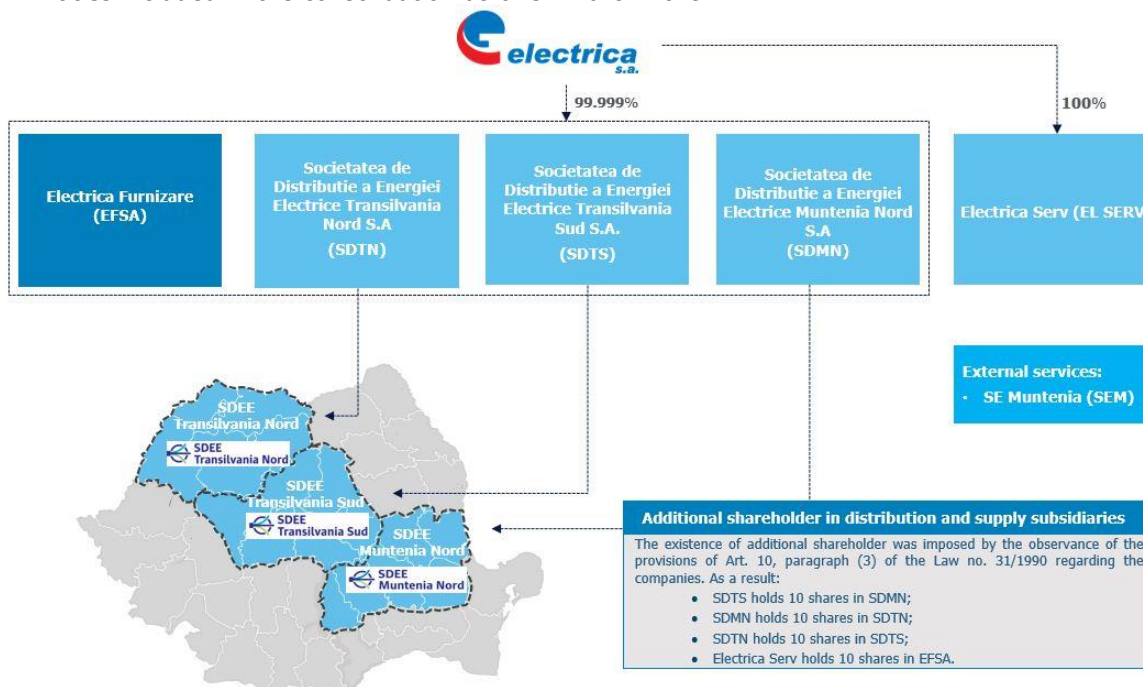
The Company also owns all shares of SEM. In October 2014, the Board of Directors of SEM decided the commencement of the insolvency procedure with a view to reorganization. The insolvency procedures were initiated in 2014.

At the date of this report, SE 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.

Considering the positive effects of the measures established by the Reorganization Plan, the Bucharest Court established the closure of the insolvency proceedings and decided that all the necessary measures can be taken for the reinsertion of the company in the business activity.

As of 31 March 2019, the main shareholder of Electrica SA is the Romanian State, represented by the Ministry of Energy (48.7805%).

Figure 1: Entities included in the consolidation as of 31 March 2019:



Source: Electrica

Presentation of Group subsidiaries

Subsidiary	Activity	Registration code	Headquarters	% shareholdings as of 31 March 2019	% shareholdings as of 31 December 2018
Societatea de Distribuție a Energiei Electrice Muntenia Nord SA (SDMN)	Electricity distribution in North Muntenia geographical area	14506181	Ploiesti	99.9999719027621%	99.9999696922382%
Societatea de Distribuție a Energiei Electrice Transilvania Nord SA (SDTN)	Electricity distribution in Northern Transylvania geographical area	14476722	Cluj-Napoca	99.9999829770757%	99.9999829770757%
Societatea de Distribuție a Energiei Electrice Transilvania Sud SA (SDTS)	Electricity distribution in Southern Transylvania geographical area	14493260	Brasov	99.999976413243%	99.999976413243%
Electrica Furnizare SA (EFSA)	Supply and trading of electricity	28909028	Bucharest	99.9998390431663%	99.9998390431663%
Electrica Serv SA (EL SERV)	Services in the energy sector (maintenance, repair, construction)	17329505	Bucharest	100%	100%
Servicii Energetice Muntenia SA (SEM) - in insolventa	Services in the energy sector (maintenance, repair, construction)	29384120	Bucharest	100%	100%
Servicii Energetice Oltenia SA (SEO)*	Services in the energy sector (maintenance, repair, construction)	29389861	Craiova	n/a*	n/a*

Source: Electrica

*Societatea Energetica Electrica SA lost the control of Servicii Energetice Oltenia starting 31 October 2018 when the bankruptcy proceedings of the subsidiary began. As of this date, the Group ceased to consolidate this company.

The main activities of the Group are the regulated distribution of electricity (through operation and development of electricity distribution networks) and the electricity supply to end consumers. The Group is the electricity distribution operator and the main electricity supplier in North Transylvania (Cluj, Maramures, Satu Mare, Salaj, Bihor and Bistrita-Nasaud counties), South Transylvania (Brasov, Alba, Sibiu, Mures, Harghita and Covasna counties) and North Muntenia (Prahova, Buzau, Dambovita, Braila, Galati and Vrancea counties), ensuring the electricity distribution service by operating the installations that function at voltages ranging from 0,4 kV to 110 kV (power lines, substations and electrical transformer stations).

