



CONSOLIDATED DIRECTORS' REPORT

for the nine-month period ended 30 September 2021 (9M 2021)

**(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. 65 of the Law no. 24/2017 on issuers of financial instruments and
market operations and with annex no. 14 to ASF Regulation no. 5/2018 and the Bucharest
Stock Exchange Code**

*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
CMBC (EA/CN)	Centralized Market for Bilateral Contracts (Extended Auction/Continuous Negotiation)
CMC	Competitive Market Component
CMNG-AN	Centralized Market for Bilateral Natural Gas Contracts – Auction and Negotiation
CMNG-PA	Centralized Market for Bilateral Natural Gas Contracts – Public Auction
CMNG – OTC	Centralized Market for Bilateral Natural Gas Contracts – OTC
CMUS	Centralized Market for Universal Service
CNTEE	The National Transmission System Operator
DAM	Day Ahead Market
DAM-NG	Day Ahead Market – Natural Gas
DEER	Distributie Energie Electrica Romania
DSO	Distribution System Operator
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortization
EDN	Electrical Distribution Network
ETN	Electrical Transmission Network
ELSA	Electrica S.A.
EGMS	Extraordinary General Meeting of Shareholders
EU	European Union
EUR	EURO, the monetary unit of several member states of the European Union
FPM-LT	Medium and Long-Term Flexible Products Market
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
IM	Intraday Market
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 Energy System
NL	Network Losses
NRC	Nomination and Remuneration Committee
OMPF	Order of Ministry of Public Finances
OGMS	Ordinary General Meeting of Shareholders
OHL	Overhead Line
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: 12 November 2021

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

Sole Registration Code: 13267221

Trade Registry registration number: J40/7425/2000

LEI Code (Legal Entity Identifier): 213800P4SUNUM5AUDX61

Subscribed and paid in share capital: RON 3,464,435,970

Main characteristic of issued shares: 346,443,597 ordinary shares of 10 RON nominal value, out of which 6,890,593 treasury shares and 339,553,004 shares 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: 9 months 2020 (period 1 January – 30 September 2021)

Audit/Review: The condensed consolidated interim financial statements as of and for the nine month period ended 30 September 2021 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 subsidiary Distribuție Energie Electrica Romania („DEER”) and it is geographically limited to 18 counties from the historical regions Muntenia and Transylvania. The Group holds exclusive distribution licenses for these regions, which are valid until 2027, and may be extended for another 25 years.

The electricity and natural gas supply segment operates through Electrica Furnizare („EFSA”) subsidiary, and the main activity is the supply of electricity to final customers, on the universal service segment and as supplier of last resort, as well as a competitive supplier, all over Romania.

The Group holds an electricity supply license covering the entire territory of Romania, valid until August 2031, and a license for natural gas supply activity, valid until 2022.

Within the external electricity network maintenance segment, SERV provides maintenance, repair and various services to group companies (car rental, rental of buildings etc.) as well as repairs, maintenance and other energy related services to third parties.

2.1. Key events during the period January – September 2021 (9M 2021)

During the nine months period ended 30 September 2021 the following main events took place:

■ Decisions of General Meetings of Shareholders

On 4 March 2021, **ELSA's BoD approved the convening of ELSA's Ordinary General Meeting of Shareholders (OGMS)** and of the **Extraordinary General Meeting of Shareholders (EGMS)**, meetings that took place on 28 April 2021.

During the **OGMS, ELSA's shareholders approved** mainly the following:

- the audited annual financial statements for 2020 and the ELSA's budget of revenues and expenses for 2021, both at individual and consolidated level;
- distribution of the net profit for the financial year 2020: total value of gross dividends - RON 247.9 mn, value of gross dividend/share - RON 0.73, ex date – 2 June 2021, registration date – 3 June 2021, date of dividends' payment – 25 June 2021;
- discharge of liability of the members of ELSA's Board of Directors for the financial year 2020;
- prolongation of the mandate of the financial auditor of ELSA, Deloitte Audit S.R.L., for a two-year period, respectively for the financial years 2021 and 2022;
- the Remuneration Policy of the Directors and Executive Managers;
- the election of the BoD's members, by applying the cumulative voting method. Following the elections, ELSA's new Board of Directors is composed of: Mr. Iulian Cristian Bosoanca, Mr. Gicu Iorga, Mr. Ion-Cosmin Petrescu, Mr. Adrian-Florin Lotrean, Mr. Radu Mircea Florescu, Mr. Dragos-Valentin Neacsu and Mr. George Cristodorescu. The mandate's duration for the directors elected is for a period of four years.

The shareholders attending the EGMS approved mainly the following:

- the guarantee to be issued by ELSA for the term loan in the amount of up to EUR 210 mn or equivalent in RON

that DEER will contract from the European Investment Bank (EIB) for financing the investment plan for the period 2021-2023, the value of the guarantee provided by ELSA at the first request being of maximum EUR 252 mn or equivalent in RON;

- ELSA's contracting of a non-binding bridge loan in the amount of up to RON 750 mn from a consortium consisting of Erste Bank and Raiffeisen Bank, together with an engagement letter for arranging a bond issuance (conditional upon obtaining the necessary corporate approvals) to finance the inorganic growth opportunities, having a single guarantee, a movable mortgage on accounts opened by ELSA with BCR and Raiffeisen Bank, for a maximum value of RON 825 mn.

On 18 June 2021, **ELSA's BoD approved the convening of ELSA's Extraordinary General Meeting of Shareholders (EGMS)**, that took place on 11 August 2021.

During the **EGMS, ELSA shareholders approved**, mainly, the following:

- The empowerment of the ELSA representative to participate in the EGMS of DEER and to express the vote in favor of the approval of the transfer of one share held by ELSA in DEER to SERV, representing 0.00000071% of DEER's share capital, for the total price of RON 10 and approving the amendment of article 6 - Share Capital, from the Articles of Association (AoA) of DEER, to reflect the new shareholdings of the two shareholders;
- The empowerment of the ELSA representative to participate in the EGMS of SERV and to express the vote in favor of the transfer approval of one share held by ELSA in SERV to DEER, representing 0.00001905% of SERV's share capital, for the total price of RON 10 and approving the amendment of article 6 - Share Capital, from the Articles of Association of SERV, to reflect the new shareholdings of the two shareholders;
- The participation of ELSA, as founding member, to the establishment of Electrica Foundation;
- The amendment of the Articles of Association of ELSA, regarding:
 - the alignment of the art. 12, para. (2) provisions with the provisions of Law 24/2017 regarding the issuers of financial instruments and market operations;
 - the introduction of a new attribution of the OGMS regarding the approval of the Remuneration Policy for directors and executive managers;
 - completing the situations' list in which the secret vote is applied, in accordance with the applicable legal provisions.
- ELSA's participation, together with SERV, in the establishment of a new legal entity - Electrica Productie Energie S.A., organized as a joint stock company, a subsidiary of ELSA, in which ELSA holds a percentage of 99.9920% of the share capital and SERV holds a percentage of 0.0080% of the share capital.

■ **Decisions of ELSA's Board of Directors (BoD)**

During the meeting held on 26 February 2021, ELSA's BoD approved the **consolidated value of the Investment Plan (CAPEX) of Electrica Group for 2021**, in total amount of **RON 712.4 mn**. Out of this value:

- RON 638.9 mn represents the 2021 annual financial plan of the distribution subsidiary DEER regarding the investments (the financial part of the investments' individual plan);
- RON 51.2 mn represents the 2021 annual financial plan of EFSA regarding the investments (the financial part of the investments' individual plan);
- RON 11.6 mn represents the 2021 annual financial plan of SERV regarding the investments (the financial part of the investments' individual plan).

On 6 May 2021, ELSA's Board of Directors elected **Mr. Iulian Cristian Bosoanca as Chair of the Board of Directors** starting with 6 May 2021 until 31 December 2021 and decided the following **composition of the**

consultative committees, starting with 6 May 2021 and until 31 December 2021:

- The Audit and Risk committee:
 - Mr. Radu Mircea Florescu – Chair;
 - Mr. Dragos-Valentin Neacsu – Member;
 - Mr. Iulian Cristian Bosoanca – Member.
- The Nomination and Remuneration committee:
 - Mr. Adrian-Florin Lotrean – Chair;
 - Mr. Radu Mircea Florescu – Member;
 - Mr. Ion Cosmin Petrescu – Member.
- The Strategy and Corporate Governance committee:
 - Mr. Gicu Iorga – Chair;
 - Mr. George Cristodorescu – Member;
 - Mr. Adrian-Florin Lotrean – Member.
- During the meeting held on 27 September 2021, upon the recommendation of Nomination and Remuneration Committee, ELSA Board of Directors decided to nominate Mr. Ștefan-Ionuț Pascu, Romanian citizen, as interim Chief Corporate Development Officer (C.C.D.O), starting with 1 October 2021 for a three-month period.

■ Litigations

- On 3 February 2021, the Bucharest Court, Civil Section VII, confirmed the reorganization plan of the company Transenergo Com S.A. (Transenergo), proposed by the special administrator from the case no. 1372/3/2017. According to this plan, unsecured creditors will not benefit from any distributions of amounts. ELSA holds an unsecured receivable in amount of RON 37 mn composed of the main debit of RON 35.7 mn and of penalties of RON 1.3 mn calculated until the date of insolvency proceedings' opening. Since ELSA is the beneficiary of an insurance policy in amount of RON 4 mn having as object the guarantee of the payment obligations of Transenergo resulting from the BRP Services Agreement no. 77/2005, the amount of RON 4 mn was submitted under the resolute condition of recovering the amounts from the insurer. ELSA appealed the sentence confirming the reorganization plan, appeal that is the object of file no. 1372/3/2017/a35 of the Bucharest Appeal Court, under regularization proceedings; the execution of the plan is not suspended during the trial of the appeal.

On 23 June 2021, the court definitively rejected the appeal filed by ELSA against the decision for the confirmation of the reorganization plan of Transenergo Com S.A. no. 469/3 February 2021 issued by Bucharest Tribunal – Civil Section VII - in case no. 1372/3/2017.

Considering that the exposure registered by ELSA in relation to Transenergo was fully provisioned, this file resolution has no negative impact on the company's financial results for 2020 or 2021, the impact being recorded in the previous periods (2016 and 2017 years).

- By the conclusion from 27 April 2021, the Bucharest Tribunal decided to suspend the trial of the case that forms the object of file no. 35729/3/2019 until the final settlement of the file no. 2229/2/2017, pending before the Bucharest Court of Appeal.

File no. 35729/3/2019 has as object the underscoring of the patrimonial liability of the persons who have held positions of directors and respectively of executive managers of ELSA, for not fulfilled and/or improperly fulfilled

obligations, according to art. 155 of Law no. 31/1990, which determined the damages retained by the Romanian Court of Accounts by Decision no. 11/23 December 2016, as well as against the representative of the Authority of Valuation of the State Assets in ELSA's OGMS on 10 December 2008 and the issuer of the voting mandate for the respective OGMS.

- The decision no. 1368/18 December 2020 issued in retrial of case no. 4804/2/2020 (former no. 7341/2/2014) of the Bucharest Court of Appeal by which it dismissed the action and the intervention requests as unfounded, became final by non-appealing it (according to the information held at this time). The object of the case is Fondul Proprietatea's request for the cancellation of art. I, points 2, 3, 8, 9 and 10 of ANRE Order no. 112/2014 for amending and completing the Methodology for setting the electricity distribution service tariffs, approved by ANRE Order no. 72/2013. ELSA and DEER are accessory intervenients in the case.

■ Other events

- On 1 May 2021, the mandate agreement of the Chief Corporate Development Officer, Ms. Anamaria-Dana Acristini-Georgescu, effectively terminated upon lapse of the four-year duration.
- On 10 June 2021, was signed the Addendum no. 1 to the Convention no. 25/5 February 2020 concluded by ELSA with EFSA on Internal Treasury, by which the amount that can be borrowed by EFSA within the Convention is increased from up to RON 30 mn to up to RON 180 mn.
- On 28 July 2021, three shares sales and purchase agreements ("SPAs") were signed in three project companies, by ELSA, as buyer, with Mr. Emanuel Muntmark and with Mr. Catalin Mrejeru, as sellers, having as main object of activity the production of energy from renewable sources, as follows:
 - A SPA regarding the acquisition of 100% of the shares held by the sellers in Crucea Power Park SRL for an estimated total price of EUR 8,470,000. The final price will be determined by adjusting the total estimated price depending on the production capacity, respectively the authorized storage, based on a contractually established calculation formula. Crucea Power Park SRL develops the eolian project "Crucea Est", with a designed installed capacity of 121 MW and a projected electricity storage capacity of 60 MWh (15 MW x 4h), located outside the Crucea commune, Constanta county;
 - A SPA regarding the acquisition of 100% of the shares held by the sellers in Sunwind Energy SRL for a total estimated price of EUR 1,485,000. The final price will be determined by adjusting the total estimated price according to the authorized production capacity, based on a contractually established calculation formula. Sunwind Energy SRL is developing the photovoltaic project "Satu Mare 2" with a designed installed capacity of 27 MW, located near Satu Mare;
 - A SPA regarding the acquisition of 100% of the shares held by the sellers in New Trend Energy SRL for a total estimated price of EUR 3,245,000. The final price will be determined by adjusting the total estimated price according to the authorized production capacity, based on a contractually established calculation formula. New Trend Energy SRL develops the photovoltaic project "Satu Mare 3", with a designed capacity of 59 MW, located near Satu Mare.

The SPAs stipulate the acquisition by Electrica of the shares in the three companies and the payment of the corresponding price in four stages; in the first stage, when signing the sale-purchase agreements, 30% of the share capital of the three companies will be acquired, and subsequently the rest of the shares will be acquired depending on the development stage of the project and provided that the suspensive conditions are met.

■ Events after the reporting period

- On 12 October 2021, Electrica concluded with DEER an Intragroup Credit Agreement, valid until 12 October 2029, the amount that can be borrowed by DEER under the contract being up to RON 246,325,000;
- On 15 October 2021, **ELSA's Board of Directors decided the convening of ELSA's Extraordinary General Meeting of Shareholders (EGMS)**, the agenda being mainly the following:
 - Approval of the acquisition by Electrica, as Buyer, of the following holdings of MT Project B.V. ("MTP") and HiTech Solar Investment GmbH ('HSI'), as Sellers:
 - ✓ in TCV Impex S.A. ("TCV"), a company of Romanian nationality, registered with Ilfov Trade Registry under no. J23/1072/2018, sole registration code 19123942,
 - ✓ in ACV Solar Technology S.A. ("ACV"), a company of Romanian nationality, registered with Ilfov Trade Registry under no. J23/351/2018, sole registration code 30042717,
 - ✓ in TIS Energy S.A. ("TIS"), a company of Romanian nationality, registered with Ilfov Trade Registry under no. J23/354/2018, sole registration code 28563306,
 - ✓ in Delta & Zeta Energy S.A. ("DZE"), a company of Romanian nationality, registered with Ilfov Trade Registry under no. J23/350/2018, sole registration code 29092649,
 - ✓ in Gama & Delta Energy S.A. ("GDE"), a company of Romanian nationality, registered with Ilfov Trade Registry under no. J23/349/2018, sole registration code 29092657,
 hereinafter referred to as the Companies, holdings which together represent 100% of the share capital of each Company, as follows:
 - ✓ 4,597,060 shares held by MTP out of the total number of 4,600,000 shares, representing 99.936087%, respectively 2,940 shares held by HSI out of the total number of 4,600,000 shares, representing 0.063913% of the share capital of TCV for a total price of EUR 5,997,900 which will be adjusted in accordance with the provisions of the Sale Purchase Agreement ("SPA");
 - ✓ 4,249,100 shares held by MTP out of the total number of 4,250,000 shares, representing 99.978824%, respectively 900 shares held by HSI out of the total number of 4,250,000 shares, representing 0.021176% of the share capital of ACV for a total price of EUR 6,058,500 which will be adjusted in accordance with the provisions of the SPA;
 - ✓ 5,899,100 shares held by MTP out of the total number of 5,900,000 shares, representing 99.984746%, respectively 900 shares held by HSI out of the total number of 5,900,000 shares, representing 0.015254% of the share capital of TIS for a total price of EUR 7,094,500 which will be adjusted in accordance with the provisions of the SPA;
 - ✓ 5,993,322 shares held by MTP out of the total number of 6,000,000 shares, representing 99.8888700%, respectively 6,678 shares held by HSI out of the total number of 6,000,000 shares, representing 0.111300% of the share capital of DZE for a total price of EUR 7,924,550 which will be adjusted in accordance with the provisions of the SPA;
 - ✓ 6,693,382 shares held by MTP out of the total number of 6,700,000 shares, representing 99.901224%, respectively 6,618 shares held by HSI out of the total number of 6,700,000 shares, representing 0.098776% of the share capital of GDE for a total price of EUR 7,924,550 which will be adjusted in accordance with the provisions of the SPA.

- Approval of the completion of the guarantee structure for the bridge loan up to RON 750,000,000 of non-binding nature to be contracted by Electrica from a consortium of banks comprising of Erste Bank and Raiffeisen Bank accompanied by a commitment letter for the arrangement of a bond issue (conditional upon obtaining the necessary corporate approvals) to finance inorganic growth opportunities, the contracting of which was approved by Electrica's EGMS resolution no. 1 of 28 April 2021, as follows: in addition to the mortgage guarantee on the accounts opened by Electrica to BCR and Raiffeisen Bank, which will be made up for a maximum amount of RON 825,000,000, shall be constituted as a guarantee in favour of the banks, subject to the fulfilment of certain conditions detailed in the bridge loan agreement, a movable mortgage on the present and future receivables of Electrica resulting from the intragroup loan agreements that will be concluded with its subsidiaries from the amounts drawn from the bridge loan, in order to carry out the inorganic growth transactions, this will be constituted for a maximum value that will not exceed the total ceiling of the previously approved guarantees, in the amount of RON 825,000,000.
- On 18 October 2021, the Company has received a statement of claim by which the plaintiff, Alexandra Romana Augusta Borisilavski Popescu – former Chief Corporate Governance & M&A, requests the payment of certain amounts of money allegedly due based on the mandate agreement, respectively:
 - Obligation of the defendant to pay to the plaintiff the amount of RON 166,738, representing the percentage of 55% of the OAVT package, in accordance with the provisions of Annex no. 3 to the mandate contract no. 42/10 August 2015;
 - Obligation of the defendant to pay to the plaintiff damages for non-execution of the obligation to pay 55% of the OAVT package;
 - Obligation of the defendant to pay the amount of RON 11,973, representing the annual variable remuneration for 2018;
 - Obligation of the defendant to pay the amount of RON 24,756, representing the annual variable remuneration related to 2019;
 - Updating the amounts mentioned at the previous items with penalizing legal interest. The requested penalties will be calculated as the legal penalty interest plus 8%, payable per each day of delay as of the claim registration date until the payment of the 55% of OAVT package by the defendant;
 - Obligation of the defendant to pay the expenses incurred by the arbitration request.

The case was registered on the role of the Vienna International Arbitral Court, under no. ARB-5670 Borisilavski (RO) vs. Energetica Electrica (RO).
- On 22 October 2021, the Addendum no. 2 to the Convention no. 25/5 February 2020 was signed, concluded by ELSA with EFSA on Internal Treasury, by which the amount that can be borrowed by EFSA within the Convention is increased from up to RON 180 mn to up to RON 245 mn.
- On 3 November 2021, the ELSA financing agreement through a non-binding bridge loan in the amount of up to RON 750 mn was signed, with the consortium consisting of Erste Bank and Raiffeisen Bank, according to the EGMS decision from 28 April 2021.

■ Measures adopted in COVID-19 context

In the context of the crisis generated by the COVID-19 pandemic, ELSA's representatives frequently communicated with all the stakeholders, announcements being released to present the measures taken by the Group companies and COVID-19's impact on them.

