CNTEE Transelectrica SA
Two-Tier Company

Separate Financial Statements
on the date and for the financial year concluded on
December 31st, 2017

Drafted according to the
Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica" - SA from April 30th , 2018

This is a free translation from the original Romanian version.

CNTEE Transelectrica SA
Stand-alone Financial Position
In accordance with the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th , 2018
(All amounts are expressed in RON, unless otherwise indicated)

	Note	December 31st, 2017	December 31st, 2016
Assets			
Fixed assets			
Property, plant and equipment	**5**	3,044,365,315	3,189,591,544
Intangible assets	**6**	15,563,225	14,457,314
Financial assets	**27**	78,038,750	78,038,750
Long-term receivables	**7**	-	9,774,959
Total fixed assets		**3,137,967,290**	**3,291,862,567**
Current assets			
Inventories	**8**	32,014,652	30,409,648
Trade and other receivables	**9**	818,529,879	851,971,683
Other financial assets	**10**	-	135,090,000
Cash and cash equivalents	**11**	520,746,500	933,661,193
Total current assets		**1,371,291,031**	**1,951,132,524**
Total assets		**4,509,258,321**	**5,242,995,091**
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital, from which:		733,031,420	733,031,420
- *Subscribed share capital*		*733,031,420*	*733,031,420*
Initial offering		49,842,552	49,842,552
Legal reserves		118,961,487	116,360,295
Revaluation reserves		499,921,435	549,088,226
Other reserves		56,953,503	56,953,728
Retained earnings		1,258,921,369	1.602.438.193
Total shareholders' equity	**12**	**2,717,631,766**	**3.107.714.414**
Non-current liabilities			
Non-current deferred revenues	**13**	410,642,185	429,858,527
Loans	**14**	195,185,934	501,929,998
Deferred tax liabilities	**17**	25,036,280	30,195,003
Obligations regarding employee benefits	**15**	52,646,906	43,304,975
Total non-current liabilities		**683,511,305**	**1,005,288,503**

	Note	December 31st, 2017	December 31st, 2016
Current liabilities			
Trade and other payables	**16**	699.936.819	873.948.200
Other taxes and social insurance liabilities	**19**	8.688.192	8.611.209
Loans	**14**	317.063.988	138.204.932
Provisions	**16**	41.545.187	53.801.778
Short-term deferred revenues	**13**	40.881.064	38.125.074
Income tax to be paid	**17**	-	17.300.981
Total current liabilities		**1.108.115.250**	**1.129.992.174**
Total liabilities		**1.791.626.555**	**2.135.280.677**
Total shareholders' equity and liabilities		**4,509,258,321**	**5.242.995.091**

Directorate

Adrian-Constantin RUSU	**Dan-Valeriu ARDELEAN**	**Andreea Georgiana FLOREA**	**Georgeta-Corina POPESCU**	**Florin-Cristian TATARU**
Chairman	Member	Member	Member	Member

Cristina STOIAN
Economics and Financial Strategy Department Director

Veronica CRISU
Accountant Department Manager

CNTEE Transelectrica SA
Separate Statement of Profit and Loss
In accordance with the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th , 2018
(All amounts are expressed in RON, unless otherwise indicated)

	Note	2017	2016
Revenues			
Transmission revenues		1,054,629,112	1,146,256,800
System service revenues		650,746,554	716,339,587
Revenues on the balancing market		1,304,613,489	814,079,670
Other revenues		50,327,846	45,827,232
Total revenues	**20**	**3,060,317,001**	**2,722,503,289**
Operating expenses			
System operating expenses	**21**	(257,916,731)	(230,756,782)
Expenses on the balancing market	**21**	(1,304,613,489)	(814,079,670)
Expenses regarding the technological system services	**21**	(661,323,176)	(561,027,373)
Depreciation		(311,853,273)	(323,363,219)
Employee-related expenses	**22**	(178.575.211)	(211,867,366)
Repairs and maintenance		(84,765,211)	(88,394,391)
Expenditures with materials and consumables	**8**	(8,316,853)	(7,675,889)
Other operating expenses	**23**	(184,958,423	(133,720,367)
Total operating expenses		**(2,992,322,367)**	**(2.370.885.057)**
Operating profit		**67,994,634**	**351.618.232**
Financial revenues		19,098,960	29,960,030
Financial expenses		(40,219,198)	(46,988,308)
Net financial result	**24**	**(21,120,238)**	**(17,028,278)**
Result before income tax		**46,874,396**	**334,589,954**
Income tax	**17**	(18,607,221)	(62,228,411)
Result of the financial year		**28,267,175**	**272,361,543**
Basic and diluted earnings per share (lei/share)	**18**	**0.3856**	**3.7155**

	Note	2017	2016
Profit of the financial year		**28,267,175**	**272,361,543**
Other comprehensive income			
Elements which will not be reclassified in the profit and loss account, out of which:			
- The effect of taxation corresponding to the reevaluation reserve		-	-
- Surplus from the reevaluation of tangible assets		-	-
- Actuarial losses corresponding to the determined benefits plan	**15**	(6,331,427)	(958,650)
Other comprehensive income (AERG)		**(6,331,427)**	**(958,650)**
Total comprehensive income		**21,935,748**	**271,402,893**

Directorate

Adrian-Constantin RUSU	**Dan-Valeriu ARDELEAN**	**Andreea Georgiana FLOREA**	**Georgeta-Corina POPESCU**	**Florin-Cristian TATARU**
Chairman	Member	Member	Member	Member

Cristina STOIAN
Economics and Financial Strategy Department Director

Veronica CRISU
Accountant Department Manager

CNTEE Transelectrica SA
Stand-alone Statement of Changes in Shareholders' Equity
In accordance with the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th , 2018
(All amounts are expressed in RON, unless otherwise indicated)

	Share capital	Share premium	Legal reserves	Reserve fund from reevaluation	Other reserves	Retained earnings	Total
Balance on January 1st, 2016	**733,031,420**	**49,842,552**	**99,407,385**	**603,684,792**	**55,694,602**	**1,487,644,971**	**3,029,305,722**
Profit of the financial year	-	-	-	-	-	272,361,543	272,361,543
Other elements of the comprehensive income, from which:							
Recognition of actuarial losses regarding the determined plan of benefits	-	-	-	-	-	(958,650)	(958,650)
Total other elements of the comprehensive income	**-**	**-**	**-**	**-**	**-**	**(958,650)**	**(958,650)**
Total comprehensive income of the period	**-**	**-**	**-**	**-**	**-**	**271,402,893**	**271,402,893**
Other elements							
Transfer of the reserves from reevaluation in the retained earnings	-	-	-	(54,596,566)	-	54,596,566	-
Increase of the legal reserve fund	-	-	16,952,910	-	-	(16,952,910)	-
Other elements	-	-	-	-	-	-	-
Total other elements	**-**	**-**	**16,952,910**	**(54,596,566)**	**-**	**37,643,656**	**-**
Contribution from shareholders and distributions to shareholders							
Subsidies of public assets (see Note 12)	-	-	-	-	1,259,126	-	1,259,126
Distribution of dividends	-	-	-	-	-	(194,253,327)	(194,253,327)
Total contributions from shareholders and distributions to shareholders	**-**	**-**	**-**	**-**	**1,259,126**	**(194,253,327)**	**(192,994,201)**
Balance on December 31st, 2016	**733,031,420**	**49,842,552**	**116,360,295**	**549,088,226**	**56,953,728**	**1,602,438,193**	**3,107,714,414**

Directorate

Adrian-Constantin RUSU	**Dan-Valeriu ARDELEAN**	**Andreea Georgiana FLOREA**	**Georgeta-Corina POPESCU**	**Florin-Cristian TATARU**
Chairman	Member	Member	Member	Member

Cristina STOIAN
Economics and Financial Strategy Department Director

Veronica CRISU
Accountant Department Manager

The accompanying notes form an integral part of the stand_alone financial statements drafted according to the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th , 2018

CNTEE Transelectrica SA
Stand-alone Statement of Changes in Shareholders' Equity
In accordance with the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th , 2018
(All amounts are expressed in RON, unless otherwise indicated)

	Share capital	Share premium	Legal reserves	Reserve fund from reevaluation	Other reserves	Retained earnings	Total
Balance on January 1st, 2017	**733,031,420**	**49,842,552**	**116,360,295**	**549,088,226**	**56,953,728**	**1,602,438,193**	**3,107,714,414**
Comprehensive income of the period							
Profit of the financial year	-	-	-	-	-	**28,267,175**	**28,267,175**
Other elements of the comprehensive income, from which:							
Recognition of actuarial losses regarding the determined plan of benefits	-	-	-	-	-	(6,331,427)	(6,331,427)
Total other elements of the comprehensive income	-	-	-	-	-	**(6,331,427)**	**(6,331,427)**
Total comprehensive income of the period	-	-	-	-	-	**21,935,748**	**21,935,748**
Other elements							
Transfer of the reserves from reevaluation in the retained earnings	-	-	-	(49,166,791)	-	49,166,791	-
Increase of the legal reserve fund	-	-	2,601,192	-	-	(2,601,192)	-
Other elements	-	-	-	-	-	(75,727,088)	(75,727,088)
Total other elements	-	-	2,601,192	**(49,166,791)**	-	**(29,161,489)**	(75,727,088)
Contribution from shareholders and distributions to shareholders							
Derecognition of land plot by dismantling (see Note 5)	-	-	-	-	(225)	(49,751)	(49,796)
Distribution of dividends from the profit of 2016	-	-	-	-	-	(165,445,191)	(165,445,191)
Distribution of special dividends as per GO no. 29/2017	-	-	-	-	-	(170,796,321)	(170,796,321)
Total contributions from shareholders and distributions to shareholders	-	-	-	-	**(225)**	**(336,291,083)**	**(336,291,308)**
Balance on December 31st, 2017	**733,031,420**	**49,842,552**	**1118,961,487**	**499,921,435**	**56,953,503**	**1,258,921,369**	**2,717,631,766**

Directorate

Adrian-Constantin RUSU	**Dan-Valeriu ARDELEAN**	**Andreea Georgiana FLOREA**	**Georgeta-Corina POPESCU**	**Florin-Cristian TATARU**
Chairman	Member	Member	Member	Member

Cristina STOIAN
Economics and Financial Strategy Department Director

Veronica CRISU
Accountant Department Manager

The accompanying notes form an integral part of the stand_alone financial statements drafted according to the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th , 2018

	2017	2016
Treasury flows from the operating activity		
Correction of retained earnings required by shareholders	(75,727,088)	-
	28,267,175	
Result of the financial year		**272,361,543**
Adjustments for:		
Income tax expense	18,607,221	62,228,411
Depreciation expenses	311,853,273	323,363,219
Expenditures with adjustments for trade receivables impairment	36.575.509	21.221.841
Reversal of adjustments for trade receivables impairment	(14,502,821)	(8.538.076)
Loss from various debtors	45.080.551	67.328
Net expenditures/loss with adjustments for various debtors impairment	(9.466.794)	6.163.084
Net expenditures with adjustments for inventory impairment	1,203,735	2,501,184
Net loss on disposal of property, plant and equipment	838,153	272,673
Net expenditures on adjustments regarding tangible assets	1,663,348	4,736,607
Net expenditures regarding provisions	(9,567,625)	22,821,573
Financial expenses with adjustments for the loss of value of assets	-	493,000
Interest expenses, interest revenues and foregone revenues from exchange differences	21,124,449	16,967,314
Cash flows before changes in the current capital	**355,949,086**	**724,659,701**
Changes in:		
Clients and similar accounts - electricity and other activities	1,841,831	(38,582,866)
Clients - balancing	12,432,909	(100,325,112)
Clients - cogeneration	(30,511,221)	(20,438,116)
Inventories	(1,605,004)	3,919,306
Trade payables and other liabilities - electricity and other activities	(54.948.491)	(67,341,791)
Liabilities - balancing	(81,854,364)	122,122,565
Liabilities - cogeneration	41,162,173	6,642,675
Liabilities paid according to ANAF taxation decision	(99.890.556)	
Other taxes and social insurance liabilities	76,983	1,847,846
Deferred revenues	(16,460,352)	(26,887,004)
Treasury flows from the operating activity	**126.678.104**	**605,617,204**
Paid interests	(22,246,255)	(25,002,612)
Paid income tax	(8,064,579)	(65,766,950)
Net cash from the operating activity	**96,367,271**	**514,847,642**
Treasury flows used in the investment activity		
Acquisition of tangible and intangible assets	(182,858,424)	(171,758,870)
Collection from down payments in the previous financial year and unused	-	29,581,392
Collection from sales of tangible assets	25,909	37,001
Collected interests	5,991,201	5,297,687
Received dividends	2,180,584	3,038,332
Other financial assets	135,090,000	(65,005,000)
Net cash used in the investment activity	**(39,570,729)**	**(198,809,458)**
Treasury flows used in the financing activity		
Repayments of long-term loans	(134,371,923)	(162,486,218)
Special dividends paid as per GO 29/2017	(169,798,704)	-
Paid dividends	(165,540,607)	(194,342,031)
Net cash used in the financing activity	**(469,711,234)**	**(356,828,249)**

	2017	2016
Net decrease of cash and cash equivalents	(412,914,693)	(40,790,065)
Cash and cash equivalents on January 1st	**933,661,193**	**974,451,258**
Cash and cash equivalents at the end of the period	**520,746,500**	**933,661,193**

The accompanying separate financial statements were approved by the management on May 17th, 2018 and signed on its behalf by:

Directorate

Adrian-Constantin RUSU	**Dan-Valeriu ARDELEAN**	**Andreea Georgiana FLOREA**	**Georgeta-Corina POPESCU**	**Florin-Cristian TATARU**
Chairman	Member	Member	Member	Member

Cristina STOIAN
Economics and Financial Strategy Department Director

Veronica CRISU
Accountant Department Manager

1. DESCRIPTION OF ACTIVITIES AND GENERAL INFORMATION

The main activity of CNTEE Transelectrica SA ("The Company") consists of: the electricity transmission services and of the system service, operator of the balancing market, administrator of the bonus type support scheme, other related activities. These activities take place according to the provisions of the business license no. 161/2000 issued by ANRE, updated through the Decision ANRE no. 270/February 4th, 2015, of the general Conditions associated to the license approved through the ANRE Order no. 104/2014 and of the final certification of the Company as a transport operator and system of the National Electroenergetic System according to the model of separating the property ("ownership unbundling").

The registered headquarters is located in: 33 General Gheorghe Magheru Blvd., Bucharest, district 1. Currently, the activity of the Company's executive takes place at the place of operations in 2-4 Olteni Street, district 3, Bucharest.