The Company's distribution subsidiaries (SDTN, SDTS and SDMN) invoice the electricity distribution service to electricity suppliers (mainly to EFSA subsidiary, the main electricity supplier in North Muntenia, North Transylvania and South Transylvania areas), which further invoice the electricity consumption to end consumers.

EFSA is an electricity supplier in the competitive market and bound supplier of last resort for the network regions: North Muntenia, North Transylvania and South Transylvania.

According to the regulations issued by ANRE, the bound suppliers of last resort ensure the electricity supply to the end consumers, which benefit, under the law, from universal service, to the non-household customers who have not exercised their eligibility right and to the non-household customers taken over because they have not ensured the supply of electricity from any other source.

In the competitive market, the electricity supply was done based on contracts and on negotiated prices.

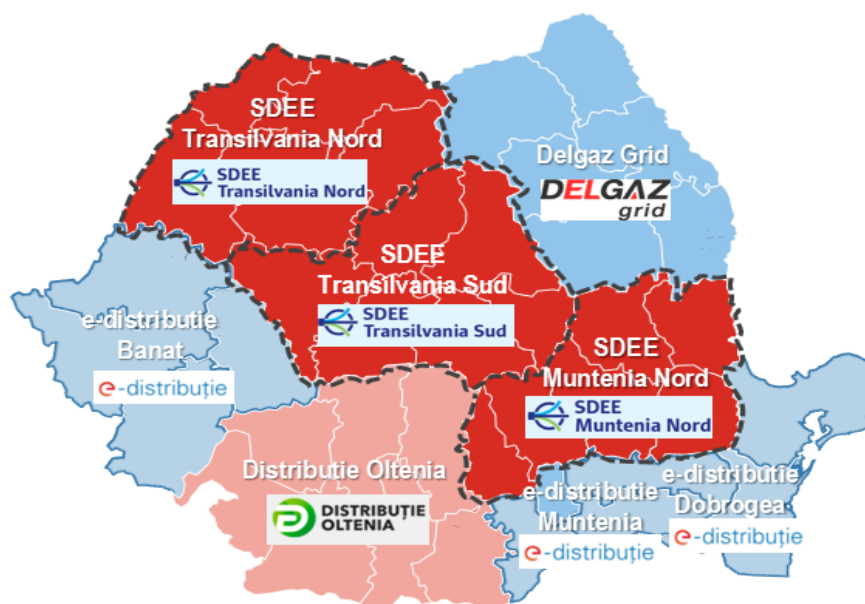
3.2. Key information by segments

DISTRIBUTION SEGMENT

Information for the period ended 31 March 2019

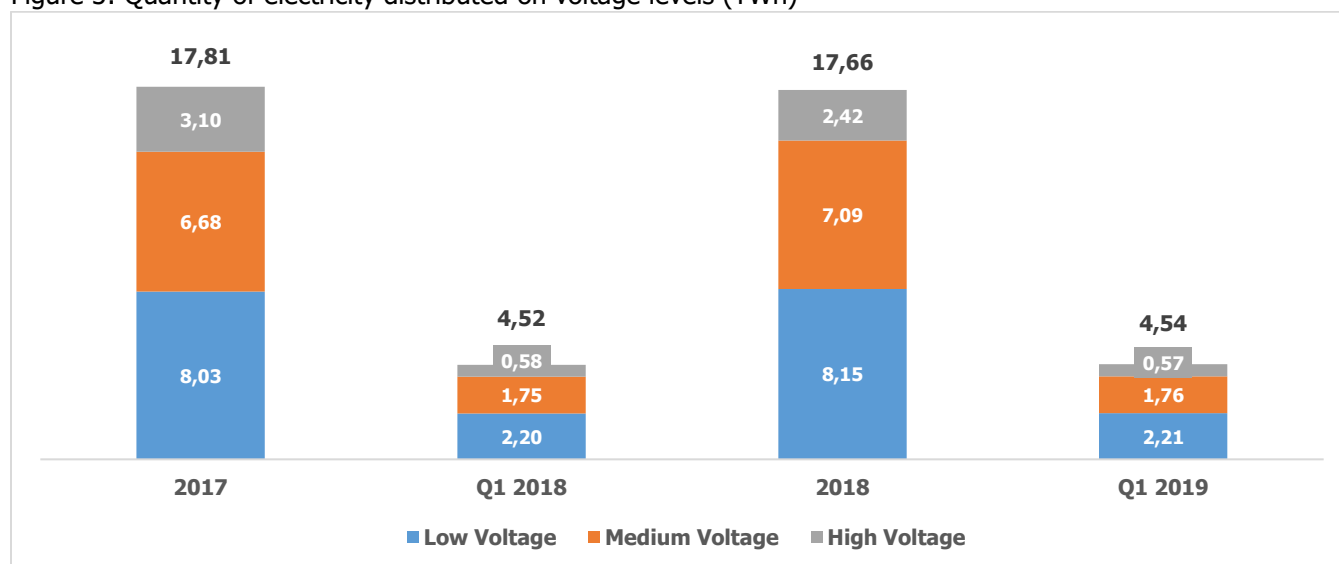
- The Regulated Assets Base (RAB estimated) at the end of Q1 2019 was RON 5,268 mn
- 198,126 km of electric lines – 7,596 km for High Voltage (“HV”), 45,802 km for Medium Voltage (“MV”) and 144,728 km for Low Voltage (“LV”)
- Total area covered: 97,196 km², 40.7% of Romania’s territory
- 3.78 mn users at the end of Q1 2019 for the distribution activity
- 4.54 TWh of electricity distributed in Q1 2019, an increase of 0.5% as compared to Q1 2018