In the fight against COVID-19 pandemic, ELSA has adopted all the necessary measures so that the **activity of the companies within the Group to continue to be carried out under normal conditions.**

Regarding the **electricity and natural gas supply segment**, the cash collection activities through own cashiers, the activities of the customer relations centers, as well as the field activities for B2B customers (Business-to-Business) take place under this period's normal conditions, ensuring the provision of all services offered prior to the initiation of the state of emergency, the safety of employees and customers continuing to be a priority. The effect of GEO no. 29/2020 for small and medium enterprises, by which the postponement of payments of electricity and natural gas bills is possible based on state of emergency certificates received by companies, was minimal, considering the extensive portfolio of EFSA. At the same time, the evolution of the receivables collection intervals of delay during 2021 did not register significant changes compared to the previous year.

The action plans of the distribution operator consider keeping the general preventive measures for their own staff, users, and collaborators, as well as the organizational measures to ensure safe management and operation of the network infrastructure, at a higher level of quality of the electricity distribution service.

The management permanently monitors **the financial performance and liquidity of the Group companies** on several tiers, to ensure the availability of the necessary funds for carrying out the activity, by analysing with priority the cash flow, including the impact that the legislative changes may have on the Group's activities. The aim is to secure the collection of receivables from customers, to use the banking structures for liquidity concentration ("cash-pooling"), as well as the financing facilities available for the companies within the Group.

Distribution segment

At the end of 2020, Electrica has successfully completed the merger of the three electricity distribution companies within the Group. Starting with 1 January 2021, the new company Distribuție Energie Electrica România S.A. (DEER) becomes the most important electricity distribution operator at national level, with a coverage of 40.7% of the Romanian territory, which serves over 3.8 million network users.

By implementing the merger, medium and long-term benefits could be obtained for all stakeholders. The current priorities for the distribution segment are:

- cost efficiency;
- accelerating the main business processes digitization;
- orientation towards the smart grid concept by promoting on a large scale the smart metering;
- operational performance improving;
- distribution service quality increasing;
- distribution network losses reduction.

■ Distribution activity

ANRE has issued documents for the regulatory framework that requires additional efforts from distribution operators in order to comply with the new requirements:

a) Regulations regarding tariffs:

- **The distribution tariffs approved for the year 2021**
 - the **Orders no. 220, 221 and 222/9 December 2020** were approved by ANRE, the average regional tariffs for DEER having the following increases compared to 2020 tariffs: MN +9.2%; TN +2.4%; TS +8.6% (the 2020 tariffs refers to the three DSOs, before the merger). ANRE approved the reductions of the distributed electricity quantities forecasted for 2021 (according to the DSOs requests) and the postponement of the RRR correction for the year 2020 in the distribution tariffs for 2022.

▪ **Substantiation of distribution tariffs for the year 2022**

- On 1 July 2021, DEER sent to ANRE substantiation data for the 2022 distribution tariffs. Adjustments were requested on voltage levels and areas, in order to ensure the attenuation, until the end of RP4, of the currently existing differences between the regional tariffs.

▪ ANRE approved the **Order no. 3/20 January 2021** regarding the amendment of the *Methodology for distribution tariffs setting* approved by ANRE Order no. 169/18 September 2018:

- granting a 2% additional incentive to RRR for investments in the electrical distribution network made with own funds within projects in which European non-reimbursable funds were also attracted, if the investments were made and put into operation by operators after 1 February 2021;
- if for certain assets categories, the primary legislation establishes other regulated depreciation periods than those provided by the Methodology or by the Catalogue for the classification and normal useful lives of fixed assets, approved by Government decision, the annual regulated depreciation related to those fixed assets is calculated based on the regulated depreciation periods established by the primary legislation.

▪ **ANRE Order no. 101/30 september 2021** regarding the amendment and completion of the *Methodology for the distribution service tariffs setting* – in force since **1 October 2021**:

- **network losses price:** (i) ANRE is entitled to correct the distribution tariffs projection for a regulatory period or for one year, if significant price variations on the electricity market are observed, which lead to a significant change in distribution service costs; (ii) at the justified request of the DSO, the t+1 year regulated income may include an adjustment of the regulated network losses cost forecast for the respective year, by changing the reference price, depending on the prices evolution on the electricity market and the result of the analysis on the tariffs evolution for the current regulatory period.
- **personnel costs** - at the DSO request, accompanied by supporting documents, ANRE may accept in the regulated income for t+1 year a variation of the personnel costs previously approved, generated by the appearance of unforeseen conditions at the costs forecast substantiation and approval moment;
- **destination of non-household consumption place** - DSO are obliged to ascertain the non-compliance with the obligation of non-household users to maintain the destination of a consumption place, in this case users are obliged to return the design and execution works value paid by the DSO, and DSO excludes the respective assets from RAB;
- **connection works borne by users** - fixed assets put into operation in t year as a result of the connection works paid by users are not included in the RAB, but they are recognized in the regulated income for t+1 year by including one fifth of the refundable value;
- at the gross profit from other unregulated activities computation, the value related to the accounting depreciation of non-BAR fixed assets that were financed from own sources and for which the DSO has assigned the right of use to a third party are taken into account.

▪ **Order to postpone the approval of 2022 network tariffs** - public debate:

- ANRE proposed to suspend the application of the Methodology for the distribution tariffs setting regarding the approval of the distribution tariffs for 2022;
- the distribution and transport tariffs approved for 2021 are applicable until 31 March 2022;
- the network operators' income differences resulted in the 1 January - 31 March 2022 period will be recovered according to the Methodology;
- ANRE establishes and approves tariffs for the distribution and transport service related to the 2022 year applicable starting 1 April 2022.

b) Investments Procedure▪ **ANRE Order no. 19/16 March 2021** - in force since **19 March 2021**:

- the amendment considers the establishment of the DSO obligation to carry out the connection works to the final customers, **additionally to the annual investment plan**.

c) Licenses▪ **Regulation for granting licenses and authorizations for the electricity sector** - amends Order no. 12/2015 - **public debate**:

- DSOs have the obligation to send to ANRE, **until 31 December 2022**, the information they have regarding the **low voltage power lines**, as well as the power connections mentioned in the specific conditions associated with the licenses, in the national stereographic coordinates system 1970, information presented in GIS (Geographic Information System) vector, according to the scheme published on the ANRE website;
- attaching a set of data related to the presented spatial data, which includes the value and inventory number of ETN/EDN components, necessary for ANRE to verify the fixed assets resulting from the completion of investments made by licensees in order to recognize them in the Regulated Assets Base.

d) Smart metering systems (SMS)▪ ANRE approved **Order no. 94/18 August 2021** for the amendment and completion of the *Framework Conditions for drafting the electricity smart measurement systems implementation calendar at national level* approved by **ANRE Order no. 177/2018** - in force starting with 1 January 2022:

- The value of the "annual average of the daily success rates of data transmission from meter to HES/MDMS" indicator is at least 80%. The indicator taken into account is computed annually on each transformation station in the areas where the SMS has been implemented. In case of non-fulfillment of this condition, ANRE proceeds to the non-recognition of the depreciation costs and profitability corresponding to the equipment that ensures the transmission of the data related to the respective transformation stations, for the respective year;
- The DOs have the obligation to fulfill the annual targets provided in the SMS implementation schedule approved at national level, in proportion of at least 90% regarding the total number of users provided for integration, respecting all the areas planned for integration in the respective period;
- The invoicing of the distribution service will be performed based on the measurement data registered by SMS for the users whose consumption/production and consumption places are integrated in SMS;
- The installation of meters that can be integrated in the SMS when connecting new users should be done only for consumption/production and consumption places located in areas where the SMS implementation is scheduled in the next 5 years.

e) Technical regulations**Network connection**▪ **ANRE Order no. 16/10 March 2021** - amendment of the *Regulation on connecting users to electricity networks of public interest* (ANRE Order no. 59/2013) - in force since 16 March 2021:

- the introduction of provisions regarding reinforcement works - the introduction of the DSO's obligation to recalculate the value of the connection tariff component;
- elimination of the ANRE endorsement of the procedures regarding the users' connection to the network;

- clarification of the termination circumstances of the effects of the framework convention for the handing over of user-financed connection facilities in their ownership.
- **ANRE Order no. 17/10 March 2021** - The procedure *regarding the connection to the electricity networks of public interest of the consumption places belonging to the non-household final customers type users through connection installations with lengths up to 2,500 meters and household customers* - revision of ANRE Order no. 183/2020 - in force since 16 March 2021:
 - the inclusion of household customers in the category of those for which the DSO have the obligation to finance and carry out the design and execution works of the connection installation;
 - the possibility for household and non-household customers to conclude the agreement for the connection installation design and execution directly with a certified economic operator chosen by them;
 - the application of the procedure also for the consumption places with storage facilities or consumption and production places, with or without storage facilities, provided with installations for the production of electricity from renewable sources (prosumers);
 - applies to:
 - a. household users who have submitted connection requests to the concessionaire distribution operators after 19 December 2020;
 - b. to non-household final customers type users, who submitted connection requests to the concessionaire distribution operators after 30 July 2020.
- **ANRE Order no. 45/2021** - amendment of the *Regulation on connecting users to electricity networks of public interest* - in force since 23 June 2021:
 - Elimination of the user's obligation to send to the network operator (NO), through the documentation attached to the connection request, the approved zonal urban plan („PUZ”) or the approved detailed urban plan („PUD”), if it was requested by the urbanism certificate.
- **ANRE Order no. 53/2021** for the approval of *the Methodology for evaluating the financing conditions of the investments for the localities' electrification or for the electricity distribution networks' extension* approved by ANRE Order no. 36/2019 - in force since 28 June 2021:
 - also applicable if an association of public authorities requests the DSO to develop the electricity network of public interest in order to connect based on regional development and urbanism plans;
 - the definition of electricity distribution networks' extensions has been modified, by eliminating the phrase "urban" from its content;
 - for the situation in which the public authority/user/group of users decides to fully finance the investment, it was explicitly introduced, besides the term for returning the operators' co-financing quota, also the term for taking over by the network operator the elements related to the returned quota. It is mentioned that this completion is an explanation because the restitution of the quota is done simultaneously with the takeover;
 - clarifications were made regarding the value of the quota returned to the public authority/user/group of users, in case they decide to fully finance the investment, by establishing the quota based on the minimum between the value of works according to the DSO offer and the value of works specified in the reception documents for the works' commissioning;
 - for the situation in which the public authority/user/group of users decides to fully finance the investment, it was specified that the technical project and the request for proposal are carried out by them, with an economic operator certified by ANRE;

- based on the technical project and the request for proposal, the public authority/user/group of users carries out the works regarding the development of the electricity distribution network for electrifying the localities or for extending the electricity distribution networks with an economic operator certified by ANRE.
- **ANRE Order no. 85/2021** - Order for the amendment and completion of *ANRE Order no. 74/2014 for the approval of the Framework Content of the technical connection approvals (TCA)* - in force from 6 July 2021:
 - the elimination of the DSO's obligation to send to ANRE reports regarding the users' appeals regarding the issuance of TCA.
- **Draft order** for the approval of the *Procedure regarding the determination of the available capacity in the electrical networks for the connection of new electricity production installations* - public debate:
 - the obligation that the activity to be performed entirely by Transelectrica staff;
 - the information necessary for the 110 kV level calculations to be provided to TSOs by the distribution operators that manage the respective networks;
 - the way of determining the available capacities to be established in each node of the network, and at the distribution network level, in each node of the network for the 110 kV level and on the concession area;
 - TSO obligation to elaborate a procedure necessary for the information exchange between TSO and DSO, as well as for the calculations made on the basis of this information;
 - the determination principles and the mandatory criteria that the calculation method must meet;
 - the obligations regarding the available capacity publication and the published information using method;
 - implementation schedule of this new activity containing the responsibilities of network operators and clear deadlines that ensure the data determination and publication on TSO website.

Prosumers

- **ANRE Order no. 15/10 March 2021** - Procedure regarding the *connection to the electricity networks of public interest of the consumption and production places belonging to the prosumers who have installations for electricity production from renewable sources with the installed power of at most 100 kW/consumption place* - in force since 16 March 2021:
 - considering the legislative amendments brought by Law no. 290/2020, in force since 19 December 2020, it was necessary to revise the previously proposed form regarding the DSO's obligations to finance and realize the design and execution works of the connection installations for non-household final customers, through connection installations with lengths up to 2,500 meters and the design and execution of connection installations for household customers.
- **ANRE Order no. 50/2021** for the *approval of the trading rules for the electricity produced in power plants from renewable sources with installed power of up to 100 kW belonging to prosumers* - in force since 1 July 2021:
 - repeals the ANRE Order no. 226/2018;
 - revised as a result of the amendments brought by Law nr. 155/2020 and Ministry of the Environment, Waters and Forests Order no. 121/2021 amending the *Financing Guide of the Program regarding the installation of photovoltaic panel systems for electricity production, in order to cover the necessary consumption and the surplus delivery in the national network*, approved by Ministry of Environment Order no. 1287/2018;
 - elimination of the reporting models from Annexes 1 and 2 of the ANRE Order no. 226/2018, with their full takeover in the draft revision order of ANRE Order no. 195/2019.

- **ANRE Order no. 52/2021** for the approval of the *Methodology for monitoring the system for promoting the electricity from renewable energy sources production (RES)* - in force since 1 July 2021:
 - repeals the ANRE Order no. 195/2019;
 - systematization of data collection by integrating the information and data contained in the regulations in the field of electricity promotion in RES;
 - completing the data necessary to be collected for the monitoring of the promotion system for the electricity produced in RES power plants with installed electrical power of at most 100 kW belonging to prosumers, through a dedicated software interface directly on the ANRE website;
 - introduces the DSO obligation to publish on their website, on a monthly basis, information on the prosumers connected to the electricity grid;
 - introduces the obligation of the DSO and TSO, as appropriate, to publish on their website, on a monthly basis, the information on technical connection approvals, connection contract and connection certificates issued in the previous month for power plants belonging to the producers of electricity from renewable energy sources (E-RES) and prosumers.

Distribution service performance standard

- **ANRE Order no. 46/15 June 2021** for the approval of the *Distribution Service Performance Standard* - in force since 1 July 2021:
 - the standard imposes additional obligations for the DSOs, and in order to fulfill them, additional investments and the increase of operating expenses will be necessary;
 - the obligation of the DSO to monitor the short interruptions, and to grant compensations for non-compliance with the imposed thresholds: HV=300 RON (>10 interruption/year), MV =10 RON (>10 interruption/week), LV=5 RON (>10 interruption/week);
 - the obligation to comply with the 90 day deadline for commissioning a connection, including the reception and commissioning of the connection installation, the compensation for non-compliance being 100 RON;
 - the obligation of the DSO to ensure, starting with 1 January 2022, reduced voltage deviations for LV level (from +10% to +5% of the nominal voltage value, monitored weekly), the compensations being for legal entities: HV - 270 RON, MV and LV - 130 RON (for each monitoring period), and for individuals: HV - 270 RON, MV and LV - 70 RON (for each monitoring period);
 - setting an implementation calendar for the quality analyzers, so that 100% of the power stations will be monitored with the help of this equipment until the end of 2026, respectively 100% of the transformation stations until 1 January 2028. This implementation program is correlated with the provisions of the SM implementation schedule;
 - setting intervals for the reception of telephone calls made by network users through the call centers managed by distribution operators, namely:
 - a) maximum 30 seconds from the call initiation by the user until it is taken over, without the intervention of the human operator;
 - b) maximum 180 seconds from receiving the call for the user to be able to select the option to transfer the call to a human operator;
 - c) maximum 20 minutes from taking over the call to start the user's conversation with a human operator.

- **Draft order amending the Performance Standard for the distribution service** - public debate:
 - provides obligations regarding the reading and ensuring access to historical consumption data for users integrated in SMS, and for exceeding the reading period or lack of access to historical consumption data, compensation is provided, as follows:
 - ✓ The index reading interval of the measuring group by the DSO is the one provided in the electricity distribution/supply contracts and can be longer than one month, but must not exceed six months, and in the case of prosumers, the periodicity of the measurement group index reading is one month.
 - ✓ Compensations granted for exceeding the deadlines for the measuring group index reading for: (i) users, other than prosumers - RON 100 regardless of the voltage level; (ii) prosumers - RON 30 regardless of the voltage level; (iii) lack of access for more than one month to historical consumption data of users benefiting from SMS - RON 30 on the LV level.

Commercial Regulations

- **ANRE Order no. 25/2021** regarding *the amendment of the Framework Contract for the distribution service* - in force since 1 July 2021:
 - in the process of changing the supplier, for the small household and non-household customers, the measurement group index reading for settlement related to a consumption place is performed by the DSO, if the final customer does not send the self-read index;
 - the DSO has the obligation to inform the supplier about the change of the measuring group reading period at least 60 days before the change date;
 - within maximum two months from the entry into force of this order, the DSO and the electricity suppliers update the electricity distribution service contracts according to the provisions of the framework contract from the Annex no. 1 to the ANRE Order no. 90/2015, with subsequent amendments and completions.
- **ANRE Order no. 82/2021** for the amendment and completion of the *Regulation for the supply of electricity to final customers*, approved by ANRE Order no. 235/2019 and the abrogation of ANRE Order no. 130/2015 regarding the approval of the *Procedure regarding the electricity supply of the DSO own consumption places* - in force from 1 July 2021 (except for the provisions of art. I points 25-27, 33 and 34 which enter into force on 1 January 2022):
 - in case of the electricity supplier change, the customers can communicate to the new supplier the self-read index at the date of sending the change of supplier notification; the supplier has the obligation to take over and send to the DSO the index self-read by the final customer; the self-read index is taken into account by the DSO when setting the electricity consumption in the process of changing the supplier;
 - if the final customer does not send the self-read index, the DSO has the obligation to read the index of the measuring equipment in the period between the date of sending the supplier change notification and the date of the actual change of the supplier;
 - the DSO has the obligation to create and maintain in the database, for each consumption place, for each month from the period January - December, information on the estimated active electricity consumption, established as appropriate, based on: (i) consumption of electricity recorded at the consumption place in the similar period of the previous year or of the determined electricity consumption taking into account the most recent readings made by the DSO; (ii) the specific consumption profile, determined by the DSO for the respective category of final customer if there is no consumption history for the place of consumption.
 - the DSO has the obligation to allow free access to all electricity suppliers to the data in the database and to inform them on how to access the data;
 - **until 1 November 2021**, the DSOs have the obligation to make available to the electricity suppliers the consumption data provided in the order and to publish on its own web pages information regarding the way of accessing these data;

- **starting with 1 January 2022**, in the case of consumption places for which consumer agreements are concluded, the distribution service invoicing will be performed by the DSO, based on these agreements, if there is no index for these consumption places read by the DSO or by the end customer.