The stand-alone financial report as of December 31st, 2017, drafted according to the Order of the Ministry of Public Finances no. 2844/2016 for the approval of the Accounting arrangements pursuant to the International Financial Reporting Standards as subsequently amended, is available at the Company's offices from 2-4 Olteni street, district 3, Bucharest.

Starting with 2006, the Company's shares are traded on the Bucharest Stock Exchange under the symbol TEL.

According to the Decision of the Extraordinary General Assembly of Shareholders from July 18th, 2012, the Company switched from one-tier to two-tier Company in order to perform a clear separation of the management activities from the controlling activities. Thus, the Company is managed by a Directorate under the supervision of a Board of Supervisors.

Establishment of the Company

In accordance with Government Decision ("GD") no. 627 on the reorganization of the National Power Company - SA (the "Predecessor Entity") issued on July 31st, 2000 by the Government of Romania, the National Power Company was split into four newly created legal entities ("Successor Entities"). The sole shareholder of the Successor Entities was the Romanian State, through the Ministry of Economy ("ME"). CNTEE Transelectrica SA was established as a result of this reorganization as a joint-stock company which has as main activity the electricity transmission, dispatching of electricity, organization and management of the electricity market.

As described in Note 12, as of December 31st, 2017, the shareholders of the Company are: the Romanian State via the Ministry of Economy, Commerce and Tourism, which holds 43,020,309 shares (58.69%), DEDEMAN SRL with 4,192,363 (5.72%), other legal entity shareholders which hold 20,689,339 shares (28.22%) and other natural person shareholders which hold 5,401,131 shares (7.37%).

According to GEO no. 86/17.12.2014 "on the establishment of reorganization measures at the level of the central public administration and to amend and supplement certain legal acts", the Ministry of Economy, Commerce and Tourism exercises the rights, as of December 17th, 2014, and fulfills the obligations arising from its capacity as State shareholder in the National Power Grid Company "Transelectrica" - S.A.

GD no. 47/2013 on the organization and operation of the Ministry of Economy was amended and supplemented accordingly by GD no. 41/2015.

To enforce the provisions of GEO no. 86/2014, on February 20th, 2015, Depozitarul Central SA recorded the transfer of 43,020,309 shares (representing 58.68% of the share capital) issued by CNTEE Transelectrica SA, from the account of the Romanian State represented by the Government via the Secretariat-General of the Government into the account of the Romanian State through the Ministry of Ministry of Economy, Commerce and Tourism.

Based on the provisions of art. 2 of GEO no. 55/November 19th, 2015 on establishing reorganization measures in the central public administration and amending certain legal acts, the Ministry of Economy, Commerce and Relations with the Business Environment was established, by reorganizing and taking over the activities of the Ministry of Economy, Commerce and Tourism, which was closed, and by taking over the activity and structures of small and medium-sized enterprises from the Ministry of Energy, Small and Medium-Sized Enterprises and the Business Environment.

Company's mission

The Company's mission is to ensure safety and security in the functioning of the National Power System (NPS) by complying with the standards and the performance stipulated by the technical regulations in force, providing a public service for all users of the electricity transmission grids, ensuring transparency, non-discrimination and fairness for all market participants.

1. DESCRIPTION OF ACTIVITIES AND GENERAL INFORMATION (continued)

Other information relating to the Company's activity

CNTEE Transelectrica SA became a member of the Union for the Coordination of Transmission of Electricity ("UCTE") in October 2004, and from November 2004 it became a member of the European Transmission System Operators ("ETSO"). As of July 2009, ENTSO-E was created by joining ETSO, UCTE and other four European Transmission System Operators ("TSO") associations have been fully integrated into the European Network of Transmission System Operators for Electricity ("ENTSO-E"), joining 42 TSOs from 35 countries. The activity of ENTSO-E is governed by the applicable European legislation (Regulation 714/2009).

CNTEE Transelectrica SA is an affiliate member to the following international organizations:

- ENTSO – E - European Network of Transmission System Operators for Electricity;
- CIGRE - International Council on Large Electric Systems;
- LWA - Live Working Association;

CNTEE Transelectrica SA is responsible for the secure, reliable and efficient functioning of the NPS, by carrying out the provisions of Directive (EU) no. 54/2003, Art. 9.

On May 23, 2017, Moody's Investors Service's credit rating agency published its updated credit rating, assessing Transelectrica's current and future ability to meet its payment obligations to creditors.
The credit rating of Moody's Investors Service credit rating agency maintained the Company's rating at the level of the previous year, respectively Ba1.

Starting January 2017, the Company has signed a contract with Fitch Ratings International Credit Company.
On July 5, 2017, Fitch grants the Company a stable BBB rating, as a recognition of the Company's efforts to achieve operational excellence and a responsible approach to the business environment in which it operates. On Oct. 11, 2017, Fitch maintains the BBB rating, stable outlook, rating one step above the country's rating (BBB- / stable outlook) for the Company.

Legislative environment

The activity in the energy sector is regulated by the Romanian Energy Regulatory Authority ("ANRE"), an autonomous public institution whose object of activity is to develop, approve and monitor the application of all the regulations mandatory at national level necessary for the efficient operation of the electricity, heat and gas sector and market, under conditions of efficiency, competition, transparency and consumer protection.

ANRE has the following main responsibilities in the field of electricity and heat produced in cogeneration: to grant, suspend or revoke the permits and licenses, to develop and approve methodologies and criteria for the calculation of tariffs and regulated prices, to approve tariffs and regulated prices, to draft framework agreements, to approve technical and commercial regulations etc.

ANRE establishes the tariffs for electricity transmission and system services. Ergo, the decisions made by ANRE can have significant effects on the Company's activity.

The Company's operating activity has been carried out according to License no. 161/2000 for electricity transmission and provision of system services issued by ANRE, valid until 2025, revised by ANRE Decision no. 802/18.05.2016 and the General Conditions associated to the license approved by ANRE Order no. 104/2014, as subsequently amended and supplemented.

Taking into account that the Company's operations and revenues are regulated by ANRE, the most important risks arising from this aspect are:

- the regulatory framework is relatively new and constantly prone to changes, which may affect the Company's performances;

- ANRE decisions regarding future tariffs may affect the Company's activity;

1. DESCRIPTION OF ACTIVITIES AND GENERAL INFORMATION (continued)

- the volume risk, namely the decrease in the amount of tariffable energy that may adversely affect the Company's financial situation. In 2017, according to ANRE Decision no. 71/2017, a simulation of two-tier tariffs has been performed by inserting a tariff for grid capacity reservation (the tariff component – fixed – for power) additional to the tariff for the energy distributed in the grid (the tariff component – variable – for energy). The application of two-tier tariffs aims at better reflecting the costs of use of the electricity transmission grid (by applying the fixed tariff component), optimizing investments in the electricity transmission grid and protecting the revenues of the transmission operator through the stability offered by the fixed tariff component.

Final certification of Transelectrica as TSO of the NPS, according to the ownership unbundling model
In accordance with the provisions of Law no. 123/2012 regarding electricity and natural gas, as subsequently amended and supplemented, the Romanian Energy Regulatory Authority (ANRE) approved, via Order no. 164/07.12.2015, the certification of the National Power Grid Company "Transelectrica" SA as transmission and system operator of the National Power System according to the ownership unbundling model.

The ownership unbundling model has become available to the Company pursuant to Law no. 123/2012 on electricity and natural gas which transposes Directive 2009/72/EC.

ANRE Order no. 164/07.12.2015, accompanied by the European Commission Approval no. C (2015) 7053 final/12.10.2015, as integral part of the Order, was published in the Official Journal no. 908/08.12.2015 and together with the Approval Report thereof is communicated by ANRE to the European Commission.

This order enforces the provisions of the European Union and the national legislation regarding the certification of transmission and system operators.

The certification notification was sent to the European Union, which published it in the Official Journal of the EU from 08.01.2016, in accordance with Art. 10(2) of Directive 2009/72/EC.

Tariffs for electricity transmission and system services

Electricity transmission is a general interest activity in the field of electricity, authorized and monitored by a public authority (public service), in the form of natural monopoly. The tariffs charged by the Company for transmission and system services are established and approved by ANRE (see Note 20).

Regulated assets base ("RAB")

The transmission tariff is set, among others, based on the regulated asset base. The regulated asset base includes the net value of property, plant and equipment and intangible assets which correspond to the private patrimony of the Company and the net value of the State's public patrimony assets funded via the Company's own sources, recognized by ANRE and used in providing the electricity transmission service.

Assets resulting from additional investments made with the approval of the regulatory authority, due to exceptional circumstances as compared to the investment program initially approved at the beginning of the regulatory period are inserted in the RAB in the specific regulatory period if in the regulatory period savings amounts were registered and only within the limits thereof, or shall be included in the RAB at the beginning of the next regulatory period, at the value left for depreciation if a value saving was not made.

The current regulatory period lasts five years (July 1st, 2014 – June 30th, 2019), and comprises five tariff years (the tariff year begins on July 1st and lasts for 12 months). Thus, 2017 was the year of transition from the third tariff year to the fourth tariff year within the current regulatory period (the third tariff year ended June 30th, 2017, the fourth tariff year began July 1st, 2017).

The regulated return on assets in 2017 for the electricity transmission activity is 7.7%, a value determined ANRE for the current regulatory period.

1. DESCRIPTION OF ACTIVITIES AND GENERAL INFORMATION (continued)

Inclusion of Transelectrica in the local and international stock exchange indexes

Starting from 29.08.2006, CNTEE Transelectrica SA shares are traded on the regulated market managed by the BSE, in category I under the symbol TEL. The Transelectrica shares are part of the BET index [which reflects the evolution of the 10 most traded companies on the BSE Regulated Market, excluding financial investment companies (SIFs)], with a share of 2.21% as of December 31st, 2017 (December 31st, 2016: 4.11%), with a stock exchange capitalization of 1,799,592,136 as of December 31st, 2017 (December 31st, 2016: 2,140,451,746).

Transelectrica is also included in the local stock exchange indexes BET-XT, BET-NG, BET-XT-TR, BET Plus, BET-TR, BET-BK, ROTX and in the international indexes Dow Jones Wilshire Global Indexes (Dow Jones Wilshire Global Total Market Index SM; Dow Jones Wilshire Romania Index SM; Dow Jones Wilshire Electricity Index SM). Starting with January 5th, 2015, the Company was included in the Premium category of the regulated market managed by the BSE.

Company's revenues

The main revenue generating activities of the Company are represented by the provision of the following services:

- Electricity transmission service;
- System services (the technical operational management of the NPS);
- Balancing market operator.

Electricity transmission service

The transmission service consists in ensuring the electricity transmission between two or more points of the power transmission grid ("PTG"), under conditions of efficiency and safety, whilst observing the applicable performance standards.

The Company ensures the non-discriminatory and regulated access to the transmission grid to all electricity market participants. The transmission activity is carried out through eight branches located in: Bucharest, Bacau, Cluj, Craiova, Constanta, Pitesti, Sibiu and Timisoara.

The transmission service provided by Transelectrica consists in ensuring the technical conditions and maintaining the PTG parameters during the injection/extraction of energy in/from PTG.

System Services

The Company's responsibility is to permanently maintain the operation of the National Power System under safe conditions whilst complying with the quality standards provided in the technical code of the power transmission grid. To this effect, the Company uses its own resources called functional system services and purchases technological system services from electricity producers.

CNTEE Transelectrica SA provides this service by using dispatch management systems under a tariff regulated and approved by ANRE, which is applied to the same base - electricity delivered to consumers - and includes:

tariff for system services, of which:
tariff for functional system services.

The technological system services are purchased from energy producers at the request of CNTEE Transelectrica SA pursuant to a procedure regulated by ANRE for maintaining the operational safety of the NPS as well as the quality of electricity transmitted at the parameters required by the applicable legislation. CNTEE Transelectrica SA re-invoices the entire amount of system services purchased from producers (except for the active energy component which covers the PTG losses) to electricity suppliers licensed by ANRE which are the end beneficiaries of such services.

The functional system services pertain to the dispatch services provided by CNTEE Transelectrica SA and consist of planning and operationally managing the NPS, as well as the other activities of CNTEE Transelectrica SA in order to balance production against consumption in real time, in order to safely cover the electricity consumption at minimum costs whilst maintaining the operational safety level of the NPS.

1. DESCRIPTION OF ACTIVITIES AND GENERAL INFORMATION (continued)

Balancing market operator

In accordance with the provisions of the Commercial Code of the Wholesale Electricity Market, the balancing market was introduced and started functioning in Romania in July 2005. The purpose of this market is to ensure the balance between production and consumption in real time, using resources offered in a competitive system.

CNTEE Transelectrica SA is the balancing market operator which, based on procedures and regulations approved by ANRE, must approve all the balancing market participants, must collect, check and process all the orders and perform the settlement procedures.

High-efficiency cogeneration

Starting with April 1st, 2011, CNTEE Transelectrica SA is the administrator of the support scheme for high-efficiency cogeneration. The purpose of this support scheme is to promote highly efficient systems cogenerating heat and power, with the advantage of a more environmentally friendly electricity production. It aims to provide easy access on the market for electricity produced in high-efficiency cogeneration plants via a cogeneration bonus granted if the total electricity and heat production costs generated by such cogeneration plants exceed the market prices of the two types of energy. The support scheme targets electricity and heat producers owning or operating high-efficiency power plants, so as to encourage new investments in cogeneration, as well as the refurbishment of existing facilities.

Government Decision no. 1215/2009 establishes the legal framework according to the European Union regulations necessary for implementing the bonus support scheme for promoting high-efficiency cogeneration based on the demand for thermal energy, in order to cover the difference between high-efficiency cogeneration production costs and sale prices. ANRE approved the reference bonus values per megawatt an hour ("MWh") of electricity produced and delivered in the grid from high-efficiency cogeneration plants. The beneficiaries of the scheme are the producers that meet certain criteria established by ANRE.

According to provisions of Article 14 of Government Decision no. 1215/2009, CNTEE Transelectrica SA is designated as responsible for the administration of the support scheme. The main tasks of the Company as the administrator of the support scheme are: collecting the contribution from the suppliers of the electricity consumers in a bank account distinct from the core activity; paying the bonus to the high-efficiency cogeneration electricity and heat producers; concluding contracts with suppliers in order to collect the contribution and with producers that will be the beneficiaries of the scheme; verifying the value of the contribution collected; issuing invoices to suppliers; refunding the high-efficiency cogeneration contribution to the suppliers who import in Romania energy produced in high-efficiency cogeneration in other member states of the European Union; monitoring and reporting to ANRE the way of administration of the support scheme; paying the bonus to energy producers that are the beneficiaries of the scheme; paying late penalties to the producers for not paying the bonus on the due date.