Figure 2: Romanian electricity distribution map



Source: Electrica

Figure 3: Quantity of electricity distributed on voltage levels (TWh)



Source: Electrica

SUPPLY SEGMENT

Market data (according to ANRE Report for January 2019)

- The supply market comprises both the competitive segment and the regulated segment
- The regulated segment comprises five suppliers of last resort, while the competitive market segment comprises 85 suppliers (including those of last resort active in the retail market competitive segment, of which 75 are relatively small - less than 4% market share)
- EFSA has a market share of 18.92%; is the market leader on the regulated market, with a market share of 49.01%, while for the competitive market has a share of 10.75%. By comparison, at December 2018, EFSA had a market share of 45.61% on the regulated market and a 9.36% market share on the competitive market (December 2018 ANRE report)
- In Q1 2019, the Group supplied 2.4 TWh of electricity to a number of approx. 3.5 mn final consumers (both in last resort regime and on the competitive market), representing an increase of 6% y-o-y.

4. Shareholders' Structure

Until July 2014, the Romanian state, acting through the Ministry of Energy was the sole shareholder of ELSA. Starting 4 July 2014 the Company's shares are listed on Bucharest Stock Exchange, and the GDRs are listed on London Stock Exchange. As of 31 March 2019, the shareholders' structure is the following:

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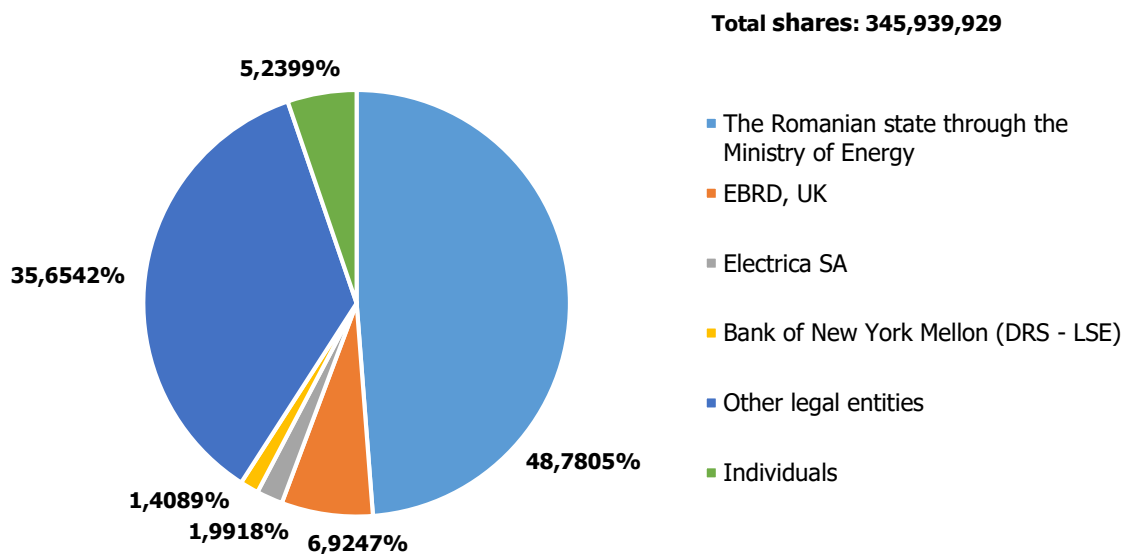
Shareholder	Number of shares	Stake held (% of the share capital)
The Romanian state, through the Ministry of Energy, Bucharest, Romania	168,751,185	48.7805%
The European Bank for Reconstruction and Development, London, UK	23,955,272	6.9247%
Electrica SA (no voting rights)	6,890,593	1.9918%
BNY MELLON DRS, New York, USA	4,873,996	1.4089%
Other legal entities*	123,341,999	35.6542%
Individuals	18,126,884	5.2399%
TOTAL	345,939,929	100.0000%

Source: Central Depository, Electrica

* *Dedeman SRL owns between 5 and 10% of the total number of shares*

Following the stabilization process after the IPO, ELSA owns 6,890,593 of its own shares, representing 1.9918% of the total share capital, which do not entitle ELSA either to voting rights, or dividends.

Figure 4: Shareholders' Structure as of 31 March 2019



Source: Electrica

5. Operational Results

Selected financial information from the condensed consolidated statement of profit or loss – in RON mn:

Indicator	31 March 2019 (not reviewed and not audited)	31 March 2018 (not reviewed and not audited)	Variation (%)
Revenues	1,583.7	1,349.8	17.3%
Other income	42.6	39.7	7.3%
Electricity purchased	(996.4)	(742.5)	34.2%
Green certificates	(138.8)	(65.3)	112.7%
Construction costs related to concession agreements	(138.3)	(120.8)	14.4%
Employee benefits	(149.3)	(142.3)	4.9%
Repairs, maintenance and materials	(21.5)	(17.7)	21.4%
Depreciation and amortization	(121.6)	(110.3)	10.2%
Reversal of impairment/(Impairment) of property, plant and equipment, net	0.4	0.2	107.4%
Reversal of impairment/(Impairment) of trade and other receivables, net	(12.4)	(1.5)	703.3%
Reversal of impairment/(Impairment) on assets held for sale	(0.1)	-	-
Change in provisions, net	0.4	3.6	-89.5%
Other operating expenses	(95.7)	(112.1)	-14.6%
Operating profit/(loss)	(47.1)	80.7	-
Finance income	3,9	2,3	68.7%
Finance costs	(3,6)	(0,9)	305.5%
Net finance income	0,3	1,4	-79.4%
Profit/(loss) before tax	(46.8)	82.1	-
Income tax expense	5.9	(22.8)	-
Profit/(loss) for the period	(40.9)	59.3	-
Profit/ (Loss) for the period attributable to:			
- owners of the Company	(40.9)	59.3	-
Profit/(loss) for the period	(40.9)	59.3	-