Compliance Regulation

- **ANRE Order no. 97/8 September 2021** on the approval of the *Regulation on establishing the compliance program and designating the compliance agent by the electricity/natural gas distribution operators and by the natural gas storage operators that are part of a vertically integrated economic operator* - effective starting 1 January 2022:
 - designation, approval and activity of the compliance agents - DSO will send to ANRE the compliance agent nominations until 1 November 2021, respecting the following conditions: (i) at least three years before the date of designation as compliance agent and for the entire period for which a compliance agent is appointed, not to have held/not to hold any professional position or responsibility, interest or business relationship, directly or indirectly, with the vertically integrated economic operator or with any part of it; (ii) have at least five years of experience in the field of electricity/natural gas;
 - setting the drafting manner and of the content of the compliance programs drawn up by the DSO for electricity/natural gas, respectively for the natural gas storage;
 - the implementation of the measures provided in the compliance program and monitoring the application of the compliance programs, respectively of the measures therein.

e) Primary legislation:

- On 24 July 2020, the **Law no. 155/24 July 2020** was approved for *amending and completing Law no. 123/10 July 2012*:
 - DSO has the obligation to ensure the financing and realization in 90 days of the non-household customers' connections, having a length lower than 2,500 m.
- On 19 December 2020, the **Law no. 290/15 December 2020** entered into force for the *amendment and completion of Law 123/10 July 2012*:
 - The DSO obligation to finance the connection works of the household customers and the recovery of the connection costs through the distribution tariffs, with a depreciation period of 5 years, in accordance with ANRE regulations.
- **Energy law no. 123/2012** - public debate:
 - new attributions of the Ministry of Energy (ME) - approves the investment plans of TSO and DSOs ensuring the concordance with the provisions of the energy strategy and of the National Integrated Plan in the field of Energy and Climate Change (NIPECC) 2021-2030; approves the reliability standard, issues authorizations for the establishment of new production capacities based on the ME procedure issued on the basis of the ministerial order;
 - directly negotiated bilateral transactions can be concluded on the wholesale market in all time intervals; in order to issue the regularization invoice for the final household customer, the DSO has the obligation to ensure the measuring group index reading at a time interval of maximum three months;
 - **household customers connection** - upon commissioning the connection works, DSO will reimburse the applicant the effective value of the connection design and execution works, up to an average value of a connection, established according to a methodology approved by ANRE. The assets resulting from the connection works become the property of the distribution operator from the moment of commissioning,

through the effect of this law, at the value reimbursed to the household customer, being recognized by ANRE as part of the regulated assets base;

- **non-household customers connection** - the value of the connection works, including those for the design of the connection commissioned, is fully financed by the customers. The assets resulting from the connection works enter the distribution operator patrimony from the moment of commissioning, through the effect of the present law, without being recognized by ANRE as part of the regulated assets base - in case the final customers do not have SMS, DSO provides them with individual conventional meters that accurately measure their real consumption. DSO ensures that end customers have the possibility to easily read their conventional meters, either directly or indirectly, through an online interface or another appropriate interface that does not involve physical connection to the meter.
- **GEO no. 84/2021** - in force starting with 6 August 2021:
 - repeals the provision of art. 72, paragraph (1) from GEO nr. 70/2020, according to which DSOs and TSO ensure the continuity of electricity supply during the state of alert;
 - the cessation of services providing corresponding to the non-payment of outstanding debts cannot be made earlier than 90 days from the entry into force of GEO no. 84/2021.
- **Law no. 259/29.10.2021** for the approval of GEO no. 118/2021 regarding the establishment of a compensation scheme for the electricity and natural gas consumption for the 2021-2022 cold season:
 - for the support scheme amounts regularization, the electricity/natural gas distribution operators have the obligation that, between April - June 2022, in addition to the readings established according to the regulations in force, to read the meter index of final customers who have benefited from the support scheme and to communicate to the electricity/natural gas suppliers their measurement data.

f) European legislation

- The European Parliament approved in June 2019 the European regulations included in the “**Clean Energy for All Europeans**” Program, which includes the following documents:
 - **Regulation no. 941/2019** on risk-preparedness in the electricity sector;
 - **Regulation no. 942/2019**, establishing the European Union Agency for the Cooperation of Regulators;
 - **Regulation no. 943/2019** on the internal electricity market - applied starting with 1 January 2020, without the need to transpose into national legislation;
 - **Directive no. 944/2019** on common rules for the internal electricity market; is applied starting with 1 January 2021, after transposition into national legislation, the provisions with impact being:
 - ✓ Network losses (NL) - each distribution system operator acts as a neutral market facilitator in procuring the electricity needed to cover NL, in accordance with transparent, non-discriminatory, and market-based procedures, when it has such a function;
 - ✓ at least 80% of final customers must have smart meters by 2024;
 - ✓ by 2026, the technical process of changing the supplier should be possible to complete within 24 hours;
 - ✓ Citizens' energy communities (CECs) have access to all markets, either directly or by aggregation, in a non-discriminatory way.
- The Ministry of Economy and the Ministry of European Funds establish the architecture of the EU financing programs for 2021-2027, so that the Romanian energy sector enters the path of the 'Green Deal'.

g) Alignment with the European legislation - EU Regulation no. 943/2019:**15 minutes settlement**

- **ANRE Order no. 27/31 March 2021** - ANRE orders amendment - settlement interval (SI) to 15 minutes - in force since 1 April 2021:
 - the amendment of ANRE orders containing references to trading/delivery/settlement intervals lasting one hour, with the intent to modify by using the phrase "settlement interval" and setting the duration of this interval to 15 minutes. The settlement interval is one hour until 1 July 2021, respectively 15 minutes, starting with 1 July 2021.

Electricity market functioning

- **ANRE Order no. 26/31 March 2021** for the *amendment of art. VII of the ANRE Order no. 65/2020* - in force since 1 April 2021:
 - long-term supply contract means any contract with a delivery duration equal to or higher than one month.
- **Draft order approving the balancing clauses and conditions** - public debate – phase III:
 - the purchase by the TSO, on the European trading platforms for balancing energy, of energy from the balancing service providers from EU member countries;
 - separate activation by direction of the balancing energy from the frequency restoration reserve with automatic activation (RRFa = the new term used to define the secondary setting);
 - the use of standard balancing energy products within each European balancing energy platform, which have the same static characteristics for all balancing service providers from each EU member state;
 - considering, in the internal balancing market settlement, the unintentional electricity trade between state members;
 - the emergence of the capacity market for frequency recovery reserves (RSF = the new term used to define the setting);
 - the network operator (NO) collaborates and elaborates, following a public consultation process, a unique procedure regarding the way of establishing, verifying, confirming by the involved parties and of implementing the aggregation method of the measured values related to a BRP, which each NO then publishes on its own website within three months from the order publication;
 - enters into force starting with 1 October 2022.
- **Draft order** for the approval of the *Rules of suspension and restoration of market activities and applicable settlement rules*:
 - determining the situations and conditions in which TSO can suspend market activities with diminishing the impact on the coupling of DAM and IM energy markets;
 - identification of the market activities that can be suspended and of their suspension and restoration procedure: stages, role and responsibilities TSO/designated electricity market operator/involved factors;
 - the communication procedure detailing the tasks and actions to be performed by each party;
 - the suspension during the collapse period and the restoration from collapse of NES of all contracts on the wholesale market (including transactions concluded on DAM and IM), and the sale/acquisition will be made at a single restoration price, respectively the settlement method applicable in these situations, the payments and the settlement contesting mechanism;
 - the order will be applied starting with 1 October 2022, the date from which the ANRE Order no. 23/2016 is repealed.

■ Investments

- In the first nine months of 2021, Distribuție Energie Electrică România (DEER) made and put into operation investments amounting to RON 271.4 mn, representing 48.6% of the commissioning program value planned for 2021 (RON 558.4 mn, of which RON 549.1 mn plan for 2021, and RON 9.3 mn reported values related to 2020; RON 265.1 mn were achieved from 2021 plan and RON 6.3 mn recoveries related to 2020). In addition to these values, the commissioning plan for 2021 includes connection works resulted from legislative amendments of approx. RON 104.1 mn, the total commissioning plan reaching RON 662.5 mn; from the connection works, investments of 0.3 mn were made and put into operation.
- The investment plans were prepared in accordance with the requirements provided by ANRE in the "*Procedure regarding the elaboration and approval of the investment programs of the concessionary economic operators of the electricity distribution service*" approved by ANRE order no. 204/14 November 2019 with subsequent amendments and completions.

Supply segment

■ Key Projects

- Starting from the significant changes in the energy market regarding the regulatory framework and growing competition, EFSA finished an ambitious internal transformation project which set to successfully meet the current and future challenges, and which mainly targeted the internal reorganization of the company, in terms of internal and external work processes and streamlining the customer experience in all points of contact, as well as the development of new skills specific to the sales area.
- In the first stage, the project focused on developing the sales strategy and in the second stage, the effort focused on internal processes, systems and technology improvement, and, naturally, on upgrading organizational structures.
- During 2020, EFSA continued to implement the redefinition and adaption processes to the current challenges of the energy market, by optimizing and rethinking its activities, in order to provide the company's customers with services at the highest professional level. In the first 9 months of 2021, EFSA continued its efforts to transform the internal processes in the sales and customer relations areas, focusing on digitization and automation.
- The current priorities in the supply segment are:
 - improving operational performance;
 - speeding up the digitization of main business workstreams;
 - continuous development of value-added products and services;
 - increasing the quality of supply service.

■ Regulatory framework

a) Primary legislation

During January – September 2021, the following normative acts were adopted, with an impact on the electricity and gas supply activity:

- **Law No. 226/2021** *regarding the setting of social protection measures for the vulnerable energy consumers:*
 - will enter into force on 1 November 2021;
 - the financial measures provided for the protection of the vulnerable consumers are: the aid for house heating during the cold season, i.e. 1 November – 31 March (max. 500 RON/month for electricity, respectively 250 RON/month for natural gas); the energy supplement granted throughout the year (30 RON/month for lighting, respectively 70 RON/month if the only energy source used is electricity, and 10 RON/month for natural gas); the amounts corresponding to both types of aid are transferred directly to the suppliers and deducted from the invoice;
Consumers who meet the income eligibility criteria benefit from the financial protection mentioned above. Thus, the average net monthly income up to which the heating aid is granted is 1,386 RON/person, in the case of family, and 2,053 RON, in the case of single person.
- **Government Emergency Ordinance (GEO) No. 118/2021** on establishing a compensation scheme for the consumption of electricity and natural gas during the 2021-2022 cold season, approved with amendments by **Law No. 259/2021:**
 - the support scheme will be applied for the November 2021 - March 2022 period and was established in the context of the price increase on the electricity and natural gas markets at international level, as well as the effects generated by these increases for the Romanian population;
 - the following consumer support mechanisms are provided:
 - ✓ compensation for household customers provided if they fall within the maximum consumption limits set for the entire application period ((i.e. 1,500 kWh for electricity, and 1,000 m³ for natural gas), respectively monthly, and within the reference price set at 0.68 RON/kWh for electricity, respectively 125 RON/MWh for gas; the compensation amounts to 0.291 RON/kWh for electricity, respectively 33% of the natural gas invoice;
 - ✓ exemption from the payment of regulated tariffs, other contributions and excise for SMEs, individual medical practices and other liberal professions, micro-enterprises, authorized individuals, individual enterprises, family enterprises (i.e. regulated tariffs for introduction/ removal from the network, distribution tariff, system services tariff, transport tariffs, green certificates, high efficiency cogeneration contribution and excise – for electricity; transmission costs, distribution tariff and energy tax – for natural gas);
 - ✓ capping of end-user price at maximum 1 RON/kWh, of which the price component of electricity of max. 0.525 RON/kWh for electricity, respectively no more than 0.37 RON/kWh, of which the natural gas price component of max. 0.250 RON/kWh for natural gas for household customers, public and private hospitals, public and private educational units and nurseries, non-governmental organizations, religious units, public and private social services providers;
 - ✓ suspension of invoices payment - upon request, only for vulnerable consumers, for a period of minimum 1 month and maximum 6 months;
 - mechanisms are also provided for the support schemes amounts' settlement from the state budget to the electricity and natural gas suppliers.
- **Government Decision No. 1077/2021** for the approval of the *Preventive action plan regarding the the security guarantee measures of natural gas supply in Romania:*
 - no substantial elements of novelty compared to the previous Plan are provided;
 - the particular obligation of the suppliers remains to guarantee the natural gas supply continuity to the protected clients in the three cases of gas supply crisis provided, respectively to the household customers, SMEs and essential social services providers, thermal energy producers, which cannot run on other fuels

and which deliver heating to the mentioned protected customers; practically, their natural gas supply cannot be interrupted.

Regarding the legislation related to the energy sector, in the context of the COVID-19 pandemic, the Government has decided to successively extend the state of alert initially established in 2020 (by Decision No. 394/2020), with 30 days each time, as follows: starting with 13 January 2021, by GD No. 3/2021; starting with 12 February 2021, by GD No. 35/2021; starting with 14 March 2021, by GD No. 293/2021; starting with 13 April 2021, by GD No. 432/2021; starting with 13 May 2021, by GD No. 531/2021; starting with 12 June 2021, by GD No. 636/2021; starting with 12 July 2021, by GD No. 730/2021; starting with 11 August 2021, through GD No. 826/2021; starting with 10 September, by GD No. 932/2021; starting with 10 October, by GD No. 1090/2021.

Correlatively, until 6 August 2021, this implied the application of the measures with impact on the electricity and natural gas supply activity (i.e., the obligation of the transmission and distribution operators of electricity and natural gas to ensure the continuity of service supply, and, in case a situation of disconnection occurs, the postponement of performing this operation until the end of the state of alert).

As of 6 August 2021, when GEO No. 84/2021 had been enforced, the prohibition to disconnect electricity and gas customers during the state of alert had been removed. Regarding the supply cessation in case of non-payment of the outstanding debts, according to GEO no. 84/2021, this measure will not be able to be taken earlier than 90 days from the entry into force of GEO no. 84/2021.

b) Secondary legislation:

During the first 9 months of 2021, at the level of the regulatory framework, there were changes and completions in the following areas of activity and regulation:

Liberalization of the electricity market

- **ANRE Order no. 5/2021** amending the *ANRE Order No. 171/2020 for the approval of the suppliers of last resort (SoLR) electricity supply conditions* and for amending and supplementing *the Framework agreement for the supply of electricity to SoLR household customers*, approved by *the ANRE Order No. 88/2015*:
 - it includes provisions regarding the discount the SoLRs can grant to household customers who choose a competitive supply agreement. This discount, equal to the difference between the price in the universal service offer applicable between 1 January - 30 June 2021 and the price in the competitive offer with the lowest value, available on 20 January 2021, applies for the period from 1 January 2021 and until at least 30 June 2021;
 - New information obligations have been introduced for SoLRs for household customers from their own portfolio:
 - ✓ until 30 June 2021, accompanying each invoice issued: an information regarding the regulated tariffs' elimination, as well as an offer selection form, in the form established by ANRE, containing the competitive offer with the lowest value, a competitive alternative offer and the universal service offer, offers applicable in the first semester of 2021, as well as the value of the commercial discount granted and the application period, if applicable;
 - ✓ between 1 May - 30 June 2021, monthly: a competitive offer and the universal service offer, valid as of 1 July 2021;
 - ✓ in the second semester 2021, accompanying each invoice issued: notification regarding the regulated tariffs' elimination.

- **ANRE Order no. 6/2021** for the amendment of the *Regulation for the electricity SoLR designation, approved by ANRE Order No. 188/2020*:
 - the definition of the non-household customers under supply of last resort regime (LR) has been modified, as to include the customers who are taken over because there is no other supply source ensured, as well as those who request the supply in LR regime.

Retail electricity/gas market – commercial regulations

- **ANRE Order no. 82/2021 and no. 91/2021** amending and supplementing *the Regulation on the supply of electricity to final customers*:
 - the amendments/completions are applicable, as a general rule, from 1 July 2021, and, as an exception (e.g., the new provisions regarding the settlement of customer complaints regarding the invoice, payment of compensations due based on the Performance Standard), from 1 January 2022;
 - the changes concern mainly: the content and publication of the offer and the supply contract (it must include all the price elements and it is published, cumulatively, in the ANRE Price Comparator, on the website and at the single point of contact), the determination method of the consumption for invoicing in the absence of the read/self-read index (estimation of consumption by the supplier based on the most recent readings or consumption from the previous similar period being allowed only until the end of 2021, afterwards will be made exclusively based on the consumption agreement issued by the distributor and concluded with the final customer by the supplier), the supply agreement conclusion – necessary documents (i.e. the ownership deed is no longer mandatory, being replaced with a declaration on own responsibility on the ownership right over the consumption place), settlement of invoice-related complaints and the supply contract termination for non-payment of the invoices (without being mandatory the consumption place disconnection), completing the mandatory content of the disconnection notice.
- **ANRE Order no. 83/2021** approving *the Performance Standard for the electricity/gas supply activity*:
 - the Regulation is common for electricity and gas, replaces the standards in force for the two areas and is applicable from 1 January 2022, except for the provisions regarding the reception of telephone calls through call center (applicable from 1 July 2023, respectively from 1 January 2024 regarding the compensations payment);
 - 11 guaranteed quality indicators are established regarding the response times to requests related to: supply offer communication; supply contract conclusion; amendment/completion of the supply contract; invoices; supply interruption/limitation at the consumption place, as the case may be, requested by supplier; resumption of supply at the consumption place, whose interruption/limitation was ordered by the supplier, subject related to the field of activity of the network operator; communication of responses received from the network operator; supplier change process; supply activity, other than those expressly provided; the response time of a telephone call made through call center service;
 - for each quality indicator, ANRE has established a guaranteed level that the suppliers have the obligation to respect and for whose non-compliance the suppliers will automatically/legally pay compensations to all categories of final customers;
 - a manner of evaluating by ANRE the activity carried out by the suppliers is introduced, through a scoring system established considering the degree of observance of the quality indicators guaranteed levels, classification that will be made public through the ANRE Price Comparator;
 - in conclusion, by comparison with the current standards: the scope was extended in terms of automatic payment of compensations to all categories of customers, several guaranteed quality indicators were introduced (11 compared to 8 for electricity, respectively 4 for natural gas, currently), the compensation

levels for natural gas have been doubled/tripled, the suppliers' classification manner according to the level of compliance with the guaranteed quality indicators has been introduced.

Wholesale electricity/natural gas market

- **ANRE Order no. 7/2021** approving the *Regulation on the organized framework for trading standardized products on the centralized natural gas markets managed by Romanian Commodities Exchange S.A.:*
 - the Regulation includes trading rules for the centralized markets related to short, medium and long-term products, as well as flexible medium and long-term products.
- **ANRE order no. 26/2021** for the amendment of *ANRE Order No. 65/2020 regarding the amendment and completion of certain ANRE orders:*
 - in the application of the EU Regulation no. 943/2019 provisions on the internal electricity market (relating to the over-the-counter sale of energy), the long-term supply contract was redefined as any contract with a delivery duration greater than or equal to one month (compared to one year, according to previous regulations);
 - the above-mentioned contracts are concluded in compliance with the competition rules and are reported according to the provisions of the *EU Regulation on the integrity and transparency of the energy wholesale market* (REMIT).
- **ANRE Order no. 27/2021** on amending and supplementing *of certain ANRE orders:*
 - in the implementation of the European rules regarding the settlement interval at 15 minutes, nine regulations have been modified that establish trading rules on the centralized term markets for electricity, in which the reference to the *duration of one hour* will be replaced with the reference to the *settlement interval*, and this duration of the settlement interval should be one hour until 1 July 2021, respectively 15 minutes starting with 1 July 2021.
- **ANRE Order no. 33/2021** regarding the amendment and completion of ANRE Order no. 213/2020 for the approval *of the Regulation for the calculation and settlement of the balance responsible parties' imbalances - single imbalance price:*
 - the new rules apply starting with 1 June 2021;
 - the calculation method for determining the imbalance and the payment obligations/collection rights used in the imbalance price formula is replaced, with the values for these exchanges received by TSO from the European platform; the remuneration way for the electricity produced in production capacities/electricity storage installations that are in the trial period is modified.
- **ANRE Order no. 37/2014** for the abrogation *of the Regulation on the organization and functioning of the electricity Day Ahead Market (DAM), respecting the mechanism of markets price coupling and the amendment of some normative acts that regulate the electricity DAM:*
 - the repeal enters into force on 17 June 2021 and occurs in the context of the application of harmonized norms at European level in order to unify the day ahead markets.
- **ANRE Order no. 30/2021** regarding the amendment and completion *of the Methodology for regularizing the differences between the allocations and the quantities of distributed natural gas approved by ANRE Order no. 16/2020:*
 - the new rules apply in the process of gas system balancing and regulate the situation in which a distribution operator does not transmit to a network user the differences between the allocation and the distributed quantities and/or the differences between the final monthly allocation and the sum of the daily allocated

quantities, as well as the specification of the weighted average price that applies in case the distribution contract terminates during the respective gas year.

- **ANRE Order No. 96/2021** on amending and supplementing the *Regulation on calculation and settlement of imbalances for the balancing responsible parties – single imbalance price*, approved by ANRE Order No. 213/2020:
- the changes concern the following updates: imbalances determining method; of the formulas for determining the initial deficit and surplus prices determining formulas; the deadlines for the submission by Transelectrica of the preliminary and final data regarding the unintended exchanges settlement; of the formulas regarding the costs/revenues and actual costs determination for the balancing energy.