The Company acts as an agent of the State in the monthly collection of the cogeneration contribution and the monthly payment of the bonus and under such circumstances, the operations associated to the support scheme do not influence the income and expense accounts, except for the own administration costs recognized by ANRE to run the support scheme, which are self-invoiced.

On December 8th, 2016, by Government Decision no. 925, the amendment and supplement have been adopted for GD no. 1215/2009 on setting the necessary criteria and conditions to implement the support scheme for promoting the high efficiency cogeneration based on the effective heat demand. The main amendments refer to the following:

- to receive the bonus, produces are requested not to generate liabilities to the administrator of the support scheme or to conclude conventions for the settlement of liabilities and receivables;
- the over-compensation is recovered according to the national legislation and the legislation of the European Union in the field of State aid;
- the undue over-compensation/bonus remaining to be paid by producers, for which all the legal actions have been taken, will be recovered by including the amount in the cogeneration contribution, according to the methodology issued by ANRE;
- the ANRE decisions regarding the amount of the over-compensation and/or the undue bonus are mandatory for producers and are enforced for recovering the amount by issuing a decision by the scheme administrator in accordance with the legislation in the field of State aid;
- the financial closing of the support scheme is made in the first semester of 2024, according to the regulatory framework drawn up by ANRE.

1. DESCRIPTION OF ACTIVITIES AND GENERAL INFORMATION (continued)

Electricity markets price coupling mechanism

On November 19th, 2014, the "4M Market Coupling" project became operational, which provides the connection of Day-Ahead electricity markets (Day-Ahead Market) in Romania, Hungary, The Czech Republic and Slovakia.

In terms of the internal regulatory framework, the roles and responsibilities of the operators involved, i.e. CNTEE Transelectrica SA and SC OPCOM SA, as well as the operations carried out within the market coupling processes are provided in the Regulation for the Organization and Operation of the Day-Ahead Electricity Market, approved by ANRE Order no. 82/2014 (the Regulation), by observing the price coupling mechanism of markets and amending certain legal acts that regulate the day-ahead electricity market.

The target model for the day-ahead market, based on the principle of price coupling of regions (PCR - Price Coupling of Regions) uses a single algorithm to correlate bids and set the price.

If coupling is not possible on the 4M MC market, the TSOs of Romania, Hungary, the Czech Republic and Slovakia will apply the fallback procedures, by which cross-border capacity is allocated.

Art. 138 of the Regulation provides that, during the post-coupling process, the Transmission and System Operators (TSOs) act as shipping agents for the electricity resulted from the coupling algorithm as being shipped between two adjacent bidding zones.

Within the price coupling mechanism of day-ahead markets, the electricity exchanges correlate, based on auctions, the day-ahead electricity trades depending on the interconnection capacity made available by TSOs through which it is implicitly allocated.

CNTEE Transelectrica SA, acting as TSO, transfers the electricity both in physical and commercial terms to the neighboring TSOs (MAVIR-Hungary) and manages the congestion income on the respective interconnection (Article 139 from ANRE Order no. 82/2014), while in relation to SC OPCOM SA it acts as Implicit Participant on the Day-Ahead Market.

As a Shipping Agent and Implicit Participant, CNTEE Transelectrica SA has the commercial task to settle the power traded between SC OPCOM SA and MAVIR.

Thus, within the price coupling mechanism of regional markets, CNTEE Transelectrica SA:

- fulfils the role of implicit participant on the DAM and acts as shipping agent;
- provides the interconnection capacity for the physical supply of electricity traded on the DAM, namely the transfer of power from one bidding zone to another through the interconnection lines, limited to the available transfer capacity of such lines.

Congestion income is divided on a monthly basis between transmission and system operators and foreign exchange differences are withheld or covered by TSOs, as the case may be.

The Company approved that the transactions related to the price coupling mechanism of regional markets will not influence the income and expense accounts, except for income from congestion management across interconnection lines, for income/expenses from foreign exchange differences and for expenses with bank fees resulting from clearing transactions carried out by the Company as shipping agent.

2. BASIS OF PREPARATION

(a) Declaration of conformity

The stand-alone financial statements ("financial statements") were drafted according to the Order of the Ministry of Public Finances no. 2844/2016 approving the Accounting arrangements pursuant to the International Financial Reporting Standards with subsequent amendments and additions ("OMFP no. 2844/2016"). Within the meaning of Order no. 2844/2016, the International Financial Reporting Standards mean the standards adopted according to the procedure provided by Regulation (EC) no. 1.606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards ("EU IFRS").

The Company applies the International Financial Reporting Standards as approved by the European Union upon the preparation of the stand-alone financial statements for 2017 in accordance with OMF no. 881/2012, as subsequently amended and supplemented.

(b) Basis of assessment

The financial statements are prepared at historical cost, except for property, plant and equipment other than the ones in progress, which are assessed at revaluated value, while the liabilities related to cash settled share-based payment transactions are assessed at fair value.

(c) Functional and presentation currency

The financial statements are presented in Romanian LEI ("LEI" or "RON") according to the applicable accounting regulations, which is the Company's functional currency.

(d) Use of estimates and judgements

The preparation of consolidated financial statements in accordance with EU IFRS requires management to use professional judgment, estimates and assumptions that impact the application of accounting policies and the recognized value of assets, liabilities, income and expenses, assumptions regarding the fair value (see Note 4), commitments and contingencies (see Note 26), the recognition of non-refundable funds to be received (see Note 13), the provision for impairment of receivables (see Note 9), the liabilities related to cash settled share-based payment transaction (Note 28) and the liabilities for defined benefit plans (Note 15).

Actual results may differ from these estimates. Estimates and assumptions are revised periodically. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future impacted periods.

Information regarding assumptions and estimates which imply significant uncertainties are included in the following notes:

- Note 13 – the Company's management estimate related to the existence of a reasonable assurance that the conditions regarding non-refundable funds will be fulfilled and the funds will be received;
- Note 15 – assessment of liabilities for defined benefit plans;
- Note 26 – recognition and assessment of provisions, commitments and contingencies; key assumptions regarding the probability and magnitude of an outflow of resources;
- Note 28 – assessment of liabilities related to cash settled share-based payment transactions.

Information regarding the accounting policy rationale pertaining to the service concession agreements is presented in the following paragraphs.

In 2004, the Company (operator) concluded a service concession agreement with the Ministry of Economy (grantor) according to which the Company has the right to use public patrimony assets which mainly include the electricity transmission grid and the land on which it is located, in exchange for providing electricity transmission services (see Note 3 (b)). Taking into consideration that the majority of the Company's shares are held by the State, the Company's management considers it to be a public-sector company and therefore out of the scope of IFRIC 12 "Service Concession Arrangements". With no other specific international financial reporting standard pertaining to service concession agreements, the Company considered whether IFRIC 12 should nevertheless be applied, based on the hierarchy set out in IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", which requires to first consider the requirements of other IFRSs dealing with similar issues.

2. BASIS OF DRAFTING (continued)

In determining whether IFRIC 12 is applicable, the Company considered if the following features of a public-to-private service concession agreement are to be applied to the concession agreement concluded with the Ministry of Economy, as of the date on which IFRIC 12 is required to be adopted:

- the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price;
- the grantor controls — through ownership, beneficial entitlement or otherwise — any significant residual interest in the infrastructure at the end of the term of the arrangement: 49 years;
- the contractual agreement would include the same terms if entered into with a private-sector company.

The analysis of the characteristics of the concession agreements of public-to-private services reveals as follows:

- the services provided by the Company are regulated by ANRE, therefore the Grantor – the competent Ministry – does not control or regulate the type of services that the Company must provide;
- at the end of the contractual period, the residual interest in infrastructure is approximately nil, and most of the goods belonging to the State public domain are completely depreciated;
- there are currently are no other similar contracts, the Company holds the monopoly in the electricity transmission sector.

The Company concluded that accounting for the concession agreement under IFRIC 12 would not reflect the economic substance of the transaction, as the Company pays an annual fee as royalty for the use of the assets under the concession agreement of 1/1000 of the total annual revenue from electricity transmission services, computed based on the actual transmitted quantity, a fee that is significantly lower than the amount of the depreciation that the Company would have recorded for these assets, had the concession agreement not been signed. As a result, IFRIC 12 is not applicable, and the Company applied the accounting policies as explained in Notes 3 (a) and (b).

3. ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for those aspects disclosed in Note 3 letter (x) which discloses the changes in accounting policies.

(a) Property, plant and equipment

Owned assets

Property, plant and equipment, except for the ones in progress, are stated at their revalued value, less any accumulated depreciation and accumulated impairment losses. Property, plant and equipment in progress is stated at cost. The cost of assets built by the Company includes cost of materials, direct salaries, initial estimate, where applicable, of costs with dismantling and relocating items and restoring the site, plus a share of indirect costs.

Recognition

Property, plant and equipment is initially valued at cost.

The cost includes the costs that are directly attributable to the acquisition of the asset. The cost of constructed assets by the entity includes:

- cost of materials and direct staff costs;
- other costs directly attributable to bringing the asset to the location and condition/stage necessary for the intended use; and
- capitalized loan costs.

Impairment adjustment are recorded for the idle or obsolete tangible assets.

Subsequent expenditures

The Company recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be reliably measured. All other costs are recognized in the income statement, as occurred.

Depreciation

Property, plant and equipment items are depreciated using the straight-line method over their useful lives, as follows:

	Normal useful life (years)
Buildings and special installations	40-60
Machinery and equipment	15-40
Control and measurement devices	7-12
Vehicles	5-8
Other property, plant and equipment	3-5

Land is not depreciated. Where parts of an item of property, plant and equipment have different useful lives, these are accounted for as separate asset items (major components). Asset depreciation methods, useful lives and residual values are revised and adjusted, if necessary, at the end of each reporting period.

Revaluation

The Company chose to disclose property, plant and equipment at revalued value, except for advances and property, plant and equipment in progress, presented at historical cost.

Revaluations are performed by independent expert acting as evaluators with sufficient regularity so that the book value does not significantly differ from the value which can be determined based on the fair value as of the reporting date.

(b) Public patrimony assets

As stipulated by Law no. 213/1998, the electricity transmission grids represent the State's public patrimony goods.

Government Resolution no. 627/2000 establishes in Annex no. 8 the State public patrimony fixed assets which are under the Company's administration since August 1st, 2000, and which are subject to inventory count and are updated whenever necessary, through legal act (GD).

Prior to signing the concession agreement described below, public patrimony assets were treated as contribution in kind of the Romanian state through its representative, the Ministry of Economy, as the Company did not have to pay any tax for using the assets.

In November 1998, Law no. 213/1998 was issued, which regulates the status of public patrimony. The law stipulates that the State or local authorities have ownership of the State public patrimony and that they can rent or grant use of such patrimony. According to the provisions of Law no. 213/1998 and Law no. 219/1998, the Ministry of Economy has signed, on behalf of the State, a concession agreement pertaining to the energy transmission grid (high voltage electricity lines and electrical substations) and the land on which they are built. Concession agreement no. 1 was concluded on June 29th, 2004 between the Ministry of Economy and the Company for all public patrimony tangible assets in balance as of December 31st, 2003 and is in effect for 49 years.

Following the execution of the concession agreement with the Ministry of Economy on behalf of the Romanian State, on June 29th, 2004, the nature of the relationship between the Ministry and the Company changed and thus the Company derecognized public patrimony assets, including the public patrimony reserve included in equity. Subsequent to the conclusion of the concession agreement, the Company accounts as operating lease the assets over which it has been granted a right of use. The payments for the concession agreement (royalty) are accounted for by the Company as expenses in the profit or loss account during the year.

Concession agreement no. 1/2004 was published in the Official Journal of Romania no. 298 bis of April 30th, 2015.

Between 2005 and 2013, seven addenda have been concluded to the concession agreement. Therefore, assets from the public patrimony obtained out of the development fee after June 29th, 2004 have been derecognized.

3. ACCOUNTING POLICIES (continued)

Taking into account the provisions of Government Decision no. 1009/2012 and of Government Decision no. 984/2012, approving the amendment of Appendix no. 7 to Government Decision no. 1705/2006 approving the centralized inventory of the goods in the public patrimony that were transferred to the Company under concession, and following the inventory procedure of the assets under public patrimony in 2012 and the revaluation/valuation of these goods, on 14.02.2013, Addendum no. 7 to Concession agreement no. 1/29.06.2004 was signed with the Ministry of Economy.

Government Decision no. 1032 from December 11th, 2013, published in the Official Journal no. 22 from January 13th, 2014, approved the amendment and supplementing of Addendum no. 7 to Government Decision no. 1705/2006 approving the centralized inventory of the assets under public patrimony, following the 2012 inventory of the assets under public patrimony.

The main terms of the concession agreement are as follows:

- The Ministry of Economy has legal ownership over the assets within the scope of the agreement;
- The Company has the right of use over these assets for a period of 49 years from June 1st, 2004 until May 31st, 2053;
- The annual fee paid by the Company in the form of royalty for use of the assets is set by the Ministry of Economy and represents 1/1000 of the total revenue gained from the electricity transmission services, based on the actual capacity transmitted;
- The assets will be returned to the Ministry of Economy upon termination or expiration of the agreement; the contract can be unilaterally terminated by either party;
- The Company has the obligation to use the assets according to the provisions of the concession agreement and pursuant to the operating license.

The amount that the Company paid under the concession agreement for the period January 1st – December 31st, 2014 is significantly lower than the amount of the depreciation that the Company would have recorded for such assets had the concession agreement not been concluded. However, the Company has not recorded into the financial statements any amount related to this potential benefit, as the Company is unable to determine the amount that a third party would pay for the use of the assets in an arm's length transaction.

Self-funded investments made by the Company regarding the assets under the scope of the concession agreement are capitalized and depreciated over the remaining useful life of the assets. After the recovery of the investment depreciation, they will be included in the inventory of goods belonging to the State's public domain.

In the case of assets representing self-funded finished non-current assets, they will be included in the inventory of goods belonging to the State's public domain after recovering the investment depreciation, namely upon the expiry of the normal period of utilization, of the concession or lease agreement, pursuant to the applicable legal provisions, based on a regulatory act adopted in this regard.

(c) Intangible assets

The intangible assets purchased by the Company are stated at cost less any accumulated depreciation and accumulated impairment losses. The depreciation is recognized in the profit and loss account based on the straight-line method over the estimated useful life of the intangible asset. The majority of intangible assets recorded by the Company consists of intangibles in progress and customized software. These are depreciated on a straight-line basis over 3 years.