Source: Electrica

Key financial indicators for the period ended 31 March 2019:

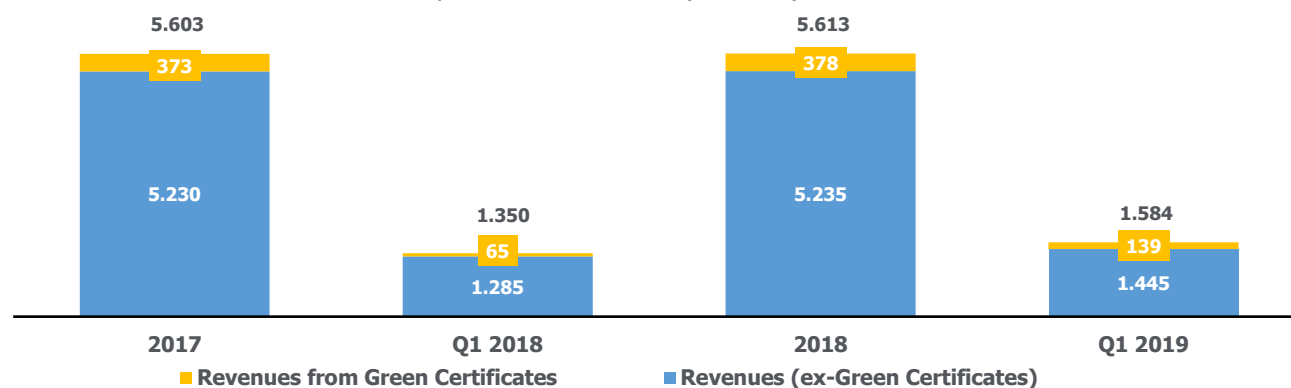
- **Revenues:** RON 1.6 bn, a 17.3% y-o-y increase;
- **EBITDA:** RON 74.1 mn, a RON 116.7 mn decrease compared to same period of last year;
- **EBIT:** RON 47.1 mn loss, a RON 127.8 mn decrease compared to Q1 2018;
- **EBT:** RON 46.8 mn loss, a RON 128.9 mn decrease compared to the Q1 2018 gross profit;
- **Net result:** loss of RON 40.9 mn, a RON 100.1 mn y-o-y decrease.

Revenues and other income

Electrica's revenues and other income in the three month period ending 31 March 2019 and 31 March 2018 amounted to RON 1,626.3 mn and RON 1,389.4 mn, respectively, representing an increase of approx. RON 236.9 mn, or 17%; the variation is generated mainly by the revenues' evolution, the other income recorded just a slight increase of RON 2.9 mn.

Revenues

Figure 5: Revenue for Q1 2019 and comparative information (RON mn)



Source: Electrica

The revenues increased by RON 234 mn, or 17.3%, being the net effect of the following main factors:

- external revenue (outside the Group): the electricity sales towards third parties decreased by RON 19 mn, having an unfavorable impact on the consolidated revenue;
- RON 27.6 mn increase of the distribution segment's revenues;
- increase of RON 228.9 mn on the supply segment.

In the three month period ending 31 March 2019, the revenue from the electricity distribution segment increased by approx. RON 27.6 mn, or 4,5%, to RON 644.2 mn, from RON 616.6 mn in the three month period ending 31 March 2018, as a result of the following factors:

- the total distributed quantity increased by 0,5% (on voltage levels: high voltage -0.8%, medium voltage 0.5%, low voltage 0.8%), generating a favorable effect on the total revenues from electricity distribution;
- the evolution of the distribution tariffs also had a positive effect on the energy revenues, especially after their increase by 2.3%, starting March 1, 2019;
- the revenues from electricity distribution segment are influenced also by the recognition of investments into the network under concession agreements in accordance with IFRIC 12, which increased in Q1 2019, as compared with Q1 2018.

In the three month period ending 31 March 2019, the revenue from the electricity supply segment increased by RON 228.9 mn, or 22.2%, to RON 1,261.2 mn, from RON 1,032.4 mn in the same period of the previous year.

The variation of the supply segment revenue is mainly driven by the 6% retail sale price increase and the 6% increase in the supply of electricity on the retail market; the development of the natural gas supply activity had also a positive impact on the segment revenues.

The value of the green certificates included in the invoice to the final consumer, set by ANRE, increased from RON 46.07/MWh in the three-month period ending 31 March 2018 to RON 59.03/MWh in the three-month period ending 31 March 2019.

Electricity purchased

In the three month period ending 31 March 2019, the expense for electricity purchased increased by RON 254 mn, or 34,2%, to RON 996.4 mn, from RON 742.5 mn in the comparative period.

This variance is mainly generated by the rise in the electricity purchase prices in Q1 2019, compared with the same period of the previous year, being the effect of the electricity market evolution - experienced both in the supply and distribution segment, but also by the increase of the electricity purchased quantity on the supply segment.