Renewable energy sources, green certificates, prosumers

- **ANRE Order no. 9/2021** establishing the mandatory green certificate (GC) purchase quota for 2020:
 - the quota has been set at 0.45074 GC/MWh (as compared to 0.45061 GC/MWh estimated quota for 2020 and 0.433548 GC/MWh mandatory quota for 2019).
- **ANRE Order no. 15/2021** for the approval of the *procedure regarding the connection to the public interest electricity networks of the consumption and production places belonging to the prosumers who own installations for the electricity production from renewable sources with the installed power of at most 100 kW/consumption place*:
 - the regulation is relevant for the electricity supplier as it can carry out, on behalf of the prosumer, the connection related procedures, i.e., the transmission of the connection request, of the notification for connection work execution to the DSO, and of the request for the prosumer quality certification.
- **ANRE Order no. 50/2021** for the approval of the *rules for the sale of electricity produced in power plants, from renewable sources, with installed electrical power of no more than 100 kW belonging to prosumers*:
 - the new rules are applicable from 1 July 2021;
 - it is introduced, compared to the previous division into natural persons prosumers and legal persons prosumers, the division into natural persons prosumers with max. 27 kW installed power, respectively individual prosumers over 27 kW and max. 100 kW and legal entities max. 100 kW, in application of the provisions regarding: determining the quantity of electricity that benefits from the special applicable price, transmitting the measurement data by invoice or according to the sale-purchase contract concluded with the supplier and regularization in the invoice or between invoices.
- **ANRE Order no. 52/2021** for the approval of the *Methodology on monitoring the promoting system of the electricity production from renewable energy sources*:
 - the new Methodology is applicable from 1 July 2021;
 - it is taken over from the *Rules for selling electricity produced by prosumers* and completed, both in terms of transmission methods and content, the obligation of suppliers to submit monthly to ANRE information on sales-purchase contracts concluded with prosumers.

Regulated tariffs and other taxes and contributions

- **ANRE Order no. 10/2021** regarding the amendment of the ANRE Order no. 214/2020 on the approval of the *average tariff for the transmission service, of the components of the transmission tariff for the insertion of*

electricity in the network (TG) and for the extraction of electricity from the network (TL), of the tariff for the system service and of the regulated price for reactive electricity practiced by Transelectrica S.A.:

- the new tariffs are applicable from 1 March 2021;
 - transmission tariff – introducing electricity into the network component - $T_G = \text{RON } 1.3/\text{MWh}$ (same level as before);
 - transmission tariff – electricity extraction from the network component - $T_L = \text{RON } 19.22/\text{MWh}$ (same level as before);
 - system service tariff = $\text{RON } 10.82/\text{MWh}$ (lower by 9.5% compared to the previous level).
- **ANRE Order no. 21/2021** for the abrogation of the ANRE Order No. 14/2019 on the approval of the *Methodology establishing the regulated tariffs for the provision of underground natural gas storage services*:
 - the Order aims the implementation of the amendments brought in 2020 to the *Law on electricity and natural gas No. 123/2020, with subsequent amendments and completions*, according to which, after 2020-2021 extraction cycle, the natural gas storage will no longer be a regulated activity;
 - therefore, starting with 1 April 2021, the underground natural gas storage service tariffs are no longer regulated by ANRE, but established by the storage operators, and the access to the storage depots (i.e. the related conditions) will be negotiated between the storage operators and users.
 - **ANRE Order No. 111/2021** for the amendment of ANRE Order No. 123/2017 on the approval of the high efficiency cogeneration contribution:
 - The new contribution, in force from 1 November 2021, is included in the final end-user electricity price, and is by approx. 50% higher than previous applicable value (i.e. 0.02554 RON/kWh from 0.01712 RON/kWh).

Investigation on the energy market

- **ANRE Order no. 22/2021** on amending and supplementing the *Regulation for the organization and development of the investigation activity in the field of energy regarding the functioning of the wholesale energy market, approved by the ANRE Order No. 25/2017*:
 - the amendments to the Regulation refer to, among others, the procedure for resolving complaints/notifications, providing the data, information and documents requested by ANRE, the rights of the investigation team members in relation to the market participants.

Natural gas supply license - validity conditions

- **ANRE Order no. 24/2021** on amending and supplementing *certain ANRE orders*:
 - changes to the Validity Conditions associated to the natural gas supply license have been approved: e.g. obligation to notify ANRE, within 5 working days, for any changes of the name, headquarters or contact data; elimination of the obligation to notify ANRE on the decisions to change/establish/dissolve the main or secondary headquarter/headquarters, the single points of contact, the regional/local information points; completing the ways of communicating with or transmitting information to ANRE (e.g. including magnetic support - CD/DVD/memory stick transmitted/deposited at the ANRE registry; by uploading on the ANRE website etc.).

- **ANRE Order no. 42/2021** on the approval *of the Framework conditions for validity associated with the license for the activity of natural gas trader:*
 - the rights and obligations of the natural gas trader license holders are established, with the mention that the trader license is absolutely necessary only in the case of exclusive development of this activity, otherwise, the natural gas supply license also allows the trading activity.

Electricity smart metering systems (SMS)

- **ANRE Order No. 94/2021** on amending and supplementing the *Framework conditions for preparing the implementation schedule of electricity smart metering systems at national level*, approved by ANRE Order No. 177/2018 and for the amendment of ANRE Order No. 88/2015 for the approval *the Framework contracts for the supply of electricity to household and non-household customers of last resort suppliers, the general conditions for the supply of electricity to final customers of last resort suppliers, the electricity invoice and the electricity consumption agreement model, used by suppliers of last resort:*
 - the amendments and completions with impact on the suppliers' activity, applicable from 1 January 2022, concern the following aspects: processing of personal data, collected and transited through the SMS (with prior consent of the customer, which, in case of contracts with network regulated services included, have to be obtained by the supplier); informing users about the integration of the consumption place in the SMS (which shall be carried out by the SoLRs for their customers, by sending them a related annex to the supply contract); invoicing of the consumption/production and consumption sites integrated in SMS (which shall be carried out by the SoLRs for their customers solely based on the data registered by the SMS, with a single derogation); invoicing of the energy distribution service for the consumption places registered in SMS (which will be done exclusively based on the measurement data registered by SMS).

Unbundling of gas activities

- **ANRE Order ANRE nr. 93/2021** for the amendment of the *Regulation on the accounting separation of activities carried out by licensees in the gas sector*, approved by ANRE Order No. 21/2020:
 - of interest are the provisions regarding the activity of natural gas supply of last resort (activity not regulated in the conditions of the current regulations of ANRE, in force from 2020), in connection with which the obligation to keep separate accounting records and to send the correlative reports to ANRE is conditioned by its realization at regulated prices.

2.2. Summary of financial indicators

A summary of the main financial indicators is presented below:

- In the nine month period ended 30 September 2021, EBITDA decreased to RON 475.1 mn, by RON 354.2 mn, as compared with the same period of 2020;
- The capital expenses in the first nine months of 2021 were of RON 297.2 mn, decreasing by approx. 28.7%, compared to RON 416.5 mn in 9M 2020, correlated with the annual evolution of the approved investment plans value and the investment plan allocation throughout the year;
- The operating profit in 9M 2021 is of RON 115.6 mn, recording a fall of 74.9% as compared with the same period of the previous year, when the Group recorded an operating profit of RON 461.3 mn, mainly due to the rise in the electricity purchase prices on the electricity supply segment, following the complete liberalization of the electricity market, but also to the non-recurring effect from 2020 consisting in the recovery of the differences of electricity purchase costs from the previous periods on the regulated supply segment and the recognition of income from the reversal of the impairment adjustments for uncollected VAT related to uncertain receivables from Oltchim, following the VAT adjustment;
- The cost of electricity purchased increased by RON 648.4 mn, or 23.4%, to RON 3,422.6 mn in the nine month period ended 30 September 2021, compared to RON 2,774.2 mn recorded in the comparative period, mainly as a result of the increase in the electricity purchase price on the supply segment;
- In 9M 2021, the revenue from the electricity supply segment increased by RON 383.5 mn y-o-y, or 10.4%, to RON 4,066.6 mn (out of which RON 4,045.2 mn external revenues), mainly as a result of rising selling prices; the contribution of the electricity supply segment to the Group's consolidated revenue is of 80.6%;
- Revenue from the distribution segment fell by RON 97.2 mn, or 4.8%, to RON 1,925.9 mn (out of which RON 938.4 mn external revenues), compared to 9M 2020; the contribution of the electricity distribution segment to the Group's consolidated revenue is of 18.7%.

3. Organizational Structure

3.1. Group Structure

As of 30 September 2021, the most significant shareholder of ELSA is the Romanian State, represented by the Ministry of Economy, Energy and Business Environment, holding 48.79% (31 December 2020: 48.79%).

Presentation of Group subsidiaries

Subsidiary	Activity	Registration code	Headquarters	% shareholdings as of 30 September 2021
Distributie Energie Electrica Romania S.A. („DEER”)	Electricity distribution in geographical areas Transilvania Nord, Transilvania Sud and Muntenia Nord	14476722	Cluj-Napoca	99.99999929%
Electrica Furnizare S.A. („EFSA”)	Electricity and natural gas supply	28909028	Bucharest	99.9998415011992%
Electrica Serv S.A. („SERV”)	Services in the energy sector (maintenance, repairs, construction)	17329505	Bucharest	99.99998095%
Electrica Productie Energie S.A.	Production of electricity	44854129	Bucharest	99.9920
Electrica Energie Verde 1 S.R.L.* („EEV1” – former Long Bridge Milenium SRL)	Production of electricity	19157481	Bucharest	100%*

Source: Electrica

*indirect shareholding - Electrica Energie Verde 1 SRL is 100% owned by the EFSA subsidiary

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, Dambovit, Braila, Galati and Vrancea counties), ensuring the service of the network users by operating installations that function at voltages ranging from 0.4 kV to 110 kV (power lines, substations and electrical transformer stations).

The distribution operator for the three regions - TN, TS and MN, invoices the electricity distribution service to electricity suppliers (mainly to EFSA subsidiary, the main electricity supplier in North Muntenia, North Transylvania and South Transylvania), which further invoices the electricity consumption to end consumers.

EFSA is a supplier of electricity in the competitive market and is also a designated supplier of last resort (SoLR) at national level.

The SoLR ensure the supply of electricity to final customers who benefit, under the law, from universal service, non-household customers who have not exercised their eligibility and non-household customers taken over because the supply of electricity is not ensured from any other source.

Regarding the electricity production segment, it is represented by the EEV1 subsidiary, which owns a photovoltaic park in Stanesti, Giurgiu county, with an installed capacity of 7.5 MW (operating capacity limited to 6.8 MW). To this were added, starting with July 2021, three production park projects, purchased by ELSA (two photovoltaic - with an installed capacity of 86 MW and a wind farm with an installed capacity of 121 MW, with an attached electricity storage capacity of 60 MWh).

3.2. Key information by segments

SUPPLY SEGMENT

Market data (according to ANRE Report for July 2021)

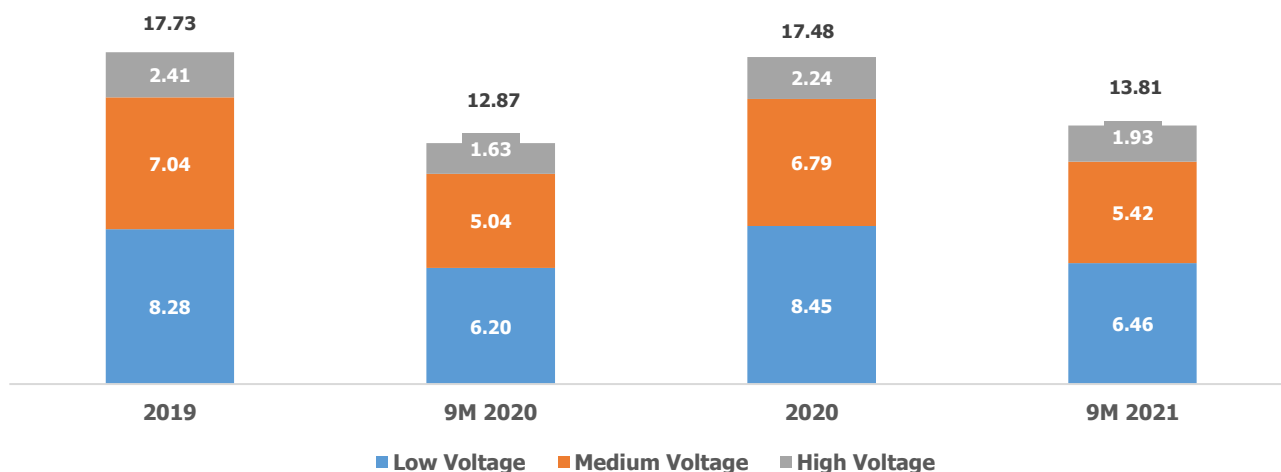
- The supply market comprises both the competitive segment and the universal service segment (US) and supplier of last resort (SoLR) (before market liberalization at 1 January 2021, the US and SoLR segment was represented by the regulated segment)
- The US and SoLR segment comprises six suppliers of last resort, while the competitive market segment comprises 90 suppliers (including those of last resort active in the retail market competitive segment, of which 83 are relatively small - less than 4% market share)
- EFSA has a market share of 18.16%; is the market leader on the US and SoLR market, with a market share of 30.81%, while for the competitive market had a share of 11.59%. By comparison, at December 2020, EFSA had a market share of 54.56% on the regulated market and a 10.86% market share on the competitive market (December 2020 ANRE report)
- In 9M 2021, the Group supplied 6.9 TWh of electricity to approx. 3.5 mn consumption places (both in last resort and universal service regime and on the competitive market), representing an 1.3% increase y-o-y.

DISTRIBUTION SEGMENT

Information for the period ended 30 September 2021

- The estimated Regulated Assets Base (RAB) at the end of 9M 2021 was RON 5.8 bn
- 200,774 km of electric lines – 7,600 km for High Voltage ("HV"), 46,403 km for Medium Voltage ("MV") and 146,771 km for Low Voltage ("LV")
- Total area covered: 97,196 km², 40.7% of Romania's territory
- 3.8 mn users at the end of 9M 2021 for the distribution activity
- 13.8 TWh of electricity distributed in 9M 2021, an increase of 7.3% as compared to 9M 2020.

Figure 1: Quantity of electricity distributed on voltage levels (TWh)



Source: Electrica

4. Shareholders' Structure

Until July 2014, the Romanian State, through its representative (currently, the Ministry of Energy), was the sole shareholder of ELSA. As of 4 July 2014, after the Initial Public Offering, the Company's shares are listed on the Bucharest Stock Exchange (BSE – ticker EL), and the Global Depositary Receipts are listed on the London Stock Exchange (LSE – ticker ELSA).

After the secondary public offer that ended on 3 December 2019, during which a total number of 208,554 new shares were subscribed, with a nominal value of RON 10 and a total nominal value of RON 2,085,540, the ownership structure according to the Central Depository records (Romanian: Depozitarul Central) as of **30 September 2021**, is the following:

Shareholder	Number of shares held	Percent of the share capital	Shares with voting right	Percent of shares with voting right
Romanian State through the Ministry of Energy	169,046,299	48.7948%	169,046,299	49.7850%
The European Bank for Reconstruction and Development	17,355,272	5.0096%	17,355,272	5.1112%
Electrica (no voting rights)	6,890,593	1.9890%	0	0.0000%
Bank of New York Mellon – GDRs	2,707,556	0.7815%	2,707,556	0.7974%
Other legal persons	134,426,677	38.8019%	134,426,677	39.5893%
Individual persons	16,017,200	4.6233%	16,017,200	4.7171%
TOTAL	346,443,597	100.0000%	339,553,004	100.0000%

Source: Central Depository, Electrica

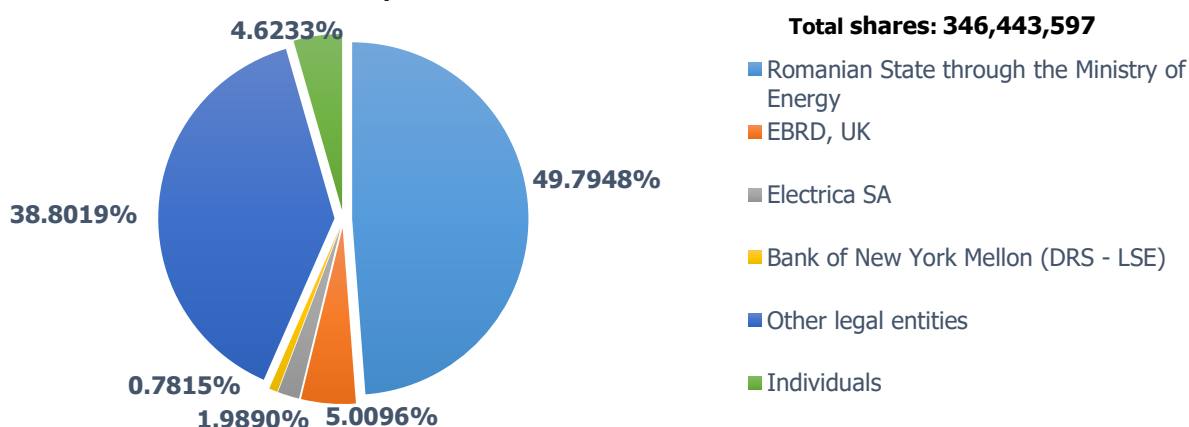
Note 1: The total shares with voting rights - 339,553,004, representing the total number of shares (346,443,597) without the number of own shares held by Electrica (6,890,593), for which the voting right is suspended

Note 2: Paval Holding, NN Group NV and Allianz SE own, directly or indirectly, between 5% and 10% of the total number of shares with voting right

The shares presented to be held by the Bank of New York Mellon represent the global depositary receipts (GDRs) owned by ELSA shareholders that are traded on the London Stock Exchange (LSE). A global depositary receipt represents four shares. The Bank of New York Mellon is the depositary bank for these securities.

Following the stabilization process after the June 2014 IPO, ELSA owns 6,890,593 of its shares, representing 1.989% of the total share capital at 31 December 2020, with suspended voting rights, which does not entitle ELSA the right to receive dividends.

Figure 2: Shareholders' Structure as of 30 September 2021



Source: Electrica

5. Operational Results

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

Indicator	30 September 2021 (unaudited and not reviewed)	30 September 2020 (unaudited and not reviewed)	Variation (%)
Revenues	5,017.5	4,776.5	5.0%
Other income	142.9	118.4	20.7%
Electricity and natural gas purchased	(3,422.6)	(2,774.2)	23.4%
Construction costs related to concession agreements	(279.4)	(494.8)	-43.5%
Employee benefits	(596.9)	(565.5)	5.6%
Repairs, maintenance, and materials	(66.1)	(70.1)	-5.8%
Depreciation and amortization	(361.3)	(367.2)	-1.6%
(Impairment)/ Reversal of impairment for trade and other receivables, net	(72.6)	69.8	-
Gain from bargain purchase of subsidiaries	-	7.6	-
Other operating expenses	(245.7)	(239.1)	2.8%
Operating profit	115.6	461.3	-74.9%
Finance income	2.5	7.8	-67.9%
Finance costs	(19.8)	(18.4)	7.6 %
Net finance cost	(17.3)	(10.6)	63.0%
Profit before tax	98.4	450.6	-78.2%
Income tax expense	(26.3)	(54.5)	-51.7%
Profit for the period	72.0	396.2	-81.8%

Source: Electrica

Key financial indicators for the period ended 30 September 2021:

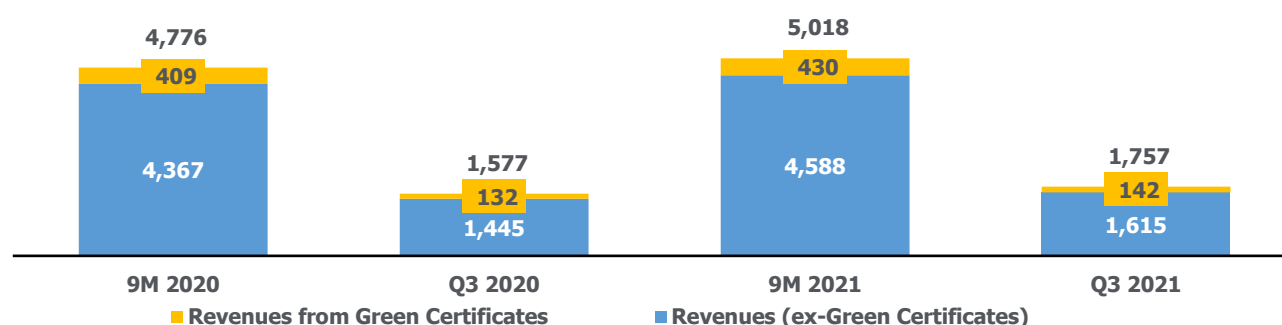
- **Revenues: RON 5 bn**, a 5% increase as compared with 9M 2020;
- **EBITDA: RON 475.1 mn**, a RON 354.2 mn, or 42.7%, decrease compared to same period of last year;
- **EBIT: RON 115.6 mn**, a RON 345.7 mn y-o-y fall;
- **EBT: RON 98.4 mn**, drop by RON 352.2 mn compared with 9M 2020;
- **Net result: profit of RON 72 mn**, RON 324.2 mn y-o-y decrease.