Asset depreciation methods and useful lives are revised and adjusted, if necessary, at the end of each reporting period.

Subsequent expenditures

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

3. ACCOUNTING POLICIES (continued)

(d) Foreign currency transactions

Transactions in foreign currencies are converted to LEI by applying the exchange rates applicable at the date of the transaction. Monetary assets and liabilities expressed in foreign currencies at the end of the period are converted to LEI at the exchange rates applicable on that date. Exchange gains and losses, realized or unrealized, are included in the profit and loss account for that year. The exchange rates at December 31st, 2017 and December 31st, 2016 are as follows:

Currency	December 31st, 2017	December 31st, 2016
1 EUR	4.6597	4.5411
1 USD	3.8957	4.3033

Non-monetary assets and liabilities expressed in foreign currencies are measured at fair value, at the exchange rate applicable at the date of the transaction.

(e) Receivables

Trade receivables are initially recognized at fair value and subsequently assessed using the effective interest method, less the value losses. A value loss is established when there is clear evidence that the Company will not be able to collect all amounts due within the agreed deadline. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganization and late payments (over 180 days) are considered indications that these trade receivables might be impaired.

A value loss corresponding to an asset is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced via the use of a value loss, and the amount of the loss is recognized in profit or loss account under "Other operating expenses".

(f) Inventories

Inventories consist of:

- raw materials, materials, spare parts that do not meet the definition of PPE and other consumables that are to be used during the performance of the basic activity of the Company;
- security and intervention stock needed for fast repairs of the failures occurred in the PTG installations in order to assure the safe functioning of the NPS. These materials are recorded as inventories when purchased and then expensed when consumed or capitalized, as the case may be.

Inventories are assessed at the lowest value between the cost and net realizable value. The cost of inventories consumed is determined based on the FIFO method and includes expenditures with acquisition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion, if any, and selling expenses.

The Company's policy is to write off a loss of value of 100% for current inventories older than 365 days and that are not expected to be used in the future.

(g) Cash and cash equivalents

Cash and cash equivalents include petty cash, current accounts and bank deposits with original maturities of maximum 3 months that are subject to an insignificant risk of change in fair value.

(h) Revaluation reserves

After the recognition as an asset, an item of property, plants and equipment whose fair value can be reliably measured is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not significantly differ from that which would be determined using the fair value at the balance sheet date.

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

If the carrying amount of property, plant and equipment decreases as a result of a revaluation, such decrease is recognized the in profit or loss account. However, the decrease is made by decreasing revaluation reserves, if there is any credit balance existing in the revaluation surplus in respect of such property, plant and equipment.

The revaluation reserve included in equity related to an item of property, plant and equipment is transferred directly to the retained earnings, over the depreciation of the revaluated item and when the item is derecognized.

Starting with May 1st, 2009, the reserves from the revaluation of property, plant and equipment, including land plots, recorded after January 1st, 2004, which are deducted when calculating taxable income through tax depreciation expenses or transferred and/or ceased assets expenses, are taxed simultaneously with the tax depreciation deduction, namely when the assets are disposed, as the case may be.

The Company registered deferred tax for the liability pertaining to the reserves from the revaluation of fixed assets, including land plots, recorded after January 1st, 2004.

Reserves from the revaluation of property, plant and equipment, including land plots, recorded before December 31st, 2003, as well as the portion of the revaluation performed after January 1st, 2004 and related to the period before April 30th, 2009 will not be taxed when transferred to retained earnings.

The Company did not register deferred tax for the liability pertaining to the reserves from the revaluation of fixed assets, including land plots, recorded until December 31st, 2003.

Reserves from the revaluation of property, plant and equipment are taxable in the future, in case of changing the destination of reserves in any form, in case of liquidation, merger of the Company, including using the reserves for covering the Company's losses, except for the transfer in the retained earnings after May 1st, 2009 of revaluation reserves when the revaluation was performed after January 1st, 2004, which are taxed at the same time with the deduction of tax depreciation.

(i) Impairment of non-financial assets

The carrying amount of the Company's non-financial assets, other than inventories and deferred tax assets, are revised at each reporting date to determine whether there is any evidence pertaining to an impairment. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

The recoverable amount of an asset or cash generating unit is the greater value between the value of use and the fair value less selling costs. In assessing the value of use, the estimated future cash flows are updated in order to determine the presented value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continued and use that are largely independent of the cash inflows of other assets or groups of assets ("cash generating unit").

Impairment losses are recognized in the profit or loss account. Impairment losses recognized in respect of cash generating units are primarily allocated to reduce the carrying amount of the goodwill allocated to cash generating units (group of cash generating units), as the case may be, and then to reduce the carrying amount of other assets in the cash generating unit (group of cash generating units) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, the impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

(j) Share capital

Ordinary shares are classified as part of equity. Incremental costs directly attributable to the issue of new shares and shares options are recognized as a deduction in equity at the value net from tax effects.

(k) Dividends

Dividends are recognized as a liability when the shareholder's right to payment is established.

3. ACCOUNTING POLICIES (continued)

(l) Trade and other payables

Trade accounts payables and other payables are recorded at depreciated cost and include the value of invoices issued by suppliers of goods, executed works and provided services.

(m) Interest-bearing loans

Interest-bearing loans are initially recognized at fair value net of attributable transaction costs. Subsequent to the initial recognition, interest-bearing loans are recorded at depreciated cost with any difference between cost and redemption value being recognized in the profit and loss account over the period of the loan based on the effective interest rate.

(n) Recognition and de-recognition of non-derivative financial instruments

Non-derivative financial assets

The Company initially recognizes receivables on the date when they originated. All other financial assets are initially recognized on the trading date when the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset upon the expiry of the contractual rights on the cash flows generated by the asset, or upon the transfer of the rights to collect the contractual cash flows generated by the financial asset in a transaction in which all the risks and rewards associated with the ownership of the financial asset are significantly transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

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

The Company's non-derivative financial assets are mainly represented by trade and other receivables and cash and cash equivalents.

Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date they originated. All other liabilities (including liabilities designated at fair value through the profit or loss account) are initially recognized on the trade date when the Company becomes a party to the contractual provisions of the instrument.

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

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to the initial recognition, these financial liabilities are assessed at depreciated cost using the effective interest method.

Other financial liabilities comprise loans, trade and other payables.

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in the profit or loss account except for the extent that it relates to a business combination or items directly recognized in equity or in other elements of comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the fiscal profit or loss for the current year, using tax rates enacted or substantively enacted at the reporting date, as well as any adjustment to income tax payable in respect of previous years. Current income tax also includes any tax liability arising from declared dividends.

(ii) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base used for taxation purposes.

Deferred tax is not recognized for:

- temporary differences that occur at the initial recognition of assets and liabilities in a transaction that is not a business combination and that impact neither accounting nor fiscal profit or loss;
- temporary differences related to investments in subsidiaries or jointly controlled entities to the extent that it is probable that they will not be reversed in the foreseeable future; and
- temporary differences occurring at the initial recognition of goodwill.

The assessment of deferred tax reflects the tax consequence that would ensue from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is calculated based on the tax rates that are expected to be applied to temporary differences at the moment of their reversal, pursuant to the enacted legislation or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset current tax liabilities and assets, and if they relate to taxes levied by the same tax authority for the same taxable entity, or for different tax entities which intend to settle current tax assets and liabilities with the current tax on a net basis or whose tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused fiscal losses, tax credits and deductible temporary differences, only to the extent that it is probable that future taxable profits are possible to be used for covering the fiscal loss. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related fiscal benefit will be realized.

(iii) Income tax exposure

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of professional judgements about future events. New information may become available that causes the Company to change its professional judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities may affect the income tax expense in the period when such determination is made.

(p) Employee benefits

Other long-term employee benefits

The Company's net obligation in respect of long-term employee benefits, other than pension plans, is the value of future benefits that employees have earned in return for their service in the current and prior periods. Such benefit is updated to determine its fair value, and the fair value of any related asset is deducted. Such benefits are estimated using the projected unit credit method. Any actuarial gains or losses are recognized in other elements of the comprehensive income in the period in which they arise. Other long-term employee benefits are represented by anniversary premiums.

Cash settled share-based payment transactions

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities over the period during which employees become unconditionally entitled to payment. Until the liability settlement date, the Company must reassess the fait value of the liability at each reporting date and at the settlement date, and any changes in the fair value are recognized in the profit or loss account of the period.

As the employees render their service, the Company recognizes the services received and a liability to pay for those services. Certain share appreciation rights vest immediately and the employees are therefore not required to complete a specified period of service in order to become entitled to the cash payment. In such cases, the Company recognizes the entire value of the right as an expense, at the date of granting.**ACCOUNTING POLICIES (continued)**

Short-term employee benefits

Short-term employee benefit obligations are assessed on an un-updated basis and are recognized as the related service is provided. A provision is recognized for the amount estimated to be paid for short-term benefits as premiums or profit sharing

plans only if the Company has a present legal or implicit obligation to pay this amount as a result of past service provided by employees and the obligation can be reliably estimated. The short-term employee benefits are represented mainly by salaries.

The Company, in the normal course of business, makes payments to the pension funds on behalf of its employees. All employees of the Company are members of the Romanian State pension plan. These payments are expensed as the related services are provided by the employees.

(q) Revenues

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable and the associated costs can be estimated reliably. Revenues comprise mainly the value of electricity transmission service, system service and balancing market computed based on the volume of energy supplied to consumers. The tariffs for transmission and system services are regulated by ANRE. Revenues include also the transactions on the balancing market as described in Note 1.

The Romanian State, via ANRE, regulates the prices charged by the Company for electricity transmission and system operator services. The Romanian State has a number of roles to fulfil, apart from being the majority shareholder, and might thus have broader goals and objectives than an investor, whose main concern is return on investment.

As mentioned in Note 1, the Company is also the administrator of the bonus support scheme for promoting high-efficiency cogeneration. The Company acts as agent because it is involved in the collection and distribution of money.

In addition, the Company and SC OPCOM SA are involved in the price coupling mechanism of regional markets based on ANRE Order no. 82/2014 (see Note 1).

Thus, within the price coupling mechanism of regional markets, CNTEE Transelectrica SA:

- fulfils the role of implicit participant on the DAM and acts as shipping agent;
- provides the interconnection capacity for the physical supply of electricity traded on the DAM, namely the transfer of power from one bidding zone to another through the interconnection lines, limited to the available transfer capacity of such lines.

Connection fees

IFRIC 18 "Transfers of Assets from Customers" applies to contracts with customers in which the Company receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant or equipment and the Company must then use the item of property, plant or equipment to connect customers to the network.

According to Art. 25(1) of Law no. 123/2012 on electricity and natural gas, as subsequently amended and supplemented, the "access to power grids of public interest shall be a mandatory service provided under regulated conditions, which the transmission and system operator, as well as the distribution operator, must ensure".

The connection tariff is a regulated fee which represents the expense incurred by a network operator to perform the works for connecting a demand and/or production facility of a user to the power grid.

If the connection of a customer to the power transmission grid does not represent a separate component of the connection contract, then the connection tariffs are recognized in the profit and loss account on a systematic basis throughout the useful life of the asset.

The Company recognizes the cash received from the connection tariff as a credit under the account "Deferred income" in the statement of financial position in order to subsequently reverse it under "Other income" in the profit and loss account on a systematic basis over the useful life of the asset.

3. ACCOUNTING POLICIES (continued)

(r) Net financing costs

Net financing costs comprise interest payable on loans calculated using the effective interest rate method, except for loan costs capitalized as part of assets with long cycle of manufacture, dividend income, foreign exchange gains and losses, risk fees and commissions.

In accordance with the revised IAS 23 "Borrowing Costs" and invoking the optional exception from the retrospective application according to IFRS 1 "First-time adoption of IFRS", the Company capitalizes the borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale, for which financing was obtained after January 1st, 2011, the date of transition to IFRS.

Interest revenues are recognized in the profit and loss account of the year in which they arise, using the effective interest method. Dividend revenues are recognized in the profit and loss account on the date when the Company's right to receive dividends is recognized.

(s) Subsidies

Subsidies pertaining to assets are initially recognized as "deferred income" at fair value when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the subsidies, and then the subsidies shall be recognized in the profit and loss account as other operating revenues over the useful life of the asset. Non-refundable funds are recognized as assets when there is reasonable assurance that they will be received and the conditions corresponding will be met.

(t) Provisions

A provision is recognized when, and only when the following conditions are met: the Company has a current obligation (legal or implicit) as a result of a past event; it is probable (i.e. more likely than not) that an outflow of resources representing economic benefits will be required to settle the obligation; a reliable estimate for the value of the obligation can be made. Where the effect of the time value of money is significant, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

(u) Earnings per share

Pursuant to IAS 33, "Earnings per share", the earnings per share are calculated by dividing the profit or loss allocated to the Company's shareholders by the weighted average of ordinary shares outstanding during the period.

The weighted average of ordinary shares outstanding during the period is the number of shares outstanding at the beginning of the period, adjusted by the number of shares issued during the period and multiplied by the number of months when the shares were outstanding during the year.

Dilution is a reduction in earnings per share or an increase in loss per share resulting under the assumption that convertible instruments are converted, or that ordinary shares are issued after meeting the specified conditions. The objective of diluted earnings per share is similar with that of basic earnings per share, namely to provide a measure of the interest of each ordinary share in the performance of an entity.

(v) Contingences

Contingent liabilities are not recognized in the accompanying financial statements. They are disclosed only when an outflow of resources embodying economic benefits is possible, but not probable.

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

(w) Operating segments

An operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and

- for which distinct financial information is available.

The Company's activities are taking place in different parts of Romania with each location being involved in both transmission and dispatch activities. The Company's management considers all activities together, as "a single segment".

Operating segments are reported in a manner consistent with the internal reporting provided by the chief operating decision maker of the entity, who is responsible for allocating resources to and assessing performance of the segments.

(x) Implications of the New International Financial Reporting Standards (EU IFRS)

a) Standards and interpretations applicable in the current period

The following standards and amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) have entered into force for the current period:

- Amendments to **IAS 7 "Statement of Cash Flows"** - Presentation Requirement Initiative - adopted by the EU on 6 November 2017 (applicable for annual periods beginning on or after 1 January 2017),

- Amendments to **IAS 12 "Income Tax"** - Recognition of deferred tax assets for unrealized losses - adopted by the EU on 6 November 2017 (applicable for annual periods beginning on or after 1 January 2017),

- Amendments to **IFRS 12 following "IFRS Improvements (Cycle 2012-2014)"** resulting from the annual IFRS Improvement Project (IFRS 1, IFRS 12 and IAS 28) with the primary objective of eliminating inconsistencies and clarifying certain formulations - adopted by the EU on 7 February 2018 (amendments to IFRS 12 are applicable for annual periods beginning on or after 1 January 2017).