The cost of the electricity purchased for supply and balancing increased by RON 207.3 mn, or 24.8%, to RON 767.6 mn in the first three months of 2019, from RON 560.4 mn recorded in the same period of 2018, being the cumulative effect of higher electricity purchase price and the increase in the quantity of electricity purchased.

Regarding the distribution segment, in the three month period ended 31 March 2019, the cost of the electricity purchased to cover network losses increased by RON 46.6 mn, or 25.6%, to RON 228.8 mn, from RON 182.1 mn, the evolution being generated by the increase in the electricity purchase prices (negative effect of RON 65.1 mn), effect slightly alleviated by the reduction in the quantity of electricity needed to cover network losses (positive impact of RON 18.5 mn).

The table below presents the structure of the electricity purchased expenses for the indicated periods:

Three month period ending 30 March (RON million)	2019	2018
Electricity purchased to cover network losses ¹	228.8	182.1
Electricity purchased for supply and balancing ²	700.6	497.9
Transmission and system services related to supply and balancing activities	67	62.5
Total electricity purchased	996.4	742.5

Source: Electrica

1. the distribution segment - the regulatory framework has undergone significant changes between the two compared periods, 2019 and 2018, thus in 2019 the ex-ante price recognized and approved by ANRE is approx. 243 RON/MWh in nominal terms, significantly different from the actual purchase price of the distribution companies of Electrica Group; according to the new methodology, there is the possibility to recover through the 2021 tariffs the difference between the actual NL electricity price of each DSO and the ex-ante price set by ANRE, provided that the average actual price is lower than or equal to the average of the actual 2019 prices of the network operators (DSO and the transmission and system operator - TSO). In case of exceeding the average, the difference between the average and the ex-ante price approved by ANRE will be recovered at most.

2. supply segment: considering the tariffs approved by ANRE, the price recognized for January - February 2019 on the regulated segment does not cover the actual electricity purchase price (the purchase price recognized by ANRE for January and February 2019 on the regulated segment was set based on the reference prices of transactions realized on the centralized market during March-April 2018, according to ANRE Order no. 39/2018); through GEO no. 114/2018, was set the legal framework for recovering the losses from the purchase of electricity on the regulated segment in the future periods, starting from 1 March 2019 and until 28 February 2022 (the difference between the actual price and the ANRE recognized price for 2018 and 2019).

Green certificates

Green certificates' (GC) cost is recognized in the statement of profit and loss based on the quantitative quota set by the regulatory authority and is influenced by the amount of the GC that the Group has to purchase for the current year and the purchase price of GC on the centralized market. The green certificates cost is a pass through cost.

In the three-month period ended 31 March 2019, the cost of GC increased by RON 73.5 mn, or 112.7%, to RON 138.8 mn, from RON 65.3 mn in the same period of the prior year.

The increase was mainly determined by:

- higher supplied volumes, for which there is an obligation to purchase green certificates, by 6% (negative impact of RON 6 mn);
- 2.36% increase in the average price from RON 133.14/GC in the three-month period ending 31 March 2018 to RON 136.28/GC in the three-month period month ended 31 March 2019, cumulated with the increase in average regulated quota of GC imposed to electricity suppliers by ANRE at 0.433 GC/MWh supplied from 0.346 GC/MWh supplied in the three-month period ending 31 March 2018 (negative impact of RON 30 mn);
- the regularization impact – negative variance of RON 38 mn, reflected in both revenue and expenses, therefore no impact on the margin (the regularization for 2018 of RON 2 mn with impact in 2019 compared to the regularization of RON 36 mn with impact in 2018).

Construction costs

In the three month period ending 31 March 2019, the costs related to concession agreements increased by RON 17.4 mn, or 14.4%, to RON 138.3 mn, from RON 120.8 mn in the three month period ending 31 March 2018. This increase is attributable to the realized investments related to the Regulated Asset Base.

Employee benefits

The expenses for salaries and employee benefits increased by RON 7 mn, or 4.9%, to RON 149.3 mn in the three month period ending 31 March 2019, from RON 142,3 mn in the same period of the previous year, following the changes in the structure of the benefits granted to the Group's employees.

Repairs, maintenance and materials

In the three month period ending 31 March 2019, the repairs, maintenance and materials expenses increased by RON 3,8 mn, or 21.4%, to RON 21.5 mn, from RON 17.7 mn in the comparative period, mainly as a result of a higher level of maintenance works.

Impairment of trade and other receivables

Impairment adjustments for receivables recorded an increase of RON 10.9 mn in the first quarter of 2019, to RON 12.4 mn, from RON 1.5 mn in the comparative period, mainly due to the recognition of impairment adjustments for customers having financial difficulties.

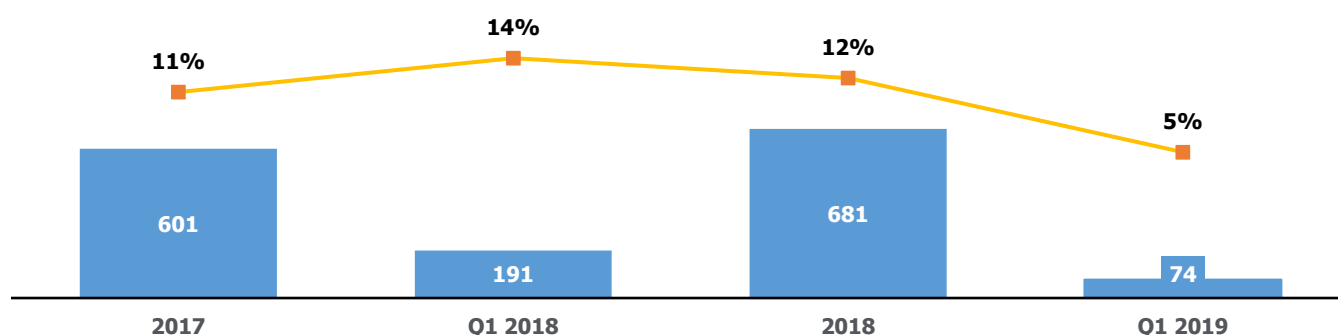
Other operating expenses

Other operating expenses decreased by RON 16.4 mn in the three month period ended March 31, 2019 compared to the similar period in 2018, reaching RON 95.7 mn, from RON 112.1 mn, as a result of:

- applying in 2019 the treatment of IFRS 16 'Leases', using the modified retrospective method, without influencing the comparative periods, which modifies the statement of profit or loss elements by reclassifying the rental expenses that fall within the scope of this standard in depreciation charge and interest expenses;
- the recognition in 2018 of expenses related to non-recurring transactions (goods' write-off, recognition of interest and penalties generated by an ANAF control at EFSA), which have no impact in 2019;
- the cost optimization measures at group level, as well as other effects that required additional resources in the comparative periods.

EBITDA and EBITDA margin

Figure 6: EBITDA and EBITDA margin for Q1 2019 and comparative information (RON mn and %)

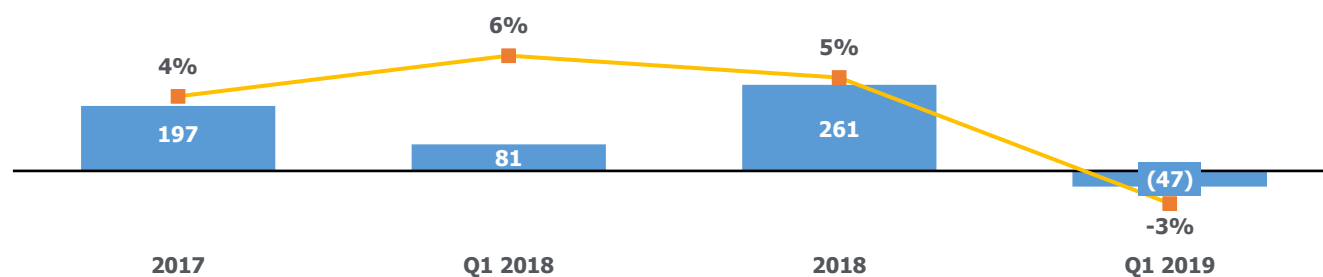


Source: Electrica

Operating result

The Group EBIT decreased by approx. RON 127.8 mn y-o-y, adding to the EBITDA evolution the impact of the depreciation and amortization, an increase by RON 11.3 mn, or 10.2%, as a result of the reclassifications under IFRS 16 'Leases', but also of a higher level of investments' commissioning, and the impact of impairment adjustments of tangible and intangible assets (RON 0.2 mn variation).

Figure 7: EBIT and EBIT margin for Q1 2019 and comparative information (RON mn and %)



Source: Electrica

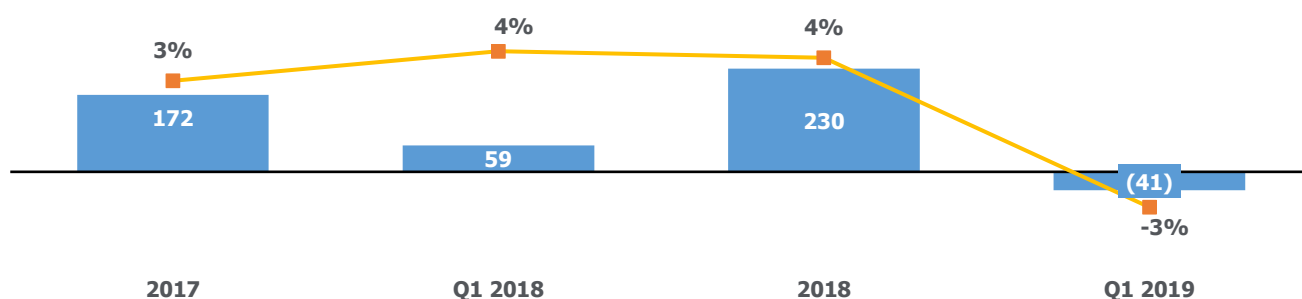
Net financial result

The net financial result at group level decreased by 79.4% over the three-month period ended March 31, 2019 compared to the similar period in 2018, as a result of the increase in finance cost, affected by the application of IFRS 16, Leasing Contracts', at a higher rate than the financial income increase.

Net profit for the period

As a result of the above described factors, in the three month period ended 31 March 2019, the net result decreased by RON 100.1 mn, reaching a loss of RON 40.9 mn, from a net profit of RON 59.3 mn in the comparative period.