Revenues and other income

Electrica's revenues and other income in the nine-month period ending 30 September 2021 and 30 September 2020 amounted to RON 5,160.4 mn and RON 4,894.9 mn, respectively, representing an increase of approx. RON 265.5 mn, or 5.4%; the variation is generated mainly by the revenues' evolution, the other operating income recording an increase of approx. RON 24.5 mn.

Revenues

Figure 3: Revenue for 9M 2021/Q3 2021 and comparative information (RON mn)



Source: Electrica

The revenues increased by RON 241 mn, or 5%, being the net effect of the following main factors:

- increase of RON 383.5 mn on the supply segment;
- RON 97.2 mn decrease of the distribution segment's revenues;
- internal evolution, inside the Group: the revenues between subsidiaries increased by RON 69.8 mn, having an unfavorable impact at consolidated level;
- increase of RON 21.4 mn on the external electricity network maintenance segment, mainly due to the presentation of SERV revenues within this operational segment, starting with 2021, as a result of the merger of SEM and SERV.

During the nine-month period ended 30 September 2021, revenues from the electricity distribution segment fell by approx. RON 97.2 mn, or 4.8%, to RON 1,925.9 mn, from RON 2,023.1 mn in the same period of the previous year, as a result of the following factors:

- favorable impact of approx. RON 143.1 mn, both from the increase in the volumes of electricity distributed by approx. 7.3% and from an average 3.3% rise in the distribution tariffs, compared to 9M 2020;
- negative impact from the evolution of revenues recognized in accordance with IFRIC 12 - the revenues from electricity distribution segment are influenced by the recognition of investments into the network under concession agreements, these revenues decreasing in 9M 2021 by RON 221.8 mn, compared to the same period of the last year;
- negative impact from the changes in the operational segments' structure - following the merger of SEM and SERV in 2020, starting from 2021, SERV revenues are presented in the external electricity network maintenance segment.

Regarding the supply segment, the revenue from the electricity and natural gas supply increased by RON 383.5 mn, or 10.4%, to RON 4,066.6 mn, from RON 3,683.1 mn in 9M 2020.

The variation of the supply segment revenue is mainly driven by the 9.3% retail electricity sale price increase and by the 1.3% rise in the volumes of electricity supplied on the retail market.

During the nine-month period ended 30 September 2021, the GC revenues increased by RON 21.4 mn, or 5.2%, to RON 430.4 mn, from RON 409 mn in the same period of the previous year. The green certificates value included in final consumer invoice, set by ANRE, increased from RON 62.7/MWh in Q3 2020 to RON 64.1/MWh in Q3 2021.

Other income

Other income increased by RON 24.5 mn, or 20.7%, to RON 142.9 mn in the nine month period ending 30 September 2021, from RON 118.4 mn in the same period of the previous year, being mainly the net effect of the increased revenues from compensations received at the supplier contracts termination on the supply segment and of the decrease of ELSA's other income.

Electricity and natural gas purchased

In the first nine months of 2021, the expense with electricity and natural gas purchased increased by RON 648.4 mn, or 23.4%, to RON 3,422.6 mn, from RON 2,774.2 mn in the comparative period.

This variation is mainly generated by the increase of electricity costs on the supply segment, to which is added the increase in the electricity costs needed to cover NL and of the GC purchase costs, the latter having no impact on the result.

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

Nine month period ending 30 September (RON mn)	2021	2020	%
Electricity purchased to cover network losses	531.3	470.8	12.9%
Electricity and natural gas purchased for supply	2,256.6	1,689.4	33.6%
Transmission and system services related to supply activity	204.3	204.9	-0.3%
Green Certificates	430.4	409.0	5.2%
Total electricity purchased	3,422.6	2,774.2	23.4%

Source: Electrica

The cost of the electricity purchased for supply (including transmission and system services) increased by RON 587.9 mn, or 25.5%, to RON 2,891.3 mn in 9M 2021, from RON 2,303.4 mn recorded in the same period of 2020.

The evolution is mainly determined by the electricity purchase prices significant increase, both on the competitive sector and the universal service and supplier of last resort (SoLR) sector, which in 2020, was a regulated segment and was influenced by the recovery, in the form of positive corrections, of some purchase losses from previous years, when the tariffs approved by ANRE were below the actual electricity purchase price, effect that didn't exist in 2021; also, there was a 23.2% increase in the volume of electricity purchased in the competitive segment, compared to the same period of the last year.

In the first nine months of 2021, after the complete liberalization of the energy market, the purchase prices were slightly lower on the universal service and SoLR segment, compared to the competitive one.

This effect was observed especially in the third quarter of the current year when the purchase prices increase was 47% compared to the similar period of 2020.

In the context of liberalization, according to OPCOM data, the purchase price on the Day Ahead Market (DAM) had an ascending trend in 9M 2021, up to historical maximum levels for September 2021. Thus, the trading prices on DAM in September 2021 recorded an increase of 197% compared to September 2020 and 130% compared to the same month in 2019, being the highest trading prices ever recorded at the level of this month.

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

During the nine-month period ended 30 September 2021, the cost of GC increased by RON 21.4 mn, or 5.2%, to RON 430.4 mn, from RON 409 mn in the same period of the previous year.

The variance was mainly influenced by:

- higher supplied volumes, for which there is an obligation to purchase green certificates, by 3.2% (negative impact of RON 13.0 mn);
- 2.2% increase in the GC average purchase price, from RON 139.2/GC in Q3 2020 to RON 142.2/GC in Q3 2021 (negative impact of RON 8.4 mn).

Regarding the distribution segment, in the nine month period ended 30 September 2021, the cost of electricity purchased to cover network losses increased by RON 60.5 mn, or 12.9%, to RON 531,3 mn, from RON 470.8 mn, the evolution being generated mainly by the increase in the electricity purchase prices (negative effect of RON 45.4 mn), and also by higher volumes of electricity needed to cover network losses (negative impact of RON 15.1 mn). The effect of the electricity purchase prices increase for NL was recorded especially in the third quarter when the increase in prices was 36% compared to the same period in 2020.

Construction costs

In 9M 2021, the costs related to concession agreements decreased by RON 215.4 mn, or 43.5%, to RON 279.4 mn, from RON 494.8 mn in the comparative period. The evolution is correlated with the realized investments' one, related to the Regulated Asset Base, and considering the non-recurring effect from 2020, when the assets' value was increased by RON 86,4 mn., following the AMR system transferred from ELSA to the three distribution companies, in the form of a contribution in kind to their share capital.

Employee benefits

The expenses with employee benefits increased by RON 31.4 mn, or 5.6%, to RON 596.9 mn in the nine month period ending 30 September 2021, from RON 565,5 mn in the same period of the previous year, being mainly the net effect of:

- the salary and other benefits increases in the distribution area, as a result of the CLA provisions alignment in the three regions following the merger;
- expenses decrease within the supply company, where in 9M 2021 no additional costs were recorded related to the compensatory payments related to the voluntary leave program within the company, compared to 9M 2020.

Repairs, maintenance and materials

In 9M 2021, the expenses with repairs, maintenance and materials recorded a decrease of RON 4 mn, or 5.8%, compared with the same period of the previous year, mainly due to a lower level of materials and raw materials needed in carrying out the energy services company's activity.

Impairment for trade and other receivables, net

In 9M 2021, the impairment adjustments for the depreciation of trade receivables had a variation of RON 142.4 mn, reaching to a negative impact of RON 72.6 mn, from a positive influence of RON 69.8 mn in the same period of the previous year, being mainly the net effect of:

- impairment adjustments for the trade receivables depreciation, with a negative impact of approx. RON 43.9 mn, recognized for the supply and distribution segments as a result of the receivables' recoverability assessment;
- positive impact of approx. RON 105 mn recorded in 2020, following the reversal of the impairment adjustments for uncollected VAT related to the uncertain receivables from Olchim, which has no corresponding amount in 2021.

Gain from bargain purchase of subsidiaries

During the nine month period ended 30 September 2020, a gain from bargain purchase of subsidiaries of RON 7.6 mn was recognized. This gain, which is a non-recurring element, with no effect in 2021, relates to the acquisition of energy production company Long Bridge Milenium S.R.L. (LBM) shares, currently Electrica Energie Verde 1 S.R.L., and represents the difference between the value paid at the transaction date and the assets and liabilities of LBM.

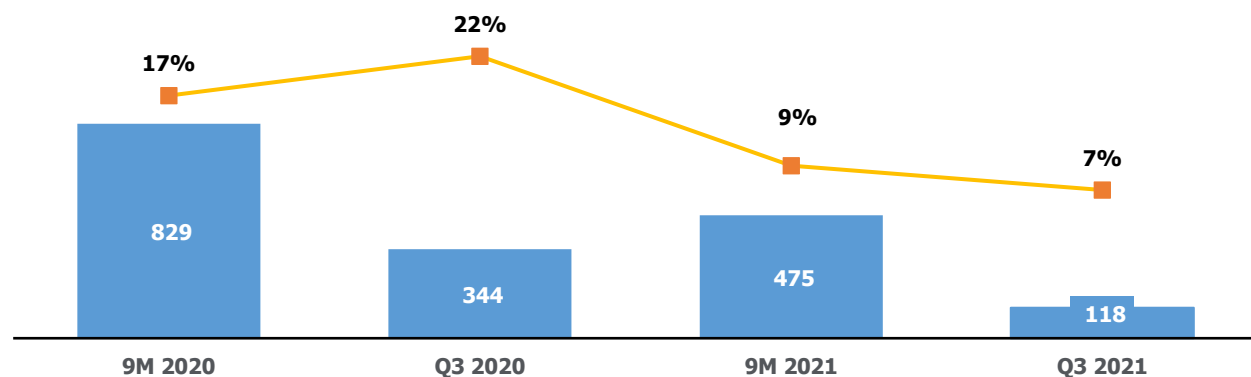
Other operating expenses

In the first nine months of 2021, the other operating expenses increased by RON 6.6 mn, or 2.8%, to RON 245.7 mn, from RON 239.1 mn in the same period of 2020, mainly from:

- the unfavorable effect of the net change in provisions, of approx. RON 8.1 mn, the highest impact being the RON 7.6 mn provision recognized for the supply subsidiary obligations, representing compensations deriving from the application of the Performance Standard for the electricity supply activity provided in ANRE Order no. 6/2017, following the complete market liberalization process started on 1 January 2021, to which a slightly increase in the distribution segment provisions is added;
- the variation of the impairment adjustments for non-current assets, which has a positive impact of RON 2.9 mn in 9M 2021, mainly as a result of the partial reversal of the provisions recorded in the previous years for the Group's assets;
- the operating expenses increase of RON 1.2 mn, compared with 2020.

EBITDA and EBITDA margin

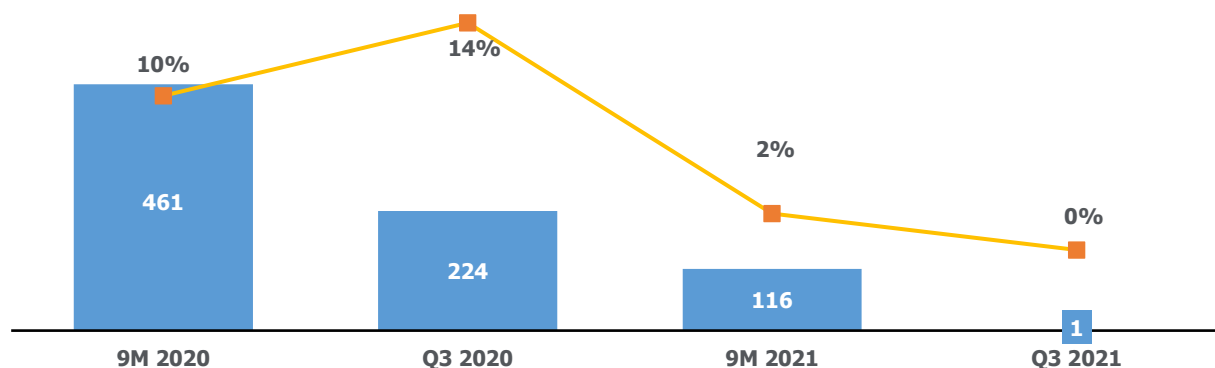
Figure 4: EBITDA and EBITDA margin for 9M 2021/Q3 2021 and comparative information (RON mn and %)



Source: Electrica

Operating result

The Group EBIT decreased by approx. RON 345.7 mn y-o-y, the EBITDA evolution being slightly alleviated by the favorable impact of the depreciation and amortization expense decrease by RON 5.9 mn, or 1.6%.

Figure 5: EBIT and EBIT margin for 9M 2021/Q3 2021 and comparative information (RON mn and %)

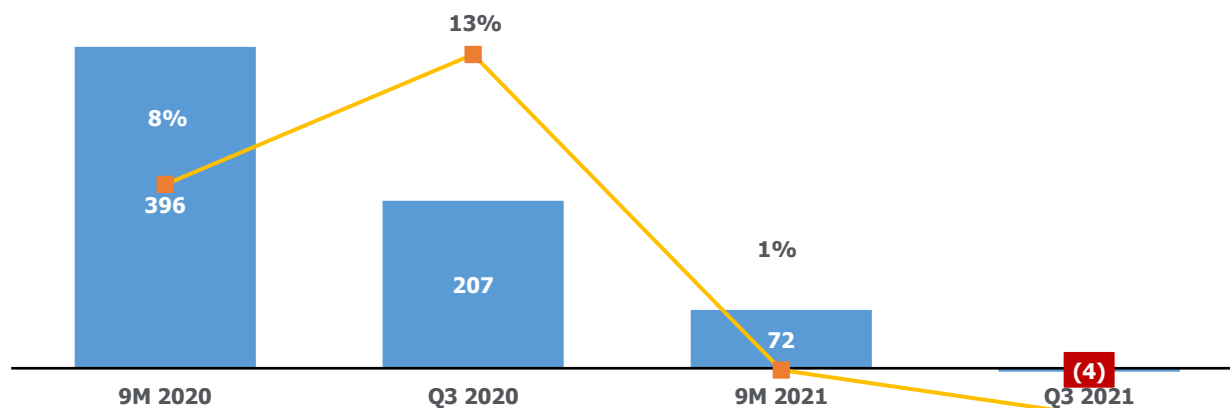
Source: Electrica

Net finance result

The net finance result at Group level decreased by RON 6.7 mn in 9M 2021 compared to the similar period in 2020, mainly as a result of lower finance income.

Net result for the period

As a result of the above described factors, in the nine month period ended 30 September 2021, the net profit decreased by RON 324.2 mn, to RON 72 mn, from RON 396.2 mn in the comparative period.

Figure 6: Net profit and Net profit margin for 9M 2021/Q3 2021 and comparative information (RON mn and %)

Source: Electrica

6. Outlook

The year 2021 is under the strong influence of the public health events, which began in 2020 (the COVID-19 pandemic declared by the WHO on 11 March 2020) and the impact of these events on the business and social environment.

Electrica Group activates in a key economic sector and therefore is closely monitoring both the national and the international context, in order to make the best decisions in the following period and for addressing the challenges on the short and medium term.

Globally, the budgets of countries where the number of pandemic infestations is high and economic sectors such as services, production, transportation, as well as commerce and international trade are affected, all these elements influencing the energy demand, the consumers' behavior, as well as the measures taken by the authorities, both for the energy sector and for the economic environment in general. Disorder of goods flows has increased the degree of uncertainty regarding the supply reliability for some goods and services.

The current strategy of Electrica Group is built on a set of trends and assumptions, and the acceleration of digitalization is considered the necessary premise for achieving its objectives. This aspect is even more important as, during the following period, it is necessary to continue the application of social distancing measures, the need for remote intervention and back-up, as relevant aspects for its activities. Thus, it will continue the efforts already started to support investments in IT tools and automation, both for streamlining processes and for increasing the performance of its distribution networks.

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

- Volatility of electricity price, with an accentuated increasing trend - correlation of exogenous factors to the industry - tightening of the environmental conditions in which producers must operate, limiting primary energy sources through imperative policies, the lack of policies to stimulate the emergence of new producers – as well as some endogenous ones - the tendency to sell only for short periods and congestion in the balancing and peak area - accentuates price volatility and the increasing trend;
- The extremely rapid upward evolution of the trading prices in the wholesale market for electricity and natural gas, both in Romania and in the rest of European countries in the first 9 months of 2021, has a significant impact on all market participants and can lead to strategic changes/repositioning for them in the medium and long term;
- Increased competition between the players in the electricity supply market at national level, especially in terms of diversifying the portfolio of products offered to customers (offers for natural gas, insurance, home appliances, energy solutions, technical assistance services etc.) and digital services offered (mobile applications, invoices and online payments, extending the customer service through chat solutions); the supply market liberalization imposed the priorities' rethinking and establishing strategies for maintaining the market share;
- The new legislation introducing provisions related to the non-regulated market transactions, will also influence the electricity market and future strategies of the SoLR regarding portfolios' management. At the same time, the trends to cap the prices to the final consumer, in the case of SoLR, represent a risk that must be properly managed;
- In the electricity distribution area, the regulatory trend is to provide remuneration to the distribution operator considering both the quality of the service, as well as the operational costs and efficiency based on comparative analysis between DSOs. One element that affects and will continue to significantly affect the profitability of distribution companies is the increase in the purchase price of NL, a situation that, until now, has not yet

- entered the analysis of the legislator or of the regulatory authority;
- 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. The recent high price for electricity will increase the consumers interest to independently produce some of the consumed energy, which is an acceleration of trends in this direction. The significant reduction in the cost of photovoltaic technologies is an opportunity for the development of small-scale generation projects, especially in the domestic area;
 - On the long term, full electric vehicles, light commercial vehicles and electrification of railways are expected to increase the consumption of electricity in the transportation sector.
 - Future development of technologies will support energy efficiency policies such as:
 - Development of transmission and distribution networks, including smart grid and smart metering;
 - End-use energy efficiency (thermal integrity of buildings, lighting, electric appliances, motor drives, heat pumps etc.);
 - The smart metering implementation will offer complex tariffs options to the consumers, detailed information regarding the consumption profile, which might lead to increased flexibility and demand reduction during peak periods. Thus, the consumers shall be better informed and involved in decision-making process, as active participants. The smart metering implementation pace depends on the implementation calendar adopted at national level;
 - 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 Europe's internal electricity market, will continue to evolve and be in line with future trends and challenges in the energy industry.