The adoption of these amendments to existing standards did not result in significant changes in the Company's financial statements.

Standards and amendments to existing standards issued by the IASB and adopted by the EU but not yet in force

At the date of approval of these financial statements, the following new standards issued by the IASB and adopted by the EU are not yet in force:

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (applicable for annual periods beginning on or after 1 January 2018),

- **IFRS 15 Revenue from Contracts with Customers** and Amendments to IFRS 15 "IFRS 15 Effective Date" - adopted by the EU on 22 September 2016 (applicable for annual periods beginning on or after 1 January 2018),

- **IFRS 16 "Leasing"** - adopted by the EU on 31 October 2017 (applicable for annual periods beginning on or after 1 January 2019),

- Amendments to **IFRS 4 "Insurance Contracts"** - Application of IFRS 9 Financial Instruments in Accordance with IFRS 4 Insurance Contracts - Adopted by the EU on 3 November 2017 (applicable for annual periods beginning on or after 1 January 2018 or first-time adoption of IFRSs 9 "Financial Instruments"),

- Amendments to **IFRS 15 "Revenue from contracts with customers"** - IFRS 15 clarifications Revenue from contracts with customers - adopted by the EU on 31 October 2017 (applicable for annual periods beginning on or after 1 January 2018),

- Amendments to **IFRS 1 and IAS 28 "Improvements to IFRS (Cycle 2014-2016)"** resulting from the annual IFRS Improvement Project (IFRS 1, IFRS 12 and IAS 28) with the primary objective of eliminating inconsistencies and clarifying certain formulations - adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are applicable for annual periods beginning on or after 1 January 2018).

The company chose not to adopt these new standards and amendments to existing standards prior to the effective date of entry into force. The Company expects that adopting these standards and amendments to existing standards will not have a material impact on the Company's financial statements during the initial period of application.

New standards and amendments to existing IASB standards but not yet adopted by the EU

Currently, IFRSs as adopted by the EU do not differ significantly from the IASB regulations, except for the following new standards, amendments to existing standards and new interpretations that have not been approved for use in the International Accounting Standards Board (IASB). EU:

- **IFRS 14 "Deferred Regarding Regulated Activities"** (applicable for annual periods beginning on or after 1 January 2016) - The European Commission has decided not to issue the approval process for this interim standard and to await its completion,
- **IFRS 17 "Insurance Contracts**" (applicable for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 2 Share-based Payment - Classification and measurement of share-based payment transactions (applicable for annual periods beginning on or after 1 January 2018),
- Amendments to **IFRS 9 "Financial Instruments"** - Advance Payment Charges with Negative Compensation (applicable for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS **10 "Consolidated Financial Statements**" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or contribution of assets between an investor and its associates or joint ventures and subsequent amendments (effective date has been postponed for an undetermined period until the research project on the equivalence method is completed),
- Amendments to **IAS 19 Employee Benefits -** Change, reduction or settlement of a plan (applicable for annual periods beginning on or after 1 January 2019),
- Amendments to **IAS 28 "Investments in associates and joint ventures"** - Long-term interests in associates and joint ventures (applicable for annual periods beginning on or after 1 January 2019),
- Amendments **to IAS 40 "Investment property"** - Real estate investment transfers (applicable for annual periods beginning on or after 1 January 2018),
- Amendments to various Standards following the "**IFRS Improvements (Cycle 2015-2017)"** resulting from the annual IFRS Improvement Project (IFRS 3, IFRS 11, IAS 12 and IAS 23) with the primary objective of eliminating inconsistencies and clarifying certain formulations (applicable for annual periods beginning on or after 1 January 2019),
- **IFRIC 22 "Foreign currency transactions and advances"** (applicable for annual periods beginning on or after 1 January),
- **IFRIC 23 "Income Tax Treatment Uncertainty"** (applicable for annual periods beginning on or after 1 January 2019).

The Company expects that the adoption of these Standards and amendments to existing standards will not have a material impact on the Company's financial statements during the initial period of application

4. DETERMINATION OF FAIR VALUE

Certain accounting policies and information disclosures of the Company require the measurement of fair values, for both financial and nonfinancial assets and liabilities. When measuring the fair value of an asset or liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques, as follows:

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

The fair values were determined in order to measure and/or disclose information based on the methods described below:

(i) Property, plant and equipment

The fair value of items of property, plant and equipment are based primarily on the cost method considering the particularities of the Company's property, plant and equipment, except for assets in progress, which are accounted for under the cost model.

5. PROPERTY, PLANT AND EQUIPMENT

The development of property, plant and equipment between January 1st, 2017 and December 31st, 2017 are as follows:

	Land plots and land improvements	Buildings and special installations	Machinery and equipment	Control and measurement devices	Vehicles	Other property, plant and equipment	Property, plant and equipment in progress	Total
COST								
Balance on January 1st, 2016	**52,811,058**	**1,291,503,378**	**2,981,192,272**	**414,218,155**	**11,567,940**	**264,447,694**	**407,672,581**	**5,423,413,078**
Additions	-	597	46,963	-	-	-	174,568,463	**174,616,023**
Transfers from tangible assets in progress	-	19,717,133	49,817,972	8,067,284	7,984,752	5,368,922	(90,956,063)	-
Reclassifications among non-current assets accounts	-	444,416	(437,120)	(7,296)	-	-	-	-
Disposals	-	(242,426)	(6,169,167)	(1,057,383)	(279,907)	(2,672,169)	(274,542)	**(10,695,594)**
Balance on December 31st, 2016	**52,811,058**	**1,311,423,098**	**3,024,450,920**	**421,220,760**	**19,272,785**	**267,144,447**	**491,010,439**	**5,587,333,507**
Balance on January 1st, 2017	**52,811,058**	**1,311,423,098**	**3,024,450,920**	**421,220,760**	**19,272,785**	**267,144,447**	**491,010,439**	**5,587,333,507**
Additions			3,370			16,502	170,777,341	170.797.213
Transfers from tangible assets in progress		37,382,966	107,303,350	36,176,207	2,684,594	16,838,579	(200,385,696)	-
Reclassifications among non-current assets accounts							(2,181,516)	(2.181.516)
Disposals	(59,067)	(275,420)	(14,556,831)	(627,352)	|(441,285)	(2,231,810)	(1,221,017)	(19.412.783)
Balance on December 31st, 2017	**52,751,991**	**1,348,530,644**	**3,117,200,809**	**456,769,615**	**21,516,094**	**281,767,718**	**457,999,550**	**5,736,536,421**
Accumulated depreciation								
Balance on January 1st, 2016	**138,179**	**-**	**1,624,858,514**	**292,074,248**	**8,186,162**	**143,906,980**	**-**	**2,069,164,083**
Depreciation expenses	-	90,136,428	170,088,691	29,597,934	706,866	30,373,465	-	320,903,384
Accumulated depreciation of disposals	-	(69,916)	(6,117,426)	(1,057,384)	(279,906)	(2,591,904)	-	(10,116,536)
Balance on December 31st, 2016	**138,179**	**90,066,512**	**1,788,829,779**	**320,614,798**	**8,613,122**	**171,688,541**	**-**	**2,379,950,931**
Balance on January 1st, 2017	**138,179**	**90,066,512**	**1,788,829,779**	**320,614,798**	**8,613,122**	**171,688,541**	**-**	**2,379,950,931**
Depreciation expenses	-	87,027,784	152,253,417	38,896,676	1,988,587	29,848,167	-	310,014,630
Accumulated depreciation of disposals	-	(16,098)	(14,062,361)	(608,539)	(441,285)	(2,140,352)	-	(17,268,635)

Balance on December 31st, 2017	**138,179**	**177,078,198**	**1,927,020,836**	**358,902,935**	**10,160,423**	**199,396,355**	**-**	**2,672,696,925**

5. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land plots and land improvements	Buildings and special installations	Machinery and equipment	Control and measurement devices	Vehicles	Other property, plant and equipment	Property, plant and equipment in progress	Total
ADJUSTMENTS FOR IMPAIRMENT								
Balance on January 1st, 2016	**-**	**11,479**	**-**	**-**	**157,307**	**-**	**12,629,493**	**12,798,279**
Expenditures with impairment adjustments		(11,479)			(43,899)	-	5,048,131	**4,992,753**
Balance on December 31st, 2016	**-**	**-**	**-**	**-**	**113,408**	**-**	**17,677,624**	**17,791,032**
Expenditures with impairment adjustments	-	367,593	-	-	(113,408)	-	1,428,963	**1,683,148**
Balance on December 31st, 2017	**-**	**367,593**	**-**	**-**	**-**	**-**	**19,106,587**	**19,474,180**
BOOK VALUE								
Balance on January 1st, 2016	**52,672,879**	**1,291,491,899**	**1,356,333,758**	**122,143,907**	**3,224,471**	**120,540,714**	**395,043,088**	**3,341,450,716**
Balance on December 31st, 2016	**52,672,879**	**1,221,356,586**	**1,235,621,141**	**100,605,962**	**10,546,256**	**95,455,906**	**473,332,815**	**3,189,591,544**
Balance on December 31st, 2017	**52,613,812**	**1,171,084,853**	**1.190.179.973**	**97,866,680**	**11,355,671**	**82,371,363**	**438,892,963**	**3,044,365,315**

5. PROPERTY, PLANT AND EQUIPMENT (continued)

In 2017, the value of land plots recorded a decrease amounting to 59,067 by the re-update of the surfaces resulted from measurements and of authentic documentation to declare subdivision into flats, subject to the Protocol no. 8044/2002 of hand over-take over concluded with Teletrans Craiova agency, as follows:

- the ground surface of 1974.21 m^2 pertaining to the land plot situated on 5 Brestei street, Craiova, for which the Certificate authenticating the ownership rights was obtained with series M03/10283 of 07.08.2006, has been decreased with the surface of 39.46 m^2;

- the ground surface of 1325.67 m^2 pertaining to the land plot situated on 22 George Cosbuc street, Tg. Jiu, for which the Certificate authenticating the ownership rights was obtained with series M03/10195 of 08.11.2005, has been decreased with the surface of 15.5 m^2;

- the ground surface of 1849.72 m^2 pertaining to the land plot situated on 422 Tg. Jiului way, Dr. Tr. Severin, for which the Certificate authenticating the ownership rights was obtained with series M03/9762 of 14.12.2004, has been decreased with the surface of 9.6 m^2;

The total net value of tangible assets decreased on December 31st, 2017 compared to December 31st, 2016 due to the corresponding depreciation of 2017, which was registered against the background of increased amounts of tangible assets in progress.

In 2017, the value of tangible assets in progress increased represented mainly by investment works in the high voltage electricity substations and lines, as follows:

- Technical upgrade of the Bradu 400/220/110/20 kV substation – 43,722,468;
- 400 kV OHL interconnecting Resita (Romania) - Pancevo (Serbia) – 29,160,469;
- Replacing AT and TRAFO in electrical substations - Stage II – 25,617,956;
- Upgrading the 400/110/10 kV Cluj Est substation – 12,529,350;
- Upgrading the Suceava 110 kV and 20 kV substation – 9,985,185;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - stage I - Portile de fier - (Anina) – Resita 400 kV OHL s.c. – 8,710,417;
- Upgrading the command-control-protection system of the Sardanesti 220/110/20 kV substation – 5,812,144;
- Technical upgrade of the Campia Turzii 220/110/20 kV substation – 5,734,551;
- Integrated security system in electric substations, stage IV - 3,571,263;
- Urgent repair of the damage to the Iernut - Gadalin 400 kV OHL and the Iernut - Baia Mare 3 220kV OHL – 2,842,612;
- Upgrading the Tihau 220/110 kV substation - primary equipment – 2,705,653;
- Technical upgrade of the Tulcea Vest 400/110/20 kV substation - the construction part – 2,625,207;
- Motor vehicles_2017 – 2,616,294;
- Deploying an optical fiber line between the Bradu 400/220/110 KV substation and the Stuparei 220/110 KV substation – 1,798,732;
- Upgrading the SCADA system for the Constanta Nord substation – 1,439,414;
- Upgrading the hardware and software platforms of the SCADA system in the Slatina 400/220 substation – 1,398,333;
- Replacing the connectors from electrical substations – 1,149,484;
- Replacing the 110/20 kV TRAFO, 10 MVA in the Fantanele 220/110/20 kV substation – 1,077,551;
- Upgrading the 110/6 kV station from the Pestis 220/110/6 kV substation – 1,062,965;
- Technical upgrade of the Isaccea 400 kV substation - Stage I - replacing the compensation bobbins, the corresponding cells and the Stupina 400 kV cell – 1,004,798;
- Gutinas – Smardan 400 kV OHL d.c. – 928,054;
- Creating the coexistence conditions between the Iernut Ungheni 400(220) kV OHL in the 71-72 opening and the Brasov Targu Mures Cluj Oradea Ungheni Ogra highway, km 4+500 km 14+605 – 882,093;
- Suceava - Balti 400 kV OHL, for the part of the project on Romanian territory - 818,392;
- Regulating the coexistence between the Mintia-Sibiu 400 kV OHL, in the 6-8 opening, and the Lugoj-Deva highway, 4th lot, Ilia-Deva district, km 77+361 - km 99+500 – 743,770;
- Movement and protection of the high voltage electrical installations - 220 kV OHL on the route of the Sebes-Turda highway - 4th lot, the Cluj Floresti - Alba Iulia 220 kV OHL (178-179 crossing) – 617,712;
- Connecting the Isaccea - Varna 400 kV OHL and the Isaccea - Dobrudja 400 kV OHL in the Medgidia Sud 400 kV substation – 584,342;
- Upgrading the Dumbrava 220/110 kV substation – 558,920;

- Technical update of the Turnu Severin Est 220/110 kV substation - 542,783.