Figure 8: Net profit and Net profit margin for Q1 2019 and comparative information (RON mn and %)



Source: Electrica

6. Outlook

Considering the energy policies developed at both EU and national level, as well as the international context of the electricity markets, the following trends are expected to characterize, on medium and long term, the local electricity market:

- Increased competition among the players on the national electricity supply market, especially in terms of diversifying the portfolio of products offered to customers (offers for natural gas, insurance, household products etc.) and digital services offered (mobile applications, online invoices and payments, expansion of customer service through chat solutions);
- The customers who, in accordance with the legal provisions, have the right to benefit from regulated tariffs or from the universal service and do not wish to migrate to the eligible segment, will be ensured with the supply of electricity under regulated conditions;
- The new secondary legislation, which reintroduced provisions related to regulated contracts and changed the tariffs methodology for the household customers, as well as the methodology for designating optional suppliers of last resort, will also influence the electricity market and the SoLRs future strategies with respect to portfolio management;
- The regulatory trend in the electricity distribution area is the principle of remuneration of the distribution operator considering both the quality of the service, as well as the operational costs and efficiency based on comparative analyzes between DSO;
- Electricity distributed generation technologies will determine the distribution operators to adapt their processes and strategies regarding the upgrade and development of the network and to offer solutions to the independent producers, considering the appearance of prosumers, which are active participants in the energy market; in this context, significant investments are necessary in order to improve both the transmission and the distribution infrastructure;
- Full electric vehicles and light commercial vehicles will lead to the increase of the consumption of electricity in the transportation sector;
- Future technological development will support energy efficiency policies such as:
 - Development of transmission and distribution networks, including smart grid and smart metering;
 - End-use electricity streamlining (thermal integrity of buildings, lighting, electric appliances, motor drives, heat pumps etc.);
- The smart metering implementation will offer complex tariff options to the consumers, detailed information

regarding the consumption profile, which might lead to increased flexibility and peak demand reduction. Thus, the consumers will be better informed and more involved in decision-making process, as active participants. The smart metering implementation pace depends on the implementation timetable to be adopted at national level;

- The significant reduction in the cost of photovoltaic technologies is an opportunity for the development of small-scale generating projects, especially in the household area;
- The development of the transmission and distribution infrastructure and long-distance interconnection will become a necessity. The electricity market target model, which implies the development of European Union’s internal electricity market, will continue to evolve and be in line with future trends and challenges in the energy industry;
- Common rules for the electricity market – regulatory package no 4. of the EC (Clean package) - The European Parliament adopted on 26 March 2019 the proposal for a Directive of the European Parliament and of the Council concerning common rules for the electricity internal market. The proposal will be subject to the approval of the European Council, the strategic directions for distribution being:
 - Smart metering systems - if smart metering installation will benefit from a positive evaluation, at least 80% of the end users must have smart meters within seven years since the positive assessment took place or by 2024, in the case of the member states which initiated the systematic introduction of smart metering systems before the date of entry into force of the Directive;
 - Incentives to use flexibility in distribution networks - the regulatory framework ensures that the distribution operators can purchase services from entities that provide distributed electricity services, dispatchable consumption or electricity storage services, and promotes taking energy efficiency measures;
 - Integration of electro-mobility into the distribution network – the regulatory framework facilitates the connection of the private recharging points and with public access to the distribution network; the distribution operators are not be allowed to own, develop, manage or operate recharging points for electric vehicles, with the exception of those cases where the distribution operators own private recharging points solely for their own use. Exceptions are permitted only if certain conditions are met cumulatively;
 - Ownership of electricity storage facilities by distribution operators - the distribution operators do not own, develop, manage or operate electricity storage facilities. Exceptions are permitted only if certain conditions are met cumulatively.

The key drivers of changes in the electricity market are presented in the following table:

Key driver	Description	Impact on
GDP evolution and industry structure	The economic growth is a key determinant of electricity demand. Although there is not a one-to-one relationship between GDP growth rate and electricity demand growth rate, there is a positive correlation, mainly between the industrial demand for electricity and economic growth. In the future, household and industrial electricity demand will also be influenced by energy efficiency policies. Intensification of electricity consumption is a major trend in Romania. Over 2010 - 2018, there was a significant increase in consumption, as opposed to a decrease of the gas consumption over the same period, mainly due to the curtailment of heavy industry production.	Electricity consumption
Demographic evolution and technology development	Despite the demographic decline recorded at EU and Romanian level, the electricity consumption is impacted by the changes in the consumer behavior and the increase in urbanization. For example, smart devices are expected to generate a massive increase in connected devices and implicitly in the electricity consumption and revenue growth across multiple industries.	Electricity consumption

Key driver	Description	Impact on
Changes in regulatory framework	<p>The regulatory framework has undergone major changes in order to align the Romanian legislation with the EU legislation. Although important steps have been taken, other major changes are expected to occur in the next decade, particularly following the new Framework Strategy for an European Energy Union, which highlights the need for integration and cooperation amongst member states.</p> <p>From 2019, the 4th Regulatory Period started and ANRE approved significant changes in the methodology for all tariff elements (regulated rate of return, regulated assets base, network losses, operating and maintenance expenses, dynamic distribution tariffs starting from 2020). For the supply segment important changes are forecasted, also, in the strategies for electricity purchase and sales to final customers, considering the legislative impact regarding the regulated contracts for the household customers, the designation methodology for optional SoLR and the methodology of eligible household customer returning to regulated tariffs. The change in the amount of the contribution due to ANRE from 0.1% to 2% of the turnover generated by licensed activities has the potential to lead to restructuring of the activities of the players in the electricity market.</p>	Electricity prices
Technological development	<p>Smart networks and smart meters will create benefits for the end users, distributors and suppliers in terms of energy efficiency, resource optimization and network operation, implementation of demand response etc. It is necessary to prepare the networks and to integrate the distributed resources (storage solutions, micro-grids, local production, electric machines, etc.), considering also the management of their impact.</p>	Electricity prices and consumption
Increase in environmental awareness	<p>Romania has adopted the EU 20-20-20 targets, aiming to reduce greenhouse effect gas emissions, improve energy efficiency and raise the share of renewable energy. Moreover, the 2030 Framework provides even more ambitious targets and therefore more efforts are needed from governments and market players to achieve them.</p>	Electricity prices and consumption, regulatory framework

Source: Electrica

The regulatory framework outlook and the impact on the electricity market

The energy regulatory framework has experienced major changes in the past decade, including market liberalization, unbundling and the implementation of the support scheme for renewable energy, and the changes brought by GEO no. 114/2018 and GEO no. 19/2019 will lead to new market rules and possible reorganization in the activities of energy market players.