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

Key drivers	Description	Impact on
GDP evolution and industry structure	The economic growth is a determinant factor 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. The increase of electricity consumption was a constant trend in Romania in the last years. The COVID-19 pandemic has temporarily reduced electricity consumption, but the general upward trend will be maintained.	GDP evolution and industry structure
Demographic evolution and technology development	In contrast with the demographic decline recorded at EU and Romanian level, the electricity consumption is positively impacted by the changes in the consumer behavior and the increase in urbanization. For example, the massive increase in the number of connected devices and implicitly, in a less accelerated manner, in the electricity consumption, maintains the increasing trend of consumption. However, due to rising prices, the percentage of the population affected by the energy poverty is expected to increase.	Electricity consumption
Changes in regulatory framework	The regulatory framework has undergone major changes with the aim of aligning 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 a European Energy Union, which highlights the need for integration and cooperation amongst member states. In 2019, the 4th regulatory period began, and ANRE approved significant changes to the Methodology both in 2019 and 2020 for all elements of the tariff (regulated rate of return, regulated assets base, network losses, operating and maintenance expenses, dynamic distribution tariffs starting with 2020).	Electricity prices

Key drivers	Description	Impact on
	In 2020, the most complex process of revision of secondary legislation in recent years (47 regulations) took place in order to align with the amendments of Energy Law, the 15-minute Settlement, financing the connection works of domestic and non-domestic customers with shorter lengths of 2.5 km. For the supply segment, the total liberalization of the electricity market as of 1 January 2021 and the dynamics thus generated among customers and suppliers create implications on energy purchases strategies, sales to end customers, development of new products and services. Also, as a result of the deregulation of end-user prices, the regulatory and monitoring framework shifted towards quality of supply, especially as regards offers, contracts, handling of customers' complaints/requests, etc..	
Technological development	Smart networks and smart meters will create benefits for the end consumers, distribution operators 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.), also considering the management of their impact.	Electricity prices and consumption
Increase in environmental awareness	Romania has adopted the EU 20-20-20 targets, aiming to reduce greenhouse 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.	Electricity prices and consumption, regulatory framework

Source: Electrica

The regulatory framework perspective and the impact on the energy market

The energy regulatory framework has experienced major changes in the past decade, including market liberalization, unbundling and implementation of the support scheme for renewable energy.

For the distribution segment, the significant changes in the Romanian legislation were detailed *at chapter 2.1*. Based on these changes, the expected effects refer to:

- the changes brought by the new methodology for establishing the distribution tariffs and the RRR level, that will generate a negative impact on the operational and financial performances of the DSO, as a result of the ANRE approval of the operating and maintenance costs at a lower level than the necessary costs requested by the DSO, as well as of ANRE annually carrying out the costs and forecast investments corrections.
- the changes brought to the methodology in 2020 regarding the regulation of some aspects in case of mergers, which were materialized through the obligation of the gross benefits annual reporting, as well as of the merger associated expenses;
- investments in electrical distribution network - ANRE approved Order no. 3/20 January 2021 which grants a 2% additional incentive to RRR for investments in electrical distribution network made from own funds in projects in which European non-reimbursable funds were attracted, if the investments were made and commissioned by the operators after 1 February 2021;
- is introduced the DSO obligation to realize, in addition to the investment plan, the connection works of the household and non-household customers;
- ANRE has approved the Performance Standard for the electricity distribution service, which brings additional obligations for the DSO which will lead to operating costs and investments higher than the values approved by ANRE.

The regulatory changes with significant impact in the **supply segment** are the following:

- the total liberalization of the electricity market as of 1 January 2021 and the elimination of regulated electricity tariffs applied for household customers;

- redefining, in application of the EU Regulation 943/2019 provisions on the internal electricity market, regarding the over-the-counter trading of energy, of the long-term supply contract in the sense of reducing it to at least one month (compared to one year according to previous regulations);
- change of the *Electricity Supply Regulation* with impact especially on the content and publication of supply offer and contract, determination of consumption in the absence of read/self-read index, the necessary documents for concluding the supply contract;
- the introduction of the legislation regarding the vulnerable consumer and the compensation of costs for the consumption of electricity and natural gas will have a significant impact on the supply activity, both operationally and financially. The impact of the legislative changes is currently being assessed, already identifying, at the preliminary level, the additional need for financing the growing working capital that will be generated by the capping and compensation scheme for the payment of electricity and natural gas bills for several categories of end customers;
- approval of a new *Performance Standard* for the supply of electricity/gas, applicable as of 1 January 2022, through which: the rules applicable in this field for the electricity and natural gas supply activities were harmonized; in terms of automatic compensation payment, the scope has been extended to all categories of customers; more mandatory quality indicators were introduced, generating compensations for customers in case of non-compliance; the compensation levels for natural gas were doubled/tripled; a suppliers' ranking method was introduced, based on the level of compliance with quality indicators;

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 nine-month periods ending 30 September 2021 and 30 September 2020 amounted to RON 297.2 mn and RON 416.5 mn, respectively.

The volume of investments in the distribution network reflects the Group's effort to accomplish the planned level of investments for 2021, especially in the distribution segment.

The volume of investments had a material impact and, according to Electrica's expectations, will continue to have such impact on Electrica's results of operations, 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 not reviewed or audited for the nine month period ended 30 September 2021 prepared in accordance with the International Accounting Standard IAS 34 – Interim Financial Reporting, provide 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 nine month period ended 30 September 2021, comprises accurate and real information regarding the Group's development and performance.

Chair of the Board of Directors,

Iulian Cristian BOSOANCA

Chief Executive Officer,

Corina Georgeta POPESCU

Chief Financial Officer,

Mihai DARIE

9. Annexes

9.1. Economic and financial indicators of Electrica Group as of 30 September 2021 according to Annex 13/ASF Regulation no. 5/2018

Indicator	Formula	Value
Current liquidity ratio	Current assets/Current liabilities	1.3
Capital Gearing Ratio	Debt/Equity * 100	8.7%
Trade receivables turnover	Average balance trade receivables/Turnover * 90	58 days
Non-current asset turnover ratio	Turnover/Non-current assets	0.8



SOCIETATEA ENERGETICA ELECTRICA S.A.

Condensed Consolidated Interim Financial Statements

as at and for the Nine month period ended

30 SEPTEMBER 2021

prepared in accordance with

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

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS AT AND FOR THE NINE MONTH
PERIOD ENDED 30 SEPTEMBER 2021
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 30 SEPTEMBER 2021

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

	Note	30 September 2021 (unaudited and not reviewed)	31 December 2020 (audited)
ASSETS			
Non-current assets			
Intangible assets related to concession arrangements		5,411,364	5,455,185
Other intangible assets		6,982	7,213
Property, plant and equipment		498,549	508,130
Investments in associates	18	19,481	-
Deferred tax assets		25,755	19,666
Other non-current assets		1,580	1,173
Right of use assets		23,253	27,091
Total non-current assets		5,986,964	6,018,458
Current assets			
Trade receivables	12	1,144,288	1,029,775
Other receivables		29,105	32,460
Cash and cash equivalents		360,081	570,929
Restricted cash		320,000	320,000
Inventories		62,628	70,066
Prepayments		8,904	2,817
Current income tax receivable		4,970	1,837
Assets held for sale		14,931	15,476
Total current assets		1,944,907	2,043,360
Total assets		7,931,871	8,061,818
EQUITY AND LIABILITIES			
Equity			
Share capital		3,464,436	3,464,436
Share premium		103,049	103,049
Treasury shares reserve		(75,372)	(75,372)
Pre-paid capital contributions in kind from shareholders		7	7
Revaluation reserve		105,297	116,372
Legal reserves		392,276	392,276
Retained earnings		1,590,278	1,759,506
Total equity attributable to the owners of the Company		5,579,971	5,760,274
Total equity		5,579,971	5,760,274

(Continued on page 2)

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

AS AT 30 SEPTEMBER 2021

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

	Note	30 September 2021 (unaudited and not reviewed)	31 December 2020 (audited)
Liabilities			
Non-current liabilities			
Lease liability – long term		12,512	16,875
Deferred tax liabilities		190,686	177,787
Employee benefits		155,695	143,876
Other payables	14	32,663	33,873
Long-term bank borrowings	15	475,576	400,296
Total non-current liabilities		867,132	772,707
Current liabilities			
Lease liability – short term		11,370	10,747
Bank overdrafts	13	100,474	164,966
Trade payables		549,732	607,195
Other payables	14	286,252	240,946
Deferred revenue		8,001	5,629
Employee benefits		80,564	92,292
Provisions	16	30,971	19,238
Current income tax liability		3,639	9,211
Current portion of long-term bank borrowings	15	413,765	378,613
Total current liabilities		1,484,768	1,528,837
Total liabilities		2,351,900	2,301,544
Total equity and liabilities		7,931,871	8,061,818

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

12 November 2021

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2021
 (All amounts are in THOUSAND RON, if not otherwise stated)

	Note	Nine month period ended	
		30 September 2021 (unaudited and not reviewed)	30 September 2020 (unaudited and not reviewed)
Revenue	6	5,017,516	4,776,487
Other income	7	142,922	118,377
Electricity and natural gas purchased	8	(3,422,647)	(2,774,216)
Construction costs related to concession agreements		(279,447)	(494,769)
Employee benefits		(596,871)	(565,495)
Repairs, maintenance and materials		(66,123)	(70,136)
Depreciation and amortization		(361,337)	(367,218)
(Impairment)/ Reversal of impairment for trade and other receivables, net	12	(72,649)	69,776
Gain from bargain purchase of subsidiaries		-	7,569
Other operating expenses		(245,716)	(239,111)
Operating profit		115,648	461,264
Finance income		2,496	7,791
Finance costs		(19,771)	(18,407)
Net finance cost		(17,275)	(10,616)
Profit before tax		98,373	450,648
Income tax expense	11	(26,331)	(54,482)
Profit for the period		72,042	396,166
Profit for the period attributable to:			
- owners of the Company		72,042	396,166
Profit for the period		72,042	396,166
Earnings per share			
Basic and diluted earnings per share (RON)	9	0.21	1.17

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

12 November 2021

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2021
(All amounts are in THOUSAND RON, if not otherwise stated)

	Three month period ended	
	30 September 2021 (unaudited and not reviewed)	30 September 2020 (unaudited and not reviewed)
Revenue	1,757,443	1,576,502
Other income	64,376	45,816
Electricity and natural gas purchased	(1,256,097)	(962,083)
Construction costs related to concession agreements	(102,528)	(134,671)
Employee benefits	(206,811)	(189,480)
Repairs, maintenance and materials	(23,672)	(22,297)
Depreciation and amortization	(119,262)	(120,017)
(Impairment)/ Reversal of impairment for trade and other receivables, net	(32,886)	97,567
Gain from bargain purchase of subsidiaries	-	7,569
Other operating expenses	(79,941)	(74,909)
Operating profit	622	223,997
Finance income	389	1,680
Finance costs	(5,984)	(4,784)
Net finance cost	(5,595)	(3,104)
(Loss)/Profit before tax	(4,973)	220,893
Income tax	945	(14,253)
(Loss)/Profit for the period	(4,028)	206,640
(Loss)/Profit for the period attributable to:		
- owners of the Company	(4,028)	206,640
(Loss)/Profit for the period	(4,028)	206,640
Earnings per share		
Basic and diluted earnings per share (RON)	(0.01)	0.61

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

12 November 2021

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2021
 (All amounts are in THOUSAND RON, if not otherwise stated)

	Nine month period ended	
	30 September 2021 (unaudited and not reviewed)	30 September 2020 (unaudited and not reviewed)
Profit for the period	72,042	396,166
Other comprehensive income		
<i>Items that will not be reclassified to profit or loss</i>		
Re-measurements of the defined benefit liability	(5,180)	(751)
Tax related to re-measurements of the defined benefit liability	709	18
Other comprehensive income, net of tax	(4,471)	(733)
Total comprehensive income	67,571	395,433
Total comprehensive income attributable to:		
- owners of the Company	67,571	395,433
Total comprehensive income	67,571	395,433

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

12 November 2021

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2021
(All amounts are in THOUSAND RON, if not otherwise stated)

	Three month period ended	
	30 September 2021	30 September 2020
	(unaudited and not reviewed)	(unaudited and not reviewed)
(Loss)/Profit for the period	(4,028)	206,640
Other comprehensive income		
<i>Items that will not be reclassified to profit or loss</i>		
Re-measurements of the defined benefit liability	-	-
Tax related to re-measurements of the defined benefit liability	-	-
Other comprehensive income, net of tax	-	-
Total comprehensive income	(4,028)	206,640
Total comprehensive income attributable to:		
- owners of the Company	(4,028)	206,640
Total comprehensive income	(4,028)	206,640

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

12 November 2021

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2021
 (All amounts are in THOUSAND RON, if not otherwise stated)

	Attributable to the owners of the Company							
	Share capital	Share premium	Treasury shares reserve	Pre-paid capital contributions in kind from shareholders	Revaluation reserve	Legal reserves	Retained earnings	Total equity
Balance at 1 January 2021 (audited)	3,464,436	103,049	(75,372)	7	116,372	392,276	1,759,506	5,760,274
Comprehensive income								
Profit for the period (unaudited and not reviewed)	-	-	-	-	-	-	72,042	72,042
Other comprehensive income	-	-	-	-	-	-	(4,471)	(4,471)
Total comprehensive income (unaudited and not reviewed)	-	-	-	-	-	-	67,571	67,571
Transactions with owners of the Company (unaudited and not reviewed)								
Contributions and distributions								
Dividends to the owners of the Company	-	-	-	-	-	-	(247,874)	(247,874)
Total transactions with the owners of the Company (unaudited and not reviewed)	-	-	-	-	-	-	(247,874)	(247,874)
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	-	-	-	-	(11,075)	-	11,075	-
Balance at 30 September 2021 (unaudited and not reviewed)	3,464,436	103,049	(75,372)	7	105,297	392,276	1,590,278	5,579,971

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SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2021
 (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 2020 (audited)	3,464,436	103,049	(75,372)	7	87,665	371,833	1,637,909	5,589,527
Comprehensive income								
Profit for the period (unaudited and not reviewed)	-	-	-	-	-	-	396,166	396,166
Other comprehensive income	-	-	-	-	-	-	(733)	(733)
Total comprehensive income (unaudited and not reviewed)	-	-	-	-	-	-	395,433	395,433
Transactions with owners of the company (unaudited and not reviewed)								
Contributions and distributions								
Dividends to the owners of the Company 10	-	-	-	-	-	-	(246,108)	(246,108)
Total transactions with the owners of the Company (unaudited and not reviewed)	-	-	-	-	-	-	(246,108)	(246,108)
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	-	-	-	-	(9,464)	-	9,464	-
Balance at 30 September 2020 (unaudited and not reviewed)	3,464,436	103,049	(75,372)	7	78,201	371,833	1,796,698	5,738,852

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

12 November 2021

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2021
(All amounts are in THOUSAND RON, if not otherwise stated)

		Nine month period ended	
	Note	30 September 2021 (unaudited and not reviewed)	30 September 2020 (unaudited and not reviewed)
Cash flows from operating activities			
Profit for the period		72,042	396,166
Adjustments for:			
Depreciation		15,139	22,395
Amortisation		346,198	344,823
(Reversal of impairment)/Impairment of property, plant and equipment and intangible assets, net		(2,315)	606
Loss/(Gain) on disposal of property, plant and equipment and intangible assets		1,691	(463)
Impairment/(Reversal of impairment) of trade and other receivables, net	12	72,649	(69,776)
Impairment of assets held for sale		426	168
Change in provisions, net	16	11,733	3,628
Net finance cost		17,275	10,616
Gain from bargain acquisition of subsidiaries		-	(7,569)
Corporate income tax expense	11	26,331	54,482
		561,169	755,076
Changes in:			
Trade receivables	12	(192,816)	59,238
Other receivables		(6,274)	3,650
Prepayments		(6,087)	(4,300)
Inventories		7,438	5,260
Trade payables		16,928	(69,753)
Other payables		51,687	(98,033)
Employee benefits		(5,089)	(16,071)
Deferred revenue		2,372	(451)
Cash generated from operating activities		429,328	634,616
Interest paid		(16,785)	(14,090)
Income tax paid		(27,727)	(43,467)
Net cash from operating activities		384,816	577,059

(Continued on page 10)

SOCIETATEA ENERGETICA ELECTRICA S.A.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2021
(All amounts are in THOUSAND RON, if not otherwise stated)

		Nine month period ended	
	Note	30 September 2021 (unaudited and not reviewed)	30 September 2020 (unaudited and not reviewed)
Cash flows from investing activities			
Payments for purchase of property, plant and equipment		(7,556)	(4,751)
Payments for network construction related to concession agreements		(355,451)	(471,920)
Payments for purchase of other intangible assets		(3,124)	(783)
Proceeds from sale of property, plant and equipment		1,350	3,300
Proceeds from deposits with maturity of 3 months or longer		-	66,471
Interest received		1,633	7,273
Net cash effect from gain of control over the acquired subsidiary		-	5,577
Payment for acquisition of subsidiaries			(7,914)
Acquisition of investments in associates		(19,481)	-
Net cash used in investing activities		(382,629)	(402,747)
Cash flows from financing activities			
Proceeds from long-term bank borrowings	15	153,005	251,024
Repayment of long-term bank borrowings	15	(42,621)	(4,898)
Payment of lease liabilities		(11,514)	(23,518)
Dividends paid		(247,413)	(245,578)
Net cash used in financing activities		(148,543)	(22,970)
Net (decrease)/increase in cash and cash equivalents		(146,356)	151,342
Cash and cash equivalents at 1 January		405,963	256,882
Cash and cash equivalents at 30 September	13	259,607	408,224

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

12 November 2021

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2021
(All amounts are in THOUSAND RON, if not otherwise stated)

1 Reporting entity and general information

These financial statements are the condensed consolidated interim financial statements of Societatea Energetica Electrica S.A. ("the Company" or "Electrica SA") and its subsidiaries (together "the Group") as at and for the nine month period ended 30 September 2021.

The registered office of the Company is no. 9, Grigore Alexandrescu Street, District 1, Bucharest, Romania. The Company has sole registration code 13267221 and Trade Register registration number J40/7425/2000.

As at 30 September 2021 and 31 December 2020, the major shareholder of Societatea Energetica Electrica S.A. is the Romanian State, represented by the Ministry of Energy with a share of ownership of 48.79% from the share capital.

The Company's shares are listed on the Bucharest Stock Exchange and the global depository receipts ("GDRs") are listed on the London Stock Exchange. The shares traded on the London Stock Exchange are the global depository receipts, one global depository receipt representing four shares. The Bank of New York Mellon is the depository bank for these securities.

As at 30 September 2021 and 31 December 2020, the Company's subsidiaries are the following:

Subsidiary	Activity	Sole registration code	Head Office	% shareholding as at 30 September 2021	% shareholding as at 31 December 2020
Distributie Energie Electrica Romania S.A. ("DEER")	Electricity distribution in geographical areas Transilvania Nord, Transilvania Sud and Muntenia Nord	14476722	Cluj-Napoca	99.99999929%	100%
Electrica Furnizare S.A.	Electricity and natural gas supply	28909028	Bucuresti	99.9998415011992%	99.9998409513906%
Electrica Serv S.A.	Services in the energy sector (maintenance, repairs, construction)	17329505	Bucuresti	99.99998095%	100%
Electrica Producție Energie S.A	Electricity generation	44854129	Bucuresti	99,9920%	-
Electrica Energie Verde 1 SRL* ("EEV1" – former Long Bridge Milenium SRL)	Electricity generation	19157481	Bucuresti	100%*	100%*

**indirect shareholding - Electrica Energie Verde 1 SRL is 100% owned by the subsidiary Electrica Furnizare S.A.*

As at 30 September 2021, the Company's associates are the following:

Associate	Activity	Sole registration code	Head Office	% shareholding as at 30 September 2021
Crucea Power Park SRL	Electricity generation	25242042	Constanta	30%
Sunwind Energy SRL	Electricity generation	42910478	Constanta	30%
New Trend Energy SRL	Electricity generation	42921590	Constanta	30%

As of December 31, 2020, the Company had no investments in associates.