In 2017, the biggest transfers from tangible assets in progress to tangible assets are mainly represented by the startup of the investment objectives, as follows:

- Technical upgrade of the Bradu 400/220/110/20 kV substation – 84,925,346;
- Technical upgrade of the Campia Turzii 220/110/20 kV substation – 39,630,796;
- Replacing AT and TRAFO in electrical substations - Stage II – 19,806,190;
- Integrated security system in electric substations, stage IV: Rosiori 400/220 kV substation, the Oradea Sud 400/110/20 kV station, the Paroseni 220 kV substation, the Iernut 400/220/110/6 kV substation and the Gutinas 400/220/110 kV substation – 17,278,383;
- Urgent repair of the damage to the Iernut - Gadalin 400 kV OHL and the Iernut - Baia Mare 3 220kV OHL – 8,260,889;
- Upgrading the Suceava 110 kV and 20 kV substation – 6,583,432;
- Upgrading the Tihau 220/110 kV substation – primary equipment – 6,412,602;
- Deploying an optical fiber line between the Bradu 400/220/110 KV substation and the Stuparei 220/110 KV substation – 2,659,775;
- Motor vehicles_2017 – 2,616,294;
- Connecting the 147 MW Valea Dacilor WPP to the PTG – 2,400,930;
- Replacing the 110/20 kV TRAFO, 10MVA in the Fantanele 110/20 kV substation – 1,127,962;
- Upgrading the SCADA system for the Constanta Nord 400/110/10 kV substation – 986,064;
- Creating the coexistence conditions between the Iernut Ungheni 400/220 kV OHL in the 71-72 opening and the Brasov-Targu Mures-Cluj-Oradea-Ungheni-Ogra highway, km 4+500 km 14+605 – 882,094;
- Deposit power transformers for system reserves and isolated passages in the security stock of CNTEE "Transelectrica" - SA in the Sibiu Sud 400 kV substation – 845,925;
- Upgrading the control building from the Roman Nord 400/110/20 kV substation – 675,560;
- Special intervention beams, Universally Anchored Portal type for the 220-400 kV tension, including prefabricated foundations – 643,058;
- Movement and protection of the high voltage electrical installations - 220 kV OHL on the route of the Sebes-Turda highway - 4th lot, the Cluj Floresti - Alba Iulia 220 kV OHL (178-179 crossing) – 617,713;
- Replacing the connectors from electrical substations – 567,278.

The balance of tangible assets in progress on December 31st, 2017 is represented by the projects in progress, the most significant being listed below:

- 400 kV OHL interconnecting Resita (Romania) - Pancevo (Serbia) – 98,257,618;
- PTG connection of the Iveşti 300 MW WPP, Fălciu 1 88 MW WPP and Fălciu 2 18 MW WPP via the new Banca (400)/220/110 kV substation – 46,884,983;
- Technical upgrade of the Bradu 400/220/110/20 kV substation – 36,793,858;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - stage I - Portile de fier - (Anina) – Resita 400 kV OHL s.c. – 20,836,277;
- Extending the services providing business continuity and recovery after disasters – 14,413,918;
- Upgrading the 400/110/10 kV Cluj Est substation – 13,296,517;
- Replacing AT and TRAFO in electrical substations - Stage II – 11,639,718;
- Connecting the Isaccea - Varna 400 kV OHL and the Isaccea - Dobrudja 400 kV OHL in the Medgidia Sud 400 kV station – 10,752,585;
- Integrated security system in electric substations, stage IV - 10,308,122;
- Upgrading the Suceava 110 kV and 20 kV substation – 9,656,270;
- Cernavodă - Stâlpu 400 kV OHL d.c. and connection in Gura Ialomiţei – 8,363,002;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - stage I - Resita 400/220/110 kV station – 6,572,497;
- 400 kV HVDC Link (submarine cable Romania - Turkey) – 5,853,759;
- 400 kV OHL Gadalin - Suceava, including the NPS interconnection - 5,661,191;
- Upgrading the command-control-protection system of the Sardanesti 220/110/20 kV station – 5,660,476;
- Suceava - Balti 400 kV OHL, for the part of the project on Romanian territory - 4,430,641;
- Technical upgrade of the Hasdat 220/110 kV substation – 4,397,192;
- Reparation of the failure of the 110-120 terminals of the Bucharest Sud - Ghizdaru 220 kV OHL - 4,274,774;
- Gutinas – Smardan 400 kV OHL d.c. – 3,206,287;
- Extending the control system with new functions and IT registration of access in the objectives of CNTEE Transelectrica SA - 3,200,918;

- Converting of the Portile de fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV, stage II - Resita - Timisoara – Sacalaz 400 kV OHL d.c. (Timisoara 220/110 kV substation) - 3,197,788;
- Connecting the 136 MW wind power plant Platonesti, Ialomita county, to the Grid through constructing a 110 kV cell in the Gura Ialomitei 400/110 kV station – 2,889,337;
- Assembling the optic fiber and upgrading the system of distance protections on the Tantareni-Turceni 400 kV OHL d.c. and the Urechesti-Rovinari 400 kV OHL s.c. – 2,835,840;
- Upgrading the Arefu 220/110/20 kV station - 2,828,131;
- Integrated security system in electric substations, stage III - 2,798,024;
- Upgrading the Raureni 220/110/20 kV station - 2,753,614;
- Technical upgrade of the Tulcea Vest 400/110/20 kV substation - the construction part – 2,739,753;
- By-passing the Cetate 110 kV OHL 1 & 2 in the proximity of the Ostrovul Mare 110/20/6 kV substation - 2,578,438;
- PTG connection of Dumesti 99 MW WPP and Romanesti 30 MW WPP, Iasi county, through constructing a 110 kV line cell in the FAI 220/110 kV substation – 2,545,853;
- Security solution for implementing the security measures related to classified information – 2,012,114;
- Upgrading the 110/6 kV station from the Pestis 220/110/6 kV substation – 1,763,017;
- Executive - DCBPA/CPA: Consolidation, upgrading and extension of the CNTEE "Transelectrica" headquarters – 1,627,393;
- Upgrading the hardware and software platforms of the SCADA system in the Slatina 400/220 substation – 1,415,333;
- Technical upgrade of the Isaccea 400 kV substation - Stage I - replacing the compensation bobbins, the corresponding cells and the Stupina 400 kV cell – 1,243,115;
- Integrated security system at the new Banca 400/220/110 kV substation – 1,133,202;
- Deploying an optical fiber line between the Pitesti Sud substation and the remote control and installation supervision center of the Pitesti ST (SF) – 1,075,201;
- Upgrading the SCADA system for the Constanta Nord substation – 986,064;
- Upgrading the Dumbrava 220/110 kV substation – 927,421;
- Connecting the Stupina 400 kV substation to the PTG and connecting the Isaccea-Varna 400 kV OHL – 874,015;
- Replacing the connectors from electrical stations – 788,490;
- Ostrovu Mare 220 kV OHL double circuit - PTG – 754,874;
- Oradea – Beckescsaba 400 kV OHL – 740,728.

According to the provisions of Art. 46 of ANRE Order no. 59/2013 approving the Regulation on the consumers' connection to the public power grids, the receipt of the installations resulting from the works performed to build and commission the connection facilities is performed in accordance with the applicable legislation.
For the following projects included in outstanding tangible assets in progress, funded from the connection tariff, the technical conditions to prepare the Commissioning Minutes have not been met:

- Connection to the PTG of the Bogdanesti 56 MW WPP, Deleni 112.5 MW WPP, Viisoara Nord 1 20.8 MW WPP, Viisoara Nord 1 52.8 MW WPP, Viisoara Sud 47.5 MW WPP, in the area of certain localities in Vaslui county, via the new Banca 400/220/110 kV electrical substation – the work is completed, there is minutes upon completion of works no. 34759/14.11.2013; the contract is in force until 31.12.2022; total value of ongoing investment – 48,018,186;

- Connection to the PTG of the Dumesti 99 MW WPP and Romanesti 30 MW WPP, in the area of Dumesti and Romanesti localities, Iasi county, through a 110 kV line cell in the 220/110 kV FAI substation, Iasi county, in amount of 2,545,853 lei, minutes upon completion of works no. 14584/29.04.2014 is concluded in connection with the investment and the contract is in force until 31.12.2018;

Tangible assets were not revalued in 2017. The management concluded that:

- market prices did not change significantly as compared to 2016, when the Company performed the last revaluation, and
- there is no indication of impairment of the assets held by the Company both from internal and external sources.

Land plots have been revalued on December 31st, 2011, based on the market approach. Also, the "Other tangible assets" group was revalued on December 31st, 2011.

Buildings and special installations were revalued on December 31st, 2015 by SC JPA Audit & Consultanta SRL, independent evaluator authorized by the National Union of Authorized Evaluators in Romania.

The valuation was performed at fair value, assuming that the Company would further carry on its business by using the tangible assets in the existing structure. The following were not valued:

- fixes assets classified in Group 1 - "Constructions" represented by constructions registered in the Company's accounting records as aof 31st December 2015, fully depreciated, proposed for disposal;
- own sources used for the financing of the public domain assets registered in the Company's accounting records as of December 31st, 2015, fully depreciated, included in the inventory of the public state domain;
- own sources (structural funds and the connection fee) used for the financing of goods belonging to the public state domain , included in the inventory of the public domain and for which no depreciation was calculated.

The assets from the State's public domain representing finished non-current assets self-funded by the Company will be included in the inventory of assets belonging to the State's public domain after recovering the self-funding sources, when the inventory of goods belonging to the State's public domain is approved by Government Decision.

Buildings and special installations include mainly transformation substations and high voltage electricity lines. Machinery and equipment mainly include transformers and cells relating corresponding to the NPS of 110 kV, 220 kV, 400 KV and 750 kV.

As of December 31st, 2017 and December 31st, 2016, the Company did not have any assets pledged or mortgaged.

Fair value of property, plant and equipment

The Company's property, plant and equipment other than property, plant and equipment in progress are disclosed in the financial statements at revaluated amount, which is the fair value as of the date of valuation less accumulated depreciation and impairment adjustments.

The fair value of the Company's land plots was determined using the direct comparison method.

This method is recommended for properties when there is sufficient and reliable data on sale transactions or similar offers involving properties in the area. Analysis of prices at which the transactions were made or of the prices asked or offered for comparable properties is followed by corrections to such prices in order to quantify the differences between the prices paid, asked or offered due to differences between specific characteristics of each property, called elements of comparison.

The fair value of buildings, equipment and measurement devices has been determined through the cost approach.

This method assumes that the maximum value of an asset for an informed buyer is the amount needed to buy or build a new asset of an equivalent utility. When the asset is not new, all forms of impairment that can be assigned for those assets up to the valuation date should be subtracted from the current gross cost.

Information on the hierarchy of fair value as of December 31st, 2017 and December 31st, 2016:

	Level 1	Level 2	Level 3	Fair value as of December 31st, 2017
Land plots and land improvements	-	-	52,613,812	52,613,812
Buildings and special installations	-	-	1,171,084,853	1,171,084,853
Machinery and equipment	-	-	1,190,179,974	1,190,179,973
Control and measurement devices	-	-	97,866,680	97,866,680
Vehicles	-	-	11,355,671	11,355,671
Other property, plant and equipment	-	-	82,371,363	82,371,363

	Level 1	Level 2	Level 3	Fair value as of December 31st, 2016
Land plots and land improvements	-	-	52,672,879	52,672,879
Buildings and special installations	-	-	1,221,356,586	1,221,356,586
Machinery and equipment	-	-	1,235,621,141	1,235,621,141
Control and measurement devices	-	-	100,605,962	100,605,962
Vehicles	-	-	10,546,256	10,546,256
Other property, plant and equipment	-	-	95,455,906	95,455,906

There were no transitions between the fair value levels in 2017 or in 2016.

The value at cost of property, plant and equipment as of December 31st, 2017 and December 31st, 2016, net of accumulated expenses with depreciation and impairment is presented below:

	Value at cost December 31st, 2017	Value at cost December 31st, 2016
Land plots and land improvements	8,843,786	8,784,944
Buildings and special installations	783,669,036	744,290,077
Machinery and equipment	1,184,344,466	1,171,847,235
Control and measurement devices	99,619,188	98,781,910
Vehicles	10,486,786	10,479,432
Other property, plant and equipment	95,455,882	95,455,882
TOTAL	**2,182,419,144**	**2,129,639,480**

6. INTANGIBLE ASSETS

As of December 31st, 2017 and December 31st, 2016 the Company's intangible assets are as follows:

	Licenses and software	Intangible assets in progress	Total
COST			
Balance on January 1st, 2016	**68,419,502**	**31,902,650**	**100,322,152**
Additions, of which:	-	5,048,678	5,048,678
Transfers from intangible assets in progress	2,270,566	(2,270,566)	-
Transfers from tangible assets in progress	-	-	-
Disposals	(7,517,190)	(22,950,765)	(30,467,955)
Balance on December 31st, 2016	**63,172,878**	**11,729,997**	**74,902,875**
Balance on January 1st, 2017	**63,172,878**	**11,729,997**	**74,902,875**
Additions	-	1,919,186	1,919,186
Transfers from intangible assets in progress	1,761,191	(1,761,191)	-
Transfers from tangible assets in progress	-	1,087,634	1,087,634
Disposals	(7,334,214)	(78,552)	(7,412,766)
Balance on December 31st, 2017	**57,599,855**	**12,897,075**	**70,496,930**
ACCUMULATED DEPRECIATION			
Balance on January 1st, 2016	**64,998,482**	**-**	**64,998,482**
Depreciation expenses	2,593,261	-	2,593,261
Accumulated depreciation of disposals	(7,517,190)	-	(7,517,190)
Balance on December 31st, 2016	**60,074,553**	**-**	**60,074,553**
Balance on January 1st, 2017	**60,074,553**	**-**	**60,074,553**
Depreciation expenses	1,842,159	-	1,842,159
Accumulated depreciation of disposals	(7,334,215)	-	(7,334,215)
Balance on December 31st, 2017	**54,582,497**	**-**	**54,582,497**

	Licenses and software	Intangible assets in progress	Total
ADJUSTMENTS FOR IMPAIRMENT			
Balance on January 1st, 2016	**-**	**753,979**	**753,979**
Expenditures with impairment adjustments		(382,971)	**(382,971)**
Balance on December 31st, 2016	**-**	**371,008**	**371,008**
Expenditures with impairment adjustments		(19,800)	**(19,800)**
Balance on December 31st, 2017	**-**	**351,208**	**351,208**
BOOK VALUE			
Balance on January 1st, 2016	**3,421,020**	**31,148,671**	**34,569,691**
Balance on December 31st, 2016	**3,098,325**	**11,358,989**	**14,457,314**
Balance on December 31st, 2017	**3,017,358**	**12,545,867**	**15,563,225**

In 2017, the biggest transfers from intangible assets in progress to intangible assets are mainly represented by the startup of the investment objectives, as follows:

- Upgrading the SCADA system for the Constanta Nord 400/110/10 kV substation with 8 types of licenses – 571,350.
- Licenses corresponding to the technical upgrade of the Campia Turzii 220/110/20 kV substation – 568,075;
- SCADA (software) programs in the Bradu 400/220/110/20 kV substation – 304,871;
- Software for the integrated security management system – 173,658;

For the intangible assets in progress, the largest entries in 2017 were:

- Replacement of EMS SCADA AREVA system components - software component, hardware component – 1,221,966;
- Upgrade of the existing antimalware solution – 45,414;

The balance of intangible assets in progress on December 31st, 2017 is mainly represented by:

- Implementing a system of Electronic Archiving and Document Management within CNTEE Transelectrica SA – 5,474,290;
- Replacement of EMS SCADA AREVA system components - software component, hardware component – 4,000,079;
- MIS extension – advanced reporting and budget planning solution – 3,047,834;
- Upgrading the SCADA system for the Constanta Nord substation – 571,350.