For the **distribution area**, the most significant changes in the Romanian legislation are presented in *chapter 2.1*.

The changes to the Romanian legislation with relevant impact for the **supply segment** are the following:

- The amendments to the Electricity and Natural Gas Law no. 123/2012 introduce additional obligations for the electricity suppliers to ensure the coverage of their customers' consumption, with priority for the customers that benefit from the US, from their own portfolio. The provision affects the electricity purchase strategy of the SoLRs, with impact on the functioning of the entire market in the short and medium term. Additionally, the supplier does not have the right to unilaterally terminate the electricity supply contracts with the final customers;
- GEO no. 114/2018 and GEO no. 19/2019 have major influences over the supply area, too, through new provisions related to electricity area, respectively the reintroduction of the regulated tariffs for household customers and of the agreements for the purchase of electricity at a regulated price, as well as the premises

for the recovery of the purchase losses between 2018 and 2019, as well as for natural gas supply, respectively the selling prices capping. Another significant impact is the increase of the annual monetary contribution related to the organization and functioning of ANRE;

- The new secondary legislation, approved by ANRE at the beginning of 2019, reintroduces the regulated agreements with producers and changes the tariff methodology for the regulated segment of customers. These legislative changes have the potential to bring significant changes over the market participants' strategies for the next period;
- During 2018 and beginning of 2019, were published the normative acts regarding a new category of market participants, the prosumers, defining the guide rules for trading the electricity produced by them. Prosumers who own electricity-generating units of renewable power of up to 27 kW installed power per consumption place can sell the electricity produced and delivered into the grid to the electricity suppliers with whom they have supply agreements concluded, according to ANRE regulation.

Considering legislative and regulatory changes, Electrica Group is reviewing its medium and long-term strategy in order to manage responsibly and sustainably their impact on the company's activities, in the context of a regulatory framework that has undergone numerous successive and profound changes in the last months of 2018 and early 2019.

7. Capital Expenditures

A core part of Electrica business strategy includes implementing the investment plan. Electrica's activities require significant capital expenditures mostly connected with its operations in the electricity distribution segment. Furthermore, Electrica's assets require periodic maintenance and modernization in order to improve the operational efficiency.

Electrica's capital expenditures in the three month periods ending 31 March 2019 and 31 March 2018 amounted to RON 143.5 mn and RON 125.1 mn, respectively.

The volume of investments in the distribution network increased by approx. RON 17.4 mn, or 14.4%, to RON 138.3 mn in the three month period ending 31 March 2019, from RON 120.8 mn realized in the same period of the previous year. This increase is mainly attributable to the realized investments related to the Regulated Asset Base.

The volume of investments had a material impact and, according to Electrica's expectations, will continue to have such impact on the results of Electrica's operations, Electrica's indebtedness and future cash flows.

Capital expenditures in the distribution network will only have the anticipated positive impact on Electrica's result of operations to the extent they are recognized in the Regulated Asset Base by ANRE and considering the rate of return approved by the regulatory authority.

8. Statements

Based on the best available information, we confirm that the interim condensed consolidated financial statements for the three month period ended 31 March 2019 (not reviewed and not audited) prepared in accordance with the International Accounting Standard IAS 34 – Interim Financial Reporting, provides an accurate and real image regarding the Electrica Group's financial position, the financial performance and the cash flows, as required by the applicable accounting standards, and that this Report prepared in accordance with art. 67 of the law no. 24/2017 on issuers of financial instruments and market operations and to annex no. 13 to ASF Regulation no. 5/2018 for the three month period ended 31 March 2019, comprises accurate and real information regarding the Group's development and performance.

Chair of the Board of Directors,

Valentin Radu

Chief Executive Officer,

Corina Georgeta POPESCU

Chief Financial Officer,

Mihai DARIE

9. Annexes

9.1. Agreements concluded reported according to art. 82 of Law 24/2017

In the first part of 2019 (up to date) three current reports were issued with regard to the agreements concluded according to art. 82 of Law 24/2017:

- Current report from 16 January 2019:
 - Services agreement no. 8/16 January 2019 with Societatea de Distributie a Energiei Electrice „Transilvania Sud”: Rendering of services using AMR system

- Current report from 26 March 2019:
 - Services agreement no. 46/26 March 2019 with Societatea de Distributie a Energiei Electrice „Muntenia Nord”: Rendering of services using AMR system

- Current report from 6 May 2019:
 - Services agreement no. 54/25 April 2019 with Societatea de Distributie a Energiei Electrice „Transilvania Nord”: Rendering of services using AMR system

9.2. Economic and financial indicators of Electrica Group as of 31 March 2019 according to Annex 13/ASF Regulation no. 5/2018

Indicator	Formula	Value
Current liquidity ratio	Current assets/Current liabilities	1.4
Capital Gearing Ratio	Debt/Equity * 100	5.9%
Trade receivables turnover	Average balance trade receivables/ Turnover * 90	49 days
Non-current asset turnover ratio	Turnover/Non-current assets	0.3