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2021
(All amounts are in THOUSAND RON, if not otherwise stated)

Changes in Group structure during 2021

Establishment of a new Group's subsidiary

On 6 September 2021, is set up a new legal entity, Electrica Productie Energie S.A., organized as a joint stock company, in which Electrica SA holds a percentage of 99.9920% of the share capital and Electrica Serv S.A. holds a percentage of 0.0080% of the share capital. The object of activity is the production of electricity from renewable sources through the acquisition and development of projects, respectively the operation of electricity generation parks from renewable sources, cumulated with the development and operation of independent storage solutions that it intends to develop in the near future.

Investment in associates

On 28 July 2021 the Board of Directors approved entering into three sale purchase agreements for the acquisition of the following Companies:

- Crucea Power Park SRL which owns the project of the "Crucea Est" Wind Power Plant with a 121 MW projected installed capacity;
- Sunwind Energy SRL which owns the project of the "Satu Mare 2" Photovoltaic Power Plant with a 27.1 MW projected installed capacity;
- New Trend Energy SRL which owns the project of the "Satu Mare 3" Photovoltaic Power Plant with a 59.4 MW projected installed capacity.

The total estimated value of the transaction is EUR 13,200 thousand. The sale purchase agreements concluded as of 28 July 2021 stipulate that at the initial stage, the Group acquires 30% of the share capital of the three Companies, and in the subsequent stages the remaining 70% of the share capital provided that certain conditions stipulated in the sale purchase agreements are met.

As of 30 September 2021, with a 30% shareholding, the Group has a significant influence over the three companies, which are presented as investments in associates. The acquisition value of the 30% shares is RON 19,481 thousand.

The establishment of the new subsidiary together with the investments in the three entities are part of the Electrica Group's strategy which aims to develop a portfolio of electricity generation capacities from renewable sources (wind and photovoltaic) with a cumulative capacity of 400 MW, in parallel with electricity storage capacities with an installed capacity of up to 100 MW.

Changes in Group structure during 2020

Merger of the three distribution companies within the Group

During 2020, the three distribution subsidiaries, Societatea de Distributie a Energiei Electrice Muntenia Nord S.A. ("SDEE Muntenia Nord S.A."), Societatea de Distributie a Energiei Electrice Transilvania Nord S.A. ("SDEE Transilvania Nord S.A.") and Societatea de Distributie a Energiei Electrice Transilvania Sud S.A. ("SDEE Transilvania Sud S.A.") have merged through absorption, the absorbing entity being Societatea de Distributie a Energiei Electrice Transilvania Nord S.A..

Thus, on 31 December 2020, Distributie Energie Electrica Romania SA, formed by the merger of the three former electricity distribution companies was recorded on the National Trade Register Office.

Merger of the two energy services companies within the Group

During 2020, the two energy services companies, Electrica Serv S.A. and Servicii Energetice Muntenia S.A. has merged through absorption, with Electrica Serv S.A. as absorbing company.

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

AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2021

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

Thus, starting with 1 December 2020, the merger between the aforementioned companies was finalised and the Group's energy services will be carried out only under the umbrella of Electrica Serv. The registration on the National Trade Register Office took place on 2 December 2020, the effective date being 30 November 2020.

Both mergers that took place within the Group during 2020 consist only in reorganization of the subsidiaries and have no impact on the consolidated financial statements, Electrica SA remaining the parent company with the same % of ownership.

Acquisition of a photovoltaic park

On 23 June 2020, Electrica Furnizare S.A. signed a sale purchase agreement for the acquisition of 100% of the share capital of Long Bridge Milenium SRL, a company that owns a photovoltaic park located in Stanesti, Giurgiu County, with an installed capacity of MW 7.5 (operational power limited at MW 6.8). The photovoltaic park was built between October 2012 and January 2013 and has been delivering electricity into the national grid since February 2013.

Closing of the transaction and the transfer of shares' ownership to Electrica Furnizare S.A. took place on 31 August 2020.

On 24 November 2020, the company Long Bridge Milenium SRL changed its name to Electrica Energie Verde 1 SRL.

Group's main activities

The main activities of the Group include operation and construction of electricity distribution networks and electricity and natural gas supply to final consumers as well as energy production from renewable sources. 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.

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 228,229,227/16.12.2019			
1 January-15 January 2020			
	High voltage	Medium voltage	Low voltage
SDEE Transilvania Nord S.A.	19.11	65.48	171.98
SDEE Transilvania Sud S.A.	20.69	62.49	169.01
SDEE Muntenia Nord S.A.	16.97	54.09	180.15
Order 8,9,7/15.01.2020			
Starting with 16 January 2020 – 31 December 2020			
	High voltage	Medium voltage	Low voltage
SDEE Transilvania Nord S.A.	18.77	64.31	168.91
SDEE Transilvania Sud S.A.	20.31	61.34	165.90
SDEE Muntenia Nord S.A.	16.68	53.16	177.06
Order 221,222,220/09.12.2020			
Starting with 1 January 2021			
	High voltage	Medium voltage	Low voltage
Transilvania Nord Area	19.23	66.35	173.93
Transilvania Sud Area	22.23	67.47	178.78
Muntenia Nord Area	18.72	56.87	184.75

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2021
(All amounts are in THOUSAND RON, if not otherwise stated)

ANRE Order no. 75/2020 for establishing the regulated rate of return for the electricity and natural gas distribution and transport tariffs until the end of the fourth regulatory period entered into force on 13 May 2020.

Thus, for the year 2020, the regulated rate of return is as follow:

- For the period 1 January 2020 – 29 April 2020: 6.9%;
- For the period 30 April 2020 – 12 May 2020: 5.66% plus an incentive of 1% for new investments made in the electricity distribution network;
- For the period 13 May 2020 – 31 December 2020: 6.39% plus an incentive of 1% for new investments made in the electricity distribution network;

The Methodology for establishing the distribution tariffs approved by ANRE Order no. 169/2018 was modified by ANRE Orders no. 207/2020 and no. 3/2021 as follows:

- granting a 2% RRR incentive for investments in the electricity distribution network financed from own funds in projects in which European non-reimbursable funds are also attracted, if the investments are performed and put into function by operators after 1 February 2021;
- in cases where, for certain categories of tangible/intangible assets, the regulated legislation establishes other regulated useful lives than those provided by the Methodology or in the Catalogue on the classification and normal operating useful lives of fixed assets, approved by Government decision, the annual regulated depreciation of those assets is calculated on the basis of the regulated useful lives established by the primary legislation.

Starting with 16 March 2021, it was approved, by ANRE Order no. 17/2021, the Connection to the Electrical Distribution Network Procedure regarding the connection of the consumption places belonging to the non-household final consumers through connection installations with lengths up to 2,500 meters and household consumers, through which the distribution operators have the obligation to finance and carry out the design and execution works of the connection installation for household consumers with lengths up to 2,500 meters. By referring to the Connection to the Electrical Distribution Network Procedure, ANRE approved the ANRE Order no. 19/20.01.2021, in force on 19 March 2021, by which it modified the Investment Procedure approved by the ANRE Order no. 204/2019 and established the obligation of distribution operators, to carry out the connection works to the final consumers, in addition to the annual investment plan.

Starting with 28 June 2021, ANRE approved the Order no. 53/2021, regarding the changes made in the Methodology for the financing evaluation conditions for the investments in the extension of the electricity distribution networks approved by ANRE Order no. 36/2019.

ANRE approved by Order no. 46/2021 the new Performance Standard for the distribution service, in force starting with 1 July 2021. The standard imposes additional obligations to the distribution operators and in order to fulfil them, additional investments and the increase of operating expenses will be required.

COVID-19 impact

Based on the publicly available information and considering the actions already implemented by the Group, the Group does not anticipate a material negative financial impact of the COVID-19 outbreak on its operations and no significant threat over the Group's ability to continue as a going concern over a period covering at least 12 months from the date of these interim consolidated financial statements has been identified. However, considering the recent developments of the market, the long term effects of the COVID-19 outbreak cannot be reliably estimated currently as the Group cannot preclude the possibility of further lock downs or an escalation in the severity of current measures.

Where it was possible to determine the financial impact based on professional judgment made by management, this has been recognized in the consolidated statement of profit or loss for the nine month period ended 30 September 2021 (see Note 12 for bad debt allowances).

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2021
(All amounts are in THOUSAND RON, if not otherwise stated)

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 2020. 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 2020.

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 12 November 2021.

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, liabilities, income and expenses. 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 2020.

3 Basis of measurement

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

4 Significant accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the Group's annual consolidated financial statements as at and for the year ended 31 December 2020.

The new amendments to existing standards that are effective starting with 1 January 2021 do not have a significant impact over the Group's condensed consolidated interim financial statements.

SOCIETATEA ENERGETICA ELECTRICA S.A.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2021
(All amounts are in THOUSAND RON, if not otherwise stated)

5 Operating segments

(a) Basis for segmentation

The following summary describes the operations of each reportable segment:

Reportable segments	Operations
Electricity and natural gas supply	Buying and supplying electricity and natural gas to final consumers (includes Electrica Furnizare S.A.)
Electricity distribution	Until 31 December 2020, the electricity distribution service included the former Societatea de Distributie a Energiei Electrice Transilvania Sud S.A., Societatea de Distributie a Energiei Electrice Transilvania Nord S.A. and Societatea de Distributie a Energiei Electrice Muntenia Nord S.A., currently Distributie Energie Electrica Romania S.A. (that covers the all three distribution areas: Transilvania Sud, Transilvania Nord and Muntenia Nord), Electrica Serv S.A. and the activity performed by Societatea Energetica Electrica S.A. within the distribution network until June 2020. Starting with 2021, the electricity distribution service includes the activity of Societatea de Distributie Energie Electrica Romania S.A. and the activity performed by Electrica Serv S.A within the distribution network.
Electricity generation	Production of electricity from renewable sources (photovoltaic panels) (includes Electrica Energie Verde 1 SRL and starting with September 2021 includes Electrica Productie Energie S.A.).
External electricity network maintenance	Repairs, maintenance and other services for electricity networks owned by other distributors. Until 31 December 2020, included the activity of Servicii Energetice Muntenia S.A. (until 30 November 2020) and a part of Electrica Serv S.A.. Starting with 2021, includes the activity of Electrica Serv S.A., without the activity performed in the distribution network.
Headquarter	Includes corporate activities at parent company 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 electricity distribution and shared electricity network maintenance services. Inter-segment pricing policy is determined on an arm's length basis.

All assets are allocated to reportable segments, except for investments in associates and deferred tax assets.

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

AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2021

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

(b) Information about reportable segments

Nine month period ended 30 September 2021 (unaudited and not reviewed)	Electricity and natural gas supply	Electricity distribution	Electricity generation	External electricity network maintenance	Headquarter	Total for reportable segments	Consolidation eliminations and adjustments	Consolidated total
External revenues	4,045,155	938,447	4,067	29,847	-	5,017,516	-	5,017,516
Inter-segment revenue	21,460	987,500	747	15,544	-	1,025,251	(1,025,251)	-
Segment revenue	4,066,615	1,925,947	4,814	45,391	-	6,042,767	(1,025,251)	5,017,516
Segment (loss)/ profit before tax	(25,912)	156,733	810	(27,362)	325,354	429,623	(331,250)	98,373
Net finance result	2,105	(51,186)	(579)	656	362,979	313,975	(331,250)	(17,275)
Amortization and depreciation	(10,338)	(340,156)	(1,717)	(7,395)	(1,731)	(361,337)	-	(361,337)
Reversal of impairment of property, plant and equipment, net	-	-	-	137	2,178	2,315	-	2,315
Impairment of assets held for sale	-	-	-	(264)	(162)	(426)	-	(426)
Adjusted EBITDA*	(17,679)	548,075	3,106	(20,496)	(37,910)	475,096	-	475,096
(Impairment)/Reversal of impairment of trade and other receivables, net	(43,808)	(28,647)	-	(264)	70	(72,649)	-	(72,649)
Segment (loss)/profit after tax	(22,977)	125,134	718	(24,935)	325,352	403,292	(331,250)	72,042
Employee benefits	(76,978)	(456,180)	(32)	(38,243)	(25,438)	(596,871)	-	(596,871)
Capital expenditure	6,891	287,831	5	640	1,804	297,171	-	297,171
Nine month period ended 30 September 2020 (unaudited and not reviewed)								
External revenues	3,658,296	1,092,638	1,652	23,901	-	4,776,487	-	4,776,487
Inter-segment revenue	24,793	930,503	-	108	-	955,404	(955,404)	-
Segment revenue	3,683,089	2,023,141	1,652	24,009	-	5,731,891	(955,404)	4,776,487
Segment profit/(loss) before tax	236,764	111,834	1,047	(1,773)	310,177	658,049	(207,401)	450,648
Net finance result	3,410	(47,649)	(363)	(132)	249,088	204,354	(214,970)	(10,616)
Amortization and depreciation	(9,547)	(346,674)	(196)	(811)	(9,990)	(367,218)	-	(367,218)
Reversal of impairment / (Impairment) of property, plant and equipment and intangible assets, net	-	1,297	-	-	(1,903)	(606)	-	(606)
Impairment of assets held for sale	-	(168)	-	-	-	(168)	-	(168)
Adjusted EBITDA*	242,901	505,028	1,606	(830)	72,982	821,687	7,569	829,256
(Impairment)/Reversal of impairment of trade and other receivables, net	(24,329)	(4,434)	-	13	98,526	69,776	-	69,776
Segment profit/(loss) after tax	201,087	90,522	960	825	310,173	603,567	(207,401)	396,166
Employee benefits	(85,378)	(445,821)	-	(12,296)	(22,000)	(565,495)	-	(565,495)
Capital expenditure	1,822	413,491	-	206	1,027	416,546	-	416,546

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

AS AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2021

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

At 30 September 2021 (unaudited and not reviewed)	Electricity and natural gas supply	Electricity distribution	Electricity generation	External electricity network maintenance	Headquarter	Total for reportable segments	Consolidation eliminations and adjustments	Consolidated total
Segment assets	1,163,062	7,184,468	40,339	420,011	898,707	9,706,587	(1,774,716)	7,931,871
Trade and other receivables	984,089	521,970	582	84,630	345,344	1,936,615	(763,222)	1,173,393
Cash and cash equivalents	73,846	142,384	1,752	7,929	134,170	360,081	-	360,081
Restricted cash (short term)	-	-	-	-	320,000	320,000	-	320,000
Trade and other payables and short term employee benefits	1,057,343	473,630	24,239	28,439	110,560	1,694,211	(745,000)	949,211
Bank overdrafts	-	100,474	-	-	-	100,474	-	100,474
Lease liability	3,642	16,701	-	2,786	753	23,882	-	23,882
Bank borrowings	-	889,341	-	-	-	889,341	-	889,341
At 31 December 2020 (audited)								
Segment assets	1,203,027	7,531,380	44,658	98,432	768,206	9,645,703	(1,583,885)	8,061,818
Trade and other receivables	893,180	529,842	109	7,797	165,323	1,596,251	(534,016)	1,062,235
Cash and cash equivalents	185,423	185,498	4,808	1,715	193,485	570,929	-	570,929
Restricted cash (short term)	-	-	-	-	320,000	320,000	-	320,000
Trade and other payables and short term employee benefits	821,440	625,335	27,786	3,579	11,615	1,489,755	(515,449)	974,306
Bank overdrafts	-	164,966	-	-	-	164,966	-	164,966
Lease liability	2,782	23,032	-	354	1,454	27,622	-	27,622
Bank borrowings	-	778,909	-	-	-	778,909	-	778,909

*Adjusted EBITDA (Earnings before interest, tax, depreciation and amortisation or namely EBITDA) for operating segments is defined and calculated as segment profit/(loss) before tax of a given operating segment adjusted for i) depreciation, amortization and impairment/reversal of impairment of property, plant and equipment and intangible assets in the operating segment, ii) impairment of assets held for sale and iii) 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 consolidated amounts

	30 September 2021 (unaudited and not reviewed)	31 December 2020 (audited)
Total assets		
Total assets for reportable segments	9,706,587	9,645,703
Elimination of inter-segment assets	(1,819,952)	(1,603,551)
Unallocated amounts	45,236	19,666
Consolidated total assets	7,931,871	8,061,818
Trade and other receivables		
Trade and other receivables for reportable segments	1,936,615	1,596,251
Elimination of inter-segment trade and other receivables	(763,222)	(534,016)
Consolidated trade and other receivables	1,173,393	1,062,235
Trade and other payables and short term employee benefits		
Trade and other payables and short term employee benefits for reportable segments	1,694,211	1,489,755
Elimination of inter-segment trade and other payables and short term employee benefits	(745,000)	(515,449)
Consolidated trade and other payables and short term employee benefits	949,211	974,306

6 Revenue

	Nine month period ended	
	30 September 2021 (unaudited and not reviewed)	30 September 2020 (unaudited and not reviewed)
Electricity distribution and supply	4,654,879	4,183,857
Construction revenue related to concession agreements	287,831	509,612
Repairs, maintenance and other services rendered	41,385	43,298
Supply of natural gas	32,617	31,560
Proceeds from sale of green certificates from own production of energy	578	1,395
Re-connection fees	204	2,575
Sales of merchandise	22	4,190
Total	5,017,516	4,776,487

In respect to the timing of the revenue recognition, most of the Group's services provided are transferred to the customer over time; thus, revenues amounting to RON 1.662 thousand (nine month period ended 30 September 2020: RON 1,605 thousand) were transferred at a point in time.

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7 Other income

	Nine month period ended	
	30 September 2021 (unaudited and not reviewed)	30 September 2020 (unaudited and not reviewed)
Rental income	68,122	70,953
Revenues from compensations	40,236	13,165
Late payment penalties from customers	13,996	16,585
Revenues from notices	4,258	4,813
Other	16,310	12,861
Total	142,922	118,377

8 Electricity and natural gas purchased

	Nine month period ended	
	30 September 2021 (unaudited and not reviewed)	30 September 2020 (unaudited and not reviewed)
Electricity purchased	2,957,024	2,326,815
Green certificates purchased	430,362	409,045
Natural gas purchased	35,261	38,356
Total	3,422,647	2,774,216

9 Earnings per share

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

Profit for the period attributable to Company's shareholders

	Nine month period ended	
	30 September 2021 (unaudited and not reviewed)	30 September 2020 (unaudited and not reviewed)
Profit for the period attributable to the owners of the Company	72,042	396,166
Profit for the period attributable to Company's shareholders	72,042	396,166

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

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

The weighted average number of outstanding ordinary shares (unaudited and not reviewed) as at 30 September 2021 is of 339,553,004 (30 September 2020: 339,553,004).

Earnings per share

	Nine month period ended	
	30 September 2021 (unaudited and not reviewed)	30 September 2020 (unaudited and not reviewed)
Basic and diluted earnings per share (RON)	0.21	1.17

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10 Dividends

On 28 April 2021 the General Shareholders Meeting of the Company approved dividend distribution of RON 247,874 thousand (2020: RON 246,108 thousand). The dividend per share distributed is RON 0.73 per share (2020: RON 0.7248 per share).

11 Income tax

	Nine month period ended	
	30 September 2021 (unaudited and not reviewed)	30 September 2020 (unaudited and not reviewed)
Current period tax expense	18,812	46,295
Deferred tax expense	7,519	8,187
Total expense related to income tax	26,331	54,482

12 Trade receivables

	30 September 2021 (unaudited and not reviewed)	31 December 2020 (audited)
Trade receivables, gross	2,166,223	1,979,348
Bad debt allowance	(1,021,935)	(949,573)
Total trade receivables, net	1,144,288	1,029,775

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 in the form of lifetime expected credit losses is as follows:

	Nine month period ended	
	30 September 2021 (unaudited and not reviewed)	30 September 2020 (unaudited and not reviewed)
Lifetime expected credit losses		
Balance as at 1 January (audited)	949,573	1,022,140
Loss allowance recognized	83,255	50,130
Decrease in loss allowance	(10,606)	(119,132)
Amounts written off	(287)	(870)
Balance as at 30 September (unaudited and not reviewed)	1,021,935	952,268

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.

In the light of the impact generated by COVID-19 pandemic, the Group has identified the probability of default, taking into account a number of factors to ensure that the classification to default is done not only based on the historical expected credit loss but also based on circumstances according to which economic losses are likely to occur.