On December 31st, 2017, the tangible assets also included down payments amounting to 31,180,858, granted to the supplier ELCOMEX - IEA SA for performing the projects:

- Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja OHL to the Medgidia Sud 400 kV substation – down payment amounting to 9,948,593;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - Stage I - Resita 400/220/110 kV substation – down payment amounting to 21,232,265.

The down payments made to ELCOMEX - IEA SA have been secured with the insurance policies issued by Asito Kapital S.A.

On April 7th, 2017 the Court of Constanta, Section II Civil, by Hearing protocol no. 294/2017, upheld the application for a declaration of insolvency of the debtor Elcomex - IEA SA, naming Pricewaterhouse Coopers Business Recovery Services

IPURL as insolvency administrator. Following the declaration of insolvency of Elcomex IEA SA, CNTEE Transelectrica SA entered on its statement of affairs for the amount of 31,189,487, representing the consideration of the down payment made to SC Elcomex IEA SA for the agreements no. C163/29.07.2015 and C255/18.11.2015 and other expenses. Starting with June 30th, 2017, the down payments amounting to 31,180,858 have been reclassified from "Tangible Assets" to "Receivables", where further details are available.

7. LONG-TERM RECEIVABLES

On December 31st, 2017 the Company no longer registers long-term receivables representing trade receivables with maturity of over 1 year that have been spread up for payment, associated to the bonus type support scheme for high efficiency cogeneration promotion, following the integral collection of the amount of 4,557,606 representing the overcompensation for the year of 2016, amount that should have been collected starting with the month of October 2018, according to the concluded agreements.

8. INVENTORIES

On December 31st, 2017 and December 31st, 2016, the inventories (at net value) were presented as follows:

	December 31st, 2017	December 31st, 2016
Spare parts	23,645,784	21,904,697
Consumables and other materials	7,352,525	7,226,833
Auxiliary materials	577,400	637,832
Other inventories	438,943	640,286
Total	**32,014,652**	**30,409,648**

As of December 31st, 2017 and December 31st, 2016, the inventories impairment adjustments are presented as follows:

	December 31st, 2017	December 31st, 2016
Adjustments for impairment of consumables	5,672,349	4,504,931
Adjustments for impairment of other materials	1,838,752	1,924,134
Adjustments for impairment of packaging	155,991	34,293
Total	**7,667,092**	**6,463,358**

As of December 31st, 2017 and December 31st, 2016, the evolution of inventories impairment adjustments are presented as follows:

	December 31st, 2017	December 31st, 2016
Balance on the 1st of January	**6,463,358**	**3,962,174**
Inventories impairment adjustments	2,412,507	4,110,045
Reversal of inventories impairment adjustments	(1,208,773)	(1,608,861)
Balance at the end of the period	**7,667,092**	**6,463,358**

8. INVENTORIES (continuation)

During 2017, the expenditures incurred with materials and spare parts consumption are presented as follows:

	December 31st, 2017	December 31st, 2016
Expenditures on spare parts	2,878,154	2,229,478
Expenditures on consumables	1,344,894	1,199,932

Expenditures on other materials	1,419,908	1,536,239
Expenditures on auxiliary materials	386,521	406,494
Expenditures on fuel	2,287,376	2,303,746
Total	**8,316,853**	**7,675,889**

9. TRADE AND OTHER RECEIVABLES

On December 31st, 2017 and December 31st, 2016, the trade receivables and other receivables are presented as follows:

	December 31st, 2017	**December 31st, 2016**
Trade Receivables	846,827,429	865,338,164
Other Receivables	116,536,143	129,703,771
Down payments to suppliers	11,102,342	19,155,031
Non-reimbursable funds to be received	-	-
VAT to be recovered	47,005,991	28,432,828
Adjustments for impairment of uncertain trade receivables	(122,650,719)	(100,578,031)
Adjustments for impairment of other receivables	(80,291,307)	(90,080,080)
Total	**818,529,879**	**851,971,683**

The structure of trade receivables is as follows:

	December 31st, 2017	**December 31st, 2016**
Customers on the electricity market, out of which:	845,529,240	863,706,722
- Clients - operational activity - energy	382,602,892	428,633,645
- Clients - balancing market	243,547,548	255,980,457
- Clients - bonus type support scheme to promote the high-efficiency cogeneration	219,378,800	179,092,620
Clients from other activities	1,298,189	1,631,442
Total Trade Receivables	**846,827,429**	**865,338,164**

- CNTEE Transelectrica SA operates based on the Operating License No. 161/2000 issued by ANRE, as updated by the Decision of ANRE Chairman no. 802/May 18th, 2016, for the transmission of electricity, the provision of the system service and for the management of the balancing market.

On December 31st, 2017, the current customers in the operational activity registered a decrease compared to December 31st, 2016, which was mainly determined by:

- fall in the electricity capacity provided to consumers in December 2016 compared to December 2017;
- decrease of the average tariff approved by ANRE for these services

The main current customers on the electricity market are represented by: CIGA Energy, RAAN, Electrocentrale Bucuresti, Societatea Energetica Electrica, Electrica Furnizare, Enel Energie Muntenia SA, Enel Energie SA, E.ON Energie Romania, Complexul energetic Oltenia, Petprod. The weight of the main customers on the electricity market is about 54% in the Total Gross Receivables.

CNTEE Transelectrica SA operates its activities related to the bonus type support scheme for promoting the high efficiency cogeneration, acting as the administrator of the support scheme according to the provisions of the Government Decision no. 1215/2009, as amended and supplemented, "the main tasks being to collect, on a monthly basis, the contribution for cogeneration and the monthly payment of bonuses

On December 31st, 2017, the Company registered receivables to be cashed from the bonus type support scheme for promoting the high efficiency cogeneration in a proportion of approximately 26% (December 31st, 2016 - 22%) of the total trade receivables.

The customers from the bonus type support scheme for promoting the high-efficiency cogeneration registered an increase in the receivables on December 31st, 2017, mainly determined by the receivables amounting to 139,913,507, registered according to the ANRE Decisions on the overcompensation of the activity regarding the support scheme for the year 2016, for which

invoices were issued in the month of March 2017.

In the timeframe January 1st – December 31st, 2017, the amounts related to the bonus type support scheme have increased compared to December 31st, 2016, mainly due to the over-compensation decisions for 2016, issued in 2017. The overview of the cashing of receivables for the cogeneration scheme is as follows:

- the amount of 1,393,972 representing the overcompensation for the year of 2014, via bank transactions from Termoficare Oradea (for Electrocentrale Oradea, according to the staging Convention);

- the amount of 13,233,556 representing the overcompensation for the year of 2015, via bank transactions from Termoficare Oradea (for Electrocentrale Oradea, according to the staging Convention);

- the amount of 83,233,120 representing overcompensation for the year of 2016, on the grounds of reciprocal compensations made via the Management and Informatics Institute (on the grounds of DG no. 685/1999) (the amount of 29,865,930 with Enet SA, Modern Calor, Rulmenti Barlad, Soceram, Thermoenergy Group, Veolia Energie Iasi, Veolia Energie Prahova, CET Govora) and receipts in the bank account dedicated to the administration of the support scheme (the amount of 53,367,190 from CET Grivita, Electrocentrale Bucuresti, Termoficare Oradea, Thermoenergy Group, Veolia Energie Prahova)<

- the amount of 70,765 representing undue bonus for the year of 2016, on the grounds of compensations made via the Management and Informatics Institute (on the grounds of DG no. 685 / 1999) – CET Arad.

On December 31st, 2017, the Company registered receivables amounting to 168,849,902, represented by the issued invoices under the bonus type support scheme for high efficiency cogeneration, out of which:

- overcompensation for the timeframe 2011 - 2013 in the amount of 76,702,140, namely from RAAN - 63,467,054 and CET Govora SA - 13,235,086;

- undue bonus for 2014 in the amount of 3,914,960, namely from RAAN – 1,981,235, CET Govora – 1,933,725;

- undue bonus for 2015 in the amount of 563,899, namely from CET Govora - 534,377, Interagro - 29,523;

- overcompensation for 2015 in the amount of 9,774,958, namely from Electrocentrale Oradea (debt taken over by Termoficare Oradea);

- overcompensation for 2016 in the amount of 56,680,387, namely from Electrocentrale Bucuresti – 56,680,387;

- contribution for cogeneration not collected from the suppliers of electricity consumers, in the amount of 21,213,558, namely from: Transenergo Com – 5,882,073, PetProd - 4,391,193, Romenergy Industry – 2,680,620, RAAN- 2,385,922, Arelco Power – 2,378,723, UGM Energy – 1,814,175, CET Govora – 900,864, KDF Energy – 887,527 and others.

For discharging the receivables generated by the overcompensation and the undue bonus, the Company requested the reciprocal compensations from the qualified producers in the support scheme. For producers (RAAN, Electrocentrale Bucuresti, CET Govora) that have not agreed to this way of discharging the reciprocal receivables and debts, the Company has applied and continues to apply the provisions of Article 17 (5) of the Order of ANRE Chairman no. 116/2013 for approving the Regulation on determining the way to collect the contribution for high efficiency cogeneration and payment of the bonus for the electricity produced in high efficiency cogeneration: "if the manufacturer did not make the payment in full to the administrator of the support scheme for its obligations resulted in accordance with the provisions of this Regulation, the administrator of the support scheme pays to the producer the difference between the invoices issued by the producer and the payment obligations of the producer on the support scheme, with explicit mention on the payment document of the respective amounts", and detained from payment the amounts due related to the corresponding support scheme.

CNTEE Transelectrica SA has concluded an agreement with CET Govora on compensation and rescheduling of payments for the amounts representing the equivalent receivables from the counter value of the overcompensation for the timeframe 2011 - 2013 and of the undue bonus for 2014 (Agreement no. C 135/June 30th, 2015 and Addendum no. 1/August 4th, 2015). The period of the Agreement was 1 year (timeframe July 2015 - August 2016) and stipulated the Company's right to calculate and collect payment penalties over the installment period.

According to the Agreement, the Company's receivables to be collected from CET Govora SA were compensated with the debts to CET Govora SA, represented by the cogeneration bonus for the period May 2014 - October 2015 detained pursuant to the Art. 17 (5) from the Order of the ANRE Chairman no. 116/2013 and the provisions of the Agreement, in the amount of 40,507,669.

Following the suspension in court, by Civil sentence no. 3185/November 27th, 2015, the ANRE Decision no. 738/March 28th, 2014 on setting the overcompensation amount for the timeframe 2011 - 2013, CET Govora SA no longer respected the

obligations undertaken according to the Agreement.

Starting with May 9th, 2016, the general insolvency proceedings were opened for CET Govora. To recover its liabilities recorded before the insolvency proceedings, the Company applied the specific procedures provided by the Law no. 85/2014 on Insolvency and requested admission of its liabilities, according to the law.

Given the aforementioned facts, starting with May 9th, 2016, the Company has terminated the enforcement of article 17 (5) from the Order of ANRE Chairman no. 116 / 2013 on approving the Regulation regarding the settlement of the collection procedure of the high efficiency cogeneration contribution and the payment of the bonus for the electricity produced via high efficiency cogeneration, and has paid the cogeneration bonus to CET Govora on a monthly basis.

Via Civil Decision no. 2430/October 5th, 2016, the High Court of Cassation and Justice admitted the appeal declared by ANRE against Civil Ruling no. 3185/November 27th, 2015, has partially cancelled the contested sentence and has rejected the suspension request lodged by CET Govora, the judgement being final. Thus, starting with 05.10.2016, the effects of the ANDRE Decision no. 738/28.03.2014 are no longer suspended, being in full effect.

Under these circumstances, the Company enforces the provisions of article 17 (5) of the ANRE Order no. 116 / 2013 for the reciprocal debts and receivables occurred after the insolvency proceedings, retaining the bonus owed to CET Govora SA up to the amounts unpaid to the Company according to the support scheme.

In the month of September 2016, CNTEE Transelectrica SA has concluded an agreement with SC Termoficare Oradea, to take over the debt of SC Electrocentrale Oradea, representing the overcompensation for the year 2014 and 2015. The overtaken debt, in the amount of 29,259,377, has been spread over 24 monthly instalments (October 31st, 2016 - September 30th, 2018). Taking into consideration the Government Decision 925/2016, as subsequently amended and supplemented, presented above in Note 1, the Company does not register provisions for the support scheme, the unrecovered value of these receivables being included in the cogeneration contribution.

Other receivables

On December 31st, 2017, other receivables in the amount of 116,536,143mainly included:

- late payment penalties calculated to late paying clients, amounting to 64,817,416 (out of which the amount of 26,021,403 represents penalties in relation to the support scheme). The largest penalties for late payment have been registered by the following customers: RAAN (16,901,449), SC CET Govora (9,606,504), SC Eco Energy SRL (8,909,843), SC Petprod SRL (8,894,655), Total Electric Oltenia (3,288,967), Arcelor Mittal Galati (2,952,319), Also Energ (2,121,010). For the penalty charges for late payment of the receivables from operational activities, depreciation adjustments were recorded.

- compensations owed by suppliers for not delivering electricity (Arelco Power 2,816,658 and Enol Grup 2,541,312).

Impairment adjustments were recorded for the compensations owed by suppliers from operating activities.

- the down payments granted to the supplier ELCOMEX - IEA SA amounting to 31,180,858, to which penalties amounting to 687,458 have been added. The down payments have been granted to the supplier ELCOMEX - IEA SA for performing the following projects:

  - Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja OHL to the Medgidia Sud 400 kV substation – down payment amounting to 9,948,593;

Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - Stage I - Resita 400/220/110 kV substation – down payment amounting to 21,232,265.

The down payments made to ELCOMEX - IEA SA are secured with the insurance policies issued by Asito Kapital S.A.
On April 7th, 2017 the Court of Constanta, Section II Civil, by Hearing protocol no. 294/2017, upheld the application for a declaration of insolvency of the debtor Elcomex - IEA SA, naming Pricewaterhouse Coopers Business Recovery Services IPURL as insolvency administrator.

On the day of insolvency, CNTEE Transelectrica SA held the following agreements concluded with SC Elcomex IEA SA: C163/29.07.2015: "Converting the Portile de Fier – Resita – Timisoara – Sacalaz – Arad to 400 kV / the 400/220/110 kV Resita substation" and C255/18.11.2015 "Connecting the OHL 400 kV Isaccea-Varna and OHL 400 kV Isaccea-Dobruja in the 400 kV Medgidia Sud station, stage I". Following the declaration of insolvency of SC Elcomex IEA SA, CNTEE Transelectrica SA entered on its statement of affairs for the amount of 31,189,487 lei, representing the consideration of the

down payment made to SC Elcomex IEA SA for the agreements no. C163/29.07.2015 and C255/18.11.2015 and other expenses.

Pricewaterhouse Coopers Business Recovery Services IPURL notifies CNTEE Transelectrica on August 7th, 2017, regarding the cancellation of the agreement C 163/29.07.2015 "Converting the Portile de Fier – Resita – Timisoara – Sacalaz – Arad to 400 kV / the 400/220/110 kV Resita substation".

On August 8th, 2017, the judiciary administrator Pricewaterhouse Coopers Business Recovery Services IPURL considers itself bound to note the cancellation by CNTEE Transelectrica SA of the agreement no. C255 from November 18th, 2015, regarding "Connection of the Isaccea-Varna 400 kV OHL and Isaccea-Dobruja 400 kV OHL in the Medgidia Sud 400 kV OHL, Stage I", notified by the Company with letter no. 24597 from July 5th, 2017, and at the same time the termination of the agreement on the initiative of CNTEE Transelectrica SA.

Given that to the date of drafting these financial statements, the amounts guaranteed by ASITO KAPITAL SA for the payment of down payments have not been recovered, the Company registered on December 31st, 2017, impairment adjustments amounting to 31,180,858.

On July 1st, 2017, the Company submitted an application for summons regarding the issuance of a payment order, an action subject to the **case file no. 24552/3/2017 on the docket of the Bucharest Court**, Section VI Civil, requesting the Court to rule a decision obliging the debtor ASITO KAPITAL SA to pay the amount of **7,058,773.36 Euro** *(the equivalent of 31,180,857.96 lei)*, representing guarantee policies for the down payments no. BR – 1500544/November 18th, 2015, and no. BR – 1500520/July 29th, 2015.

At the hearing from November 7th, 2017, after deliberation, the Bucharest Court ruled the following solution, in short:

- Admits the request.

- Orders the debtor to pay, within 20 days from notification of this decision, the amount of 2,237,750.83 euro (the equivalent of 9,948,592.64 lei at the exchange rate of 4.4458 euro), representing the down payment which was not reimbursed but guaranteed via letter of guarantee no. BR-1500544/18.11.2015;

- Orders the debtor to pay, within 20 days from notification of this decision, the amount of 4,821,022.53 euro (the equivalent of 21,233,265.32 lei at the exchange rate of 4.4041 euro), representing the down payment which was not reimbursed but guaranteed via letter of guarantee no. BR-1500520/29.07.2015;

- Orders the debtor to pay, within 20 days from notification of this decision, the amount of 200 lei representing legal expenses. With right of request in annulment within 10 days from notification. Document: Decision 4067/2017 - 07.11.2017.

By the date of drafting these financial statements, Decision 4067/2017 - 07.11.2017 has not been drafted and communicated in order to be enforced.

- receivables from OPCOM representing VAT for the contribution in kind to the subsidiary's equity, amounting to 4,517,460;
- deferred expenses amounting to 4,807,348 mainly represented by the advances on contracts concluded with the suppliers of electricity needed for covering the own technological consumption for future periods (3,321,562), a guarantee fee for the BEI 25710 loan (83,475) and commission of ING credit granting (354,799), maintenance and technical assistance (97,220), rents (599,548);

- other long-term receivables amounting to 4,517,259, out of which 4,199,505 represent guarantees for temporary occupation of the land calculated and retained in accordance with Article 39 (1), (2) and (5) of the Law no. 46 / 2008 on the Forestry Code, in order to achieve the investment objective Resita – Pancevo (Serbia) 400 kV OHL

Down payments to suppliers

On December 31st, 2017, the down payments to suppliers are represented by the suppliers who are debtors for services amounted to 11,102,342, out of which 11,082,612 represent amounts from transactions related to the price coupling mechanism. Application of the mechanism coupling through the price began on November 19th, 2014, the date at which the project "4 Market Market Coupling" which provides the unification of the electricity markets DAM Square (Next Day Market) from Romania, Hungary, Czech Republic and Slovakia entered in the operating phase. Within the price coupling mechanism for the day-ahead markets, the electricity exchanges correlate the day-ahead electricity transactions based on bids, taking into account the interconnection capacity provided by the TSOs, by which it is implicitly allocated CNTEE Transelectrica SA, acting as TSO, transfers the electricity both in physical and commercial terms to the neighboring TSOs

(MAVIR-Hungary) and manages the congestion revenues along the respective interconnection (Article 139 from ANRE Order no. 82/2014), while in relation to SC OPCOM SA it acts as Implicit Participant on the Day-Ahead Market.

As a Shipping Agent and Implicit Participant, CNTEE Transelectrica SA has the commercial task to settle the power traded between SC OPCOM SA and MAVIR.

Adjustments for depreciation of trade receivables, of uncertain trade receivables and of other uncertain receivables

Transelectrica's policy is to register impairments amounting to 100% for clients in litigation, under insolvency and bankruptcy, and 100% from trade receivables and other receivables not collected for more than 180 days, except for outstanding receivables generated by the support scheme. The Company also makes a case by case analysis of uncollected trade and other receivables.

On December 31st, 2017, the highest adjustments of depreciation, calculated for the trade receivables and related penalties, have been recorded for SC Petprod SRL (23,539,650), SC Eco Energy SRL (24,736,066), Arelco Power (17,359,453), SC Total Electric Oltenia SA (14,185,577), Romenergy Industry (13,512,997), Elsaco Energy (9,293,972), Also Energ (7,177,167), RAAN (6,235,210), CET Brasov (4.664.627), OPCOM (4,517,460). The Company took the following measures in order to recover the impaired receivables: court proceedings, entering on the statement of affairs, requesting clarifications from ANAF (regarding the VAT collected from Opcom) and so on.

The Company's exposure to the collection risk, as well as the value adjustments for trade receivables, are presented in Note 29.

10. OTHER FINANCIAL ASSETS

On December 31st, 2017 and December 31st, 2016, the other financial assets were presented as follows:

	December 31st, 2017	December 31st, 2016
Bank deposits with maturity larger than 90 days	-	135,090,000
Total	**-**	**135,090,000**

On December 31st, 2017, the Company has no bank deposits with maturity larger than 90 days.

11. CASH AND CASH EQUIVALENTS

On December 31st, 2017 and December 31st, 2016, the cash and cash equivalents were presented as follows:

	December 31st, 2017	December 31st, 2016
Current accounts and bank deposits, out of which:	520,708,388	933,616,367
- cash and deposits from high efficiency cogeneration	19,172,948	107,811,909
- cash from revenues related to interconnection capacity allocation used for grid investments	84,247,056	77,026,910
- cash from the connection fee	31,152,565	22,532,536
Petty cash	37,850	44,789
Other cash equivalents	262	37
Total	**520,746,500**	**933,661,193**

The bank deposits with initial maturity smaller than 90 days, constituted with cash available in current accounts (including cogeneration deposits) amounted to 251,047,468 at December 31st, 2017 and to 688,114,823 at December 31st, 2016.

12. SHAREHOLDERS' EQUITY

Share capital

According to GEO 86/2014 on the establishment of reorganization measures at central public administration level and for modifying and completion of some normative acts, on February 20th, 2015 was recorded in the Company's shareholder Register the transfer of 43,020,309 shares from the account of the Romanian State from the administration of the General Secretariat of Government, in the account of the Romanian State in the management of the Ministry of Economy, Trade and Tourism.

Under the provisions of Article 2 of Government Emergency Ordinance no. 55/November 19th, 2015 on the establishment of reorganization measures at the central government level and to supplement several acts, the Ministry of Economy, Trade and Business Environment Relationship (MECRMA) was incorporated by reorganizing and taking over the activities of the Ministry of Economy, Trade and Tourism, which was dissolved, and by merging and structures in the field of small and medium businesses of the Ministry of Energy, Small and Medium Enterprises and Business Environment.

According to the provisions of GD no. 27/January 12th, 2017 on the organization and functioning of the Ministry of Economy, the Company functions under the authority of the Ministry of Economy.

On March 3rd, 2017 the transfer in the amount of 43,020,309 shares was registered in the Company's Shareholder Register, from the account of the Romanian State from the administration of the Ministry of Economy, Trade and Tourism, in the account of the Romanian State in the administration of the Ministry of Economy.

At the end of each reporting period, the subscribed and paid share capital of the Company amounted to 733,031,420 is divided into 73,303,142 ordinary shares with a nominal value of 10 lei/share and corresponds to the one registered in the Trade Register.

The shareholder structure on December 31st, 2017 and on December 31st, 2016 was as follows:

	December 31st, 2017		December 31st, 2016	
Shareholder	**Number of shares**	**% of the Share capital**	**Number of shares**	**% of the Share capital**
Romanian State through MECRMA	43,020,309	58.69%	43,020,309	58.69%
Other legal person shareholders	20,689,339	28.22%	25,797,725	35.19%
DEDEMAN SRL	4,192,363	5.72%	-	-
Other natural person shareholders	5,401,131	7.37%	4,485,108	6.12%
Total	**73,303,142**	**100.00%**	**73,303,142**	**100.00%**

12. SHAREHOLDERS' EQUITY (continued)

The Company recognizes changes in the share capital in accordance with the legislation in force and only after their approval in the Extraordinary General Assembly of Shareholders and their registration with the Trade Registry.

As of December 31st, 2017 and December 31st, 2016, the share capital is as follows:

	December 31st, 2017	December 31st, 2016
Share capital (nominal value)	733,031,420	733,031,420
Share capital balance	**733,031,420**	**733,031,420**

The shareholders are entitled to receive dividends and are entitled to one vote per share at the meetings of the Company.
The value of shareholders' dividends distributed from the profit of 2016 according to the General Assembly Decision no. 4/April 27th, 2017 amounts to 165,445,191, and their payment is done through the Central Depository starting with June 28th, 2017. The amount of unpaid dividends as of December 31st, 2017 is 2,414,333 (December 31st, 2016: 1,312,744).

Share premium

All new shares issued within the capital increase by the primary initial public offering from 2006 were subscribed and fully paid in against the issue price. The share premium amounting to 49,842,552, being the difference between the share issue price and the share nominal value, was recorded in the Company's reserve account.

Legal reserves

Legal reserves in the amount of 118,961,487 as of December 31st, 2017 and 116,360,295 as of December 31st, 2016 represent legal reserves constituted according to the statutory legislation and cannot be distributed. The Company transfers to this reserve at least 5% of its annual accounting profits (GEO no. 64/2001, Law no. 227/2015) until the cumulative balance reaches 20% of its paid in share capital.

Revaluation reserves

The revaluation reserve amounts to 499,921,435as of December 31st, 2017 and 549,088,226 as of December 31st, 2016. The latest revaluation of buildings and special installations was made on December 31st, 2015 by SC JPA Audit & Consultanta SRL, independent evaluator authorized by the National Union of Authorized Evaluators in Romania ("ANEVAR").

Other reserves

As of December 31st, 2017, other reserves amount to 56,953,503 (56,953,728 as of December 31st, 2016), of which 20,952,260 represents the value of structural funds received from the Managing Authority for Sectoral Operational Program "Increase of Economic Competitiveness" and 32,718,386 represents the value of subsidies from connection tariffs, which were used to finance received investment works in assets that are part of the State's public domain, and 3,282,857 represents the value of the land for which certificates authenticating the ownership rights were obtained. As described in Note 26, the land for which the certificates authenticating the ownership rights are obtained is first recognized at fair value in reserve and followed by an increase in share capital after it is recorded with the Trade Registry Office.

Retained earnings

Retained earnings amount to 1,258,921,369 as of December 31st, 2017 (1.602.438.193 as of December 31st, 2016).

As of December 31st, 2017, the Company recorded a positive retained earnings over the surplus realized from revaluation reserves in the amount of 834,510,994, out of which 189,989,113 surplus from non-taxable revaluation reserves upon change of destination and 644,521,881 surplus from reserves from taxable revaluation to destination change.

As of December 31st, 2017, the actuarial loss recorded in the retained earnings is in the amount of 16,634,230. This amount resulted from the application of IAS 19 Employee Benefits (Note 15) and represents the actuarial loss from the previous periods.

Retained earnings issued from the correction of the modified accounting errors differed from the loss recording, resulting from the additional payment obligations recorded in the ANAF-DGAMC tax inspection report amounting to 75,727,088. Thus, according to Address No. 1649 of 16.04.2018 in 2017, the retained earnings were adjusted by the amount of 75,727,088 representing additional payment obligations calculated up to 31.12.2016 out of the amount of 99,013,399 established by ANAF-DGAMC through the Tax Inspection Report.

From the profit realized on December 31st , 2017 (28,267,175) , the amount of 25,665,984 was allocated to "Other reserves", out of which:

- the amount of 13,124,958 represents the partial allocation of the net revenues from the allocation of interconnection capacities made in 2017, up to the net profit realized on December 31st , 2017. According to Regulation (EC) No 714/2009 and ANRE Order no. 53/2013 the revenues from the allocation of the interconnection capacities are used to make investments in the electricity transmission network for maintaining or increasing the interconnection capacities. Under these conditions, the revenues realized in 2017 from the allocation of the interconnection capacity (net of profit tax and legal reserve) were partially allocated to the destination provided in art. 1 letter d) of GO no. 64/2001 "Other distributions provided by law "up to the net profit realized on December 31st 2017.

In 2017 revenues from the allocation of the interconnection capacity were made in the amount of 75,726,834. On allocation of revenues from the allocation of the interconnection capacity made in 2017 on the destination "other assignments provided by the law", the negative correction in the amount of 16,747,482 of the regulated income has been considered as a correction element from the tariff period 1 July 2015 - June 30, 2016 (positive correction in the amount of 2,600,757) and from the tariff period 1 July 2016 to 30 June 2017 (negative correction in the amount of 19,348,239), applied by ANRE to