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IFRS 9 is based on a set of principles that, by nature are not mechanical and require the application of a certain degree of professional judgement.

In applying IFRS 9 as of 30 September 2021, the Group has considered all the information available without undue costs (including forward looking information) that may affect the credit risk of its receivables since original recognition, thus recording a bad debt allowance in amount of RON 83,255 thousand.

13 Cash and cash equivalents

	30 September 2021 (unaudited and not reviewed)	30 September 2020 (unaudited and not reviewed)
Total cash and cash equivalents in the condensed consolidated statement of financial position	360,081	524,235
Overdrafts used for cash management purposes	(100,474)	(116,011)
Total cash and cash equivalents in the condensed consolidated statement of cash flows	259,607	408,224
Restricted cash - long term	-	320,000
Restricted cash - short term	320,000	-

As at 30 September 2021, Electrica SA has collateral deposits at BRD - Groupe Societe Generale as guarantees for the long term borrowings received from BRD – Groupe Societe Generale by the former Societatea de Distributie a Energiei Electrice Transilvania Sud S.A., Societatea de Distributie a Energiei Electrice Transilvania Nord S.A. and Societatea de Distributie a Energiei Electrice Muntenia Nord S.A., the actual Distributie Energie Electrica Romania S.A., in amount of RON 320,000 thousand (30 September 2020: RON 320,000 thousand). As the long term borrowings are repayable on 16 October 2021 (see also Note 15), the amount of the collateral deposits as at 30 September 2021 of RON 320,000 thousand is presented in the consolidated statement of financial position as short-term restricted cash.

The Group has overdrafts from various banks (ING Bank N.V., Banca Comerciala Romana, Banca Transilvania, BNP Paribas and Intesa Sanpaolo Bank) with a total overdraft limit of up to RON 635,000 thousand and maturities ranging from December 2021 to September 2022. The overdraft facilities are used for financing the current activity. The outstanding balance of the overdraft facilities used as at 30 September 2021 is of RON 100.474 thousand (30 September 2020: RON 116,011 thousand).

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 5.614 thousand during the nine month period ended 30 September 2021 (Nine month period ended 30 September 2020: RON 7,030 thousand).

14 Other payables

	30 September 2021 (unaudited and not reviewed)		31 December 2020 (audited)	
	Current	Non-current	Current	Non-current
VAT payable	173,290		128,450	-
Liabilities towards the State	5,363		6,820	-
Other liabilities	107,599	32,663	105,676	33,873
Total	286,252	32,663	240,946	33,873

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.

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15 Long-term bank borrowings

Drawings and repayments of borrowings during the nine month period ended 30 September 2021 were as follows:

	Currency	Interest rate	Maturity year	Amount
Balance at 1 January 2021 (audited)				778,909
Drawings during the period, out of which:				
BCR	RON	ROBOR 3M + 1%	2028	82,793
BRD	RON	3.85%	2028	30,472
BRD	RON	3.85%	2028	39,740
Total drawings				153,005
Accumulated interest				843
Payment of interest				(795)
Reimbursements, out of which:				
Banca Transilvania	RON	4.59%	2027	16,250
BRD	RON	3.99%	2026	15,600
UniCredit Bank	RON	3.85%	2026	10,771
Total reimbursements				42,621
Balance at 30 September 2021 (unaudited and not reviewed)				889,341

As at 30 September 2021, respectively 31 December 2020, the long term bank borrowings are as follows:

Lender	Borrower	Balance at 30 September 2021 (unaudited and not reviewed)	Balance at 31 December 2020 (audited)
BRD	Distributie Energie Electrica Romania (former SDEE Muntenia Nord S.A.)	80,000	80,000
BRD	Distributie Energie Electrica Romania (former SDEE Transilvania Nord S.A.)	114,000	114,000
BRD	Distributie Energie Electrica Romania (former SDEE Transilvania Sud S.A.)	126,002	126,000
Banca Transilvania	Distributie Energie Electrica Romania (former SDEE Transilvania Sud S.A.)	102,692	116,086
UniCredit Bank	Distributie Energie Electrica Romania (former SDEE Transilvania Nord S.A.)	50,912	58,201
BRD	Distributie Energie Electrica Romania (former SDEE Muntenia Nord S.A.)	109,200	124,800
BRD	Distributie Energie Electrica Romania (former SDEE Transilvania Nord S.A.)	96,429	69,584
BRD	Distributie Energie Electrica Romania (former SDEE Transilvania Sud S.A.)	77,193	40,289
BCR	Distributie Energie Electrica Romania (former SDEE Muntenia Nord S.A.)	132,913	49,949
Total		889,341	778,909
Less: current portion of the long-term bank borrowings		(412,922)	(377,818)
Less: accumulated interest		(843)	(795)
Total long term borrowings, net of current portion		475,576	400,296

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On July 2, 2021, Societatea de Distributie Energie Electrica Romania SA, as a borrower, concluded with the European Bank for Reconstruction and Development a credit agreement for investments in order to finance investments in the electricity distribution network according to the 2021-2023 investment plan. The main provisions are: The maximum value of the loan RON 195,136 thousand; Interest rate: agreed individually for each tranche drawn; Repayments: 17 half-yearly installments until 31.07.2031; Grace period: 24 months. On 30 September 2021, DEER did not withdraw any amount from the loan. The loan contract is guaranteed by Electrica SA.

On July 14, 2021, Societatea de Distributie Energie Electrica Romania SA, as a borrower, concluded with the European Investment Bank an investment credit contract for the purpose of financing investments in the electricity distribution network according to the 2021-2023 investment plan. The main provisions are: Maximum value of the loan: EUR 120,000 thousand; Interest rate and Repayments will be agreed individually for each tranche drawn. On 30 September 2021, DEER did not withdraw any amount from the loan. The loan contract is guaranteed by Electrica SA.

All financial covenants specified in the long-term borrowing contracts have been fulfilled as at 30 September 2021, respectively as at 31 December 2020.

16 Provisions

	Fiscal	Other	Provisions
Balance at 1 January 2021 (audited)	1,200	18,038	19,238
Provisions recognised	-	16,470	16,470
Provisions utilised	-	(653)	(653)
Provisions reversed	(116)	(3,968)	(4,084)
Balance at 30 September 2021 (unaudited and not reviewed)	1,084	29,887	30,971

As at 30 September 2021, provisions refer mainly to benefits upon the termination of executive directors' mandate contracts in the form of a non-compete clause amounting to RON 4,872 thousand (31 December 2020: RON 6,139 thousand) and for various claims and litigations involving the Group companies in the total amount of RON 26,099 thousand (31 December 2020: RON 13,099 thousand).

During the nine month period ended 30 September 2021, the Group set up a provision in connection with the supply subsidiary obligations in amount of RON 7,609 thousand representing compensations arising from the application of the Performance Standard for the electricity supply activity stipulated in the ANRE Order 6/2017, and of the Regulation for the supply of electricity to final customers, approved by ANRE Order no. 235/2019 as a result of the total liberalization process of the market which began on 1 January 2021.

17 Financial instruments – fair values

(a) Accounting classifications and fair values

According to IFRS 9, financial assets 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 Group assessed that the carrying amount is a reasonable approximation of the fair value for the financial assets and financial liabilities.

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(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 (eg. prices) or indirectly (eg. derived from prices);
- Level 3: inputs from an asset or a liability that are not based on observable market data (unobservable inputs).

18 Investment in associates

On 28 July 2021, Electrica SA concluded three agreements for the sale-purchase of shares in three project companies having as main object of activity the production of electricity from renewable sources. The sale-purchase agreements concluded, mention the fact that in the first stage the Group acquires 30% of the share capital of the three companies, remaining that in the following stages, to acquire the remaining 70% of the share capital after the conditions provided in the sale-purchase agreements will be fulfilled.

The three companies are as follows:

- **Crucea Power Park SRL**, develops the wind project "Crucea Est", with a projected installed capacity of 121 MW and a projected electricity storage capacity of 60 MWh (15 MW x 4h), located outside the Crucea area, Constanta County. The estimated purchase price for the "Crucea Est" wind project is 70 thousand EUR/MW for the aforementioned capacity, totalling the amount of 8,470 thousand EUR. On 28 July 2021, Electrica SA paid the amount of EUR 2,541 thousand representing 30% of the project value, respectively 30% of the shares of Crucea Power Park SRL.

- **Sunwind Energy SRL**, develops the photovoltaic project "Satu Mare 2" with a designed installed capacity of 27 MW, located near Satu Mare city. The estimated purchase price for the photovoltaic project "Satu Mare 2" is 55 thousand EUR/MW for the aforementioned capacity, totalling the amount of 1,485 thousand EUR. On 28 July 2021, Electrica SA paid the amount of EUR 445.5 thousand representing 30% of the project value, respectively 30% of the shares of Sunwind Energy SRL.

- **New Trend Energy SRL**, develops the photovoltaic project "Satu Mare 3", with a projected capacity of 59 MW, located near Satu Mare city. The estimated purchase price for the photovoltaic project "Satu Mare 3" is 55 thousand EUR/MW for the aforementioned capacity, totalling the amount of 3,245 thousand EUR. On 28 July 2021, Electrica SA paid the amount of EUR 973.5 thousand representing 30% of the project value, respectively 30% of the shares of New Trend Energy SRL.

Considering the holding percentage of 30%, as at 30 September 2021, the 3 entities are accounted for using the equity method in these consolidated financial statements as provided in the Group's accounting policies in note 4.

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The cost of the investments at acquisition date, totalling the amount of RON 19,481 thousand, is detailed as follows:

	Crucea Power Park	New Trend Energy	SUNWIND ENERGY
<i>Acquisition date</i>	<i>31.07.2021</i>	<i>31.07.2021</i>	<i>31.07.2021</i>
<i>Percentage ownership at acquisition date</i>	<i>30%</i>	<i>30%</i>	<i>30%</i>
<i>Net assets at acquisition date</i>	<i>(242)</i>	<i>(5)</i>	<i>(5)</i>
Group's share of net assets (30%)	(73)	(2)	(2)
Goodwill	12,573	4,791	2,193
Cost of investment at acquisition date	12,500	4,789	2,191

19 Related parties

(a) Main shareholders

As at 30 September 2021 and 31 December 2020, the major shareholder of Societatea Energetica Electrica S.A. is the Romanian State, represented by the Ministry of Energy with a share of ownership of 48.79% from the share capital.

(b) Management and administrators' compensation

	Nine month period ended	
	30 September 2021 (unaudited and not reviewed)	30 September 2020 (unaudited and not reviewed)
Executive Management compensation	24,761	21,670

Executive management compensation refers to both the managers with mandate contract and those with labour contract, from both the subsidiaries and Electrica SA. This also includes the benefits paid in the event of the termination of mandate contracts for executive directors.

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

	Nine month period ended	
	30 September 2021 (unaudited and not reviewed)	30 September 2020 (unaudited and not reviewed)
Members of the Board of Directors	3,265	2,117

(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, transport and system services and sale of electricity. Significant purchases and balances are mainly with energy producers/suppliers, as follows:

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Supplier	Purchases (excluding VAT)		Balance (including VAT)	
	Nine month period ended 30 September 2021 (unaudited and not reviewed)	Nine month period ended 30 September 2020 (unaudited and not reviewed)	30 September 2021 (unaudited and not reviewed)	31 December 2020 (audited)
OPCOM	831,523	180,539	19,705	4,209
Transelectrica	499,269	456,866	82,683	113,059
Nuclearelectrica	385,354	351,430	41,945	61,848
Complexul Energetic Oltenia	310,804	196,734	30,243	37,350
Hidroelectrica	187,742	373,650	18,065	34,471
ANRE	7,924	10,754	539	176
Electrocentrale Bucuresti	-	78,839	-	-
Others	10,785	2,778	2,291	1,779
Total	2,233,401	1,651,590	195,471	252,892

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

Client	Sales (excluding VAT)	Balance, gross (including VAT)	Allowance	Balance, net
	Nine month period ended 30 September 2021 (unaudited and not reviewed)	30 September 2021 (unaudited and not reviewed)		
OPCOM	82,805	17,663	-	17,663
Transelectrica	40,949	6,225	-	6,225
SNGN Romgaz	40,453	11,540	-	11,540
Hidroelectrica	11,134	2,693	-	2,693
CN Romarm	10,597	1,116	-	1,116
CFR Electrificare	7,959	1,510	-	1,510
C.N.C.F CFR	6,377	1,673	-	1,673
CNAIR	6,118	2	-	2
Transgaz	622	160	-	160
CN Remin	388	71,195	71,195	-
CET Braila	9	3,361	3,361	-
Oltchim	-	565,484	565,484	-
C.N.C.A.F. MINVEST SA	-	26,802	26,802	-
Termoelectrica	-	1,215	1,215	-
Altii	32,043	9,439	537	8,902
Total	239,454	720,078	668,594	51,484

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	Sales (excluding VAT)	Balance, gross (including VAT)	Allowance	Balance, net
Client	Nine month period ended 30 September 2020 (unaudited and not reviewed)	31 December 2020 (audited)		
OPCOM	46,283	3,634	-	3,634
SNGN Romgaz SA	30,894	1,246		1,246
C.N.C.F CFR SA	28,731	5,191	-	5,191
Transelectrica	20,377	7,841		7,841
CN Romarm	9,896	641	-	641
Hidroelectrica	7,314	598	-	598
CFR Electrificare	5,821	420	-	420
Transgaz	3,645	12	-	12
CN Remin SA	444	71,215	(71,215)	-
CET Braila	4	3,361	(3,361)	-
Oltchim	-	565,484	(565,484)	-
C.N.C.A.F. MINVEST SA	-	26,802	(26,802)	-
Termoelectrica	-	1,217	(1,217)	-
Altii	28,476	3,184	(493)	2,691
Total	181,885	690,846	(668,572)	22,274

20 Contingencies**Contingent assets*****Green certificates related to Electrica Energie Verde 1***

With the acquisition of photovoltaic park operated by Electrica Energie Verde 1, the Group took over the balance of green certificates existing at the acquisition date, respectively 31 August 2020.

The photovoltaic park receives a number of six green certificates for each MWh of electricity produced and delivered, out of which for the period 2013-2020, two green certificates were postponed for trading, following to be recovered monthly, in equal tranches, from 1 January 2021 to 31 December 2030.

Green certificates are recognized at the time of the sale, while the existing balance of green certificates at period end is a contingent asset, which is not recognized.

On 30 September 2021, Electrica Energie Verde 1 SRL holds a total of 189,925 green certificates (31 December 2020: 148,581), out of which 129,320 are postponed for trading (31 December 2020: 139,805) and the remaining 60,605 are tradeable green certificates (31 December 2020: 8,776). Starting with January 2021, the recovery of the postponed green certificates began, in equal tranches of 1,165 green certificates on a monthly basis, for ten years. The total value of the green certificates held by Electrica Energie Verde 1 S.R.L. is in amount of RON 27.009 thousand (31 December 2020: RON 21,130 thousand), valued at the weighted average trading price of RON/GC 142.2107, as published by the operator of the green certificate market (OPCOM).

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Claim against National Agency of Fiscal Administration ("NAFA")

In April 2021, Electrica SA filed a new action in contradiction with NAFA - file no. 2444/2/2021, pending before the Bucharest Court of Appeal, in which a trial term has not been established yet, having as object the obligation of NAFA to: correct Electrica SA 's tax record in order to reflect the right to a refund for the amount of RON 5,860 thousand, amount paid by Electrica SA in 2020 for the purpose of applying for the cancellation of ancillary fiscal obligations stipulated by the Government Emergency Ordinance no. 69/2020, of an additional amount of RON 818 thousand which was not reflected in the payment made by NAFA in 2020, and payment of legal interest in amount of RON 5,162 thousand computed for the amount returned by NAFA in 2020.

Contingent Liabilities

Fiscal environment

Tax audits are frequent in Romania, consisting of detailed verifications of the accounting records of taxpayers. 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 may incur expenses related to previous years' tax adjustments because of controls and litigations with tax authorities. The management of the Group believes that adequate provisions and liabilities were recorded in the consolidated interim financial statements for all significant tax obligations; however, a risk persists that the tax authorities might have different positions.

Tax inspection report for SDEE Muntenia Nord S.A. (currently Distributie Energie Electrica Romania S.A.)

The former subsidiary SDEE Muntenia Nord S.A. (currently Distributie Energie Electrica Romania S.A.) was subject to a tax audit performed by the Local Taxes Department of Galati City Hall that referred to the building taxes paid for the period 2012-2016. The tax audit was finalized in December 2019, when the fiscal inspection report was communicated to the subsidiary. The fiscal report established additional payment obligations for the subsidiary representing building tax for the period 01.01.2012-31.12.2015 in the total amount of RON 24,831 thousand, of which principal in amount of RON 12,051 thousand and related late penalties computed as of October 2019, in amount of RON 12,780 thousand. Legal actions were started, in order to challenge the fiscal inspection report.

The Group recognised an expense in amount of RON 12,051 thousand during the year ended 31 December 2019 in accordance with IFRIC 23 "*Uncertainty over Income Tax Treatments*".

Tax inspection report for Electrica Serv S.A.

In May 2017, a tax inspection at Electrica Serv S.A. 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. On 3 July 2019, the Bucharest Court of Appeal partially admitted the appeal through the partial annulment of the fiscal decision in amount of RON 7,264 thousand representing the VAT and the related interest and penalties, unlawfully retained as non-deductible. Against this solution, both NAFA and Electrica Serv SA filed an appeal, registered at the High Court of Cassation and Justice, with the trial date of 6 October 2022.

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As at 30 September 2021 and 31 December 2020, the Group recognised a receivable from the fiscal authorities in amount of RON 12,281 thousand, without a related bad debt allowance, taking into account that management's best estimate is that Electrica Serv S.A. shall be able to obtain a favourable final Court decision in this case.

Other litigations and claims

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

As summarised in Note 16, 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 if the case information on the most significant items of litigations or claims for which the Group did not set-up provisions as they relate to possible obligations that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Group (ie. litigations for which different inconsistent sentences were issued by the Courts, or litigations which are in early stages and no preliminary ruling was issued so far).

21 Subsequent events

Acquisition of subsidiaries

On 15 October 2021, the Board of Directors endorsed and submits for the approval of the Extraordinary General Meeting of Shareholders (EGMS) of Electrica SA, the proposal regarding the acquisition of a portfolio of photovoltaic electricity production units with a total installed capacity of 30.95 MW, respectively a total operating capacity limited to 28.89 MW. Thus, Electrica SA will acquire 100% holdings of MT Project B.V. and HiTech Solar Investment GmbH, in value of EUR 35,000,000, in the following companies:

- TCV Impex S.A. – owns a photovoltaic power plant, in Sancraiu, with a total installed capacity of 4.95 MW and an operating capacity limited to 4.95 MW. The estimated value of the aquisition is EUR 5,997,900.
- ACV Solar Technology S.A. - owns a photovoltaic power plant, in Sancraiu, with a total installed capacity of 5.0 MW and an operating capacity limited to 5.0 MW. The estimated value of the aquisition is EUR 6,058,500.
- TIS Energy S.A. - owns a photovoltaic power plant, in Valea Calugareasca, with a total installed capacity of 6.0 MW and an operating capacity limited to 5.86 MW. The estimated value of the aquisition is EUR 7,094,500.
- Delta & Zeta Energy S.A. - owns a photovoltaic power plant, in Sebis, with a total installed capacity of 7.5 MW and an operating capacity limited to 6.54 MW. The estimated value of the aquisition is EUR 7,924,550.
- Gama & Delta Energy S.A. - owns a photovoltaic power plant, in Sebis, with a total installed capacity of 7.5 MW and an operating capacity limited to 6.54 MW. The estimated value of the aquisition is EUR 7,924,550.

The transaction will be financed from the bridge loan in the amount of RON 750,000,000 which was contracted by Electrica SA from a consortium formed by Erste Bank and Raiffeisen Bank on November 3rd 2021 and/or from own funds.

Chief Executive Officer
Georgeta Corina Popescu

Chief Financial Officer
Mihai Darie

12 November 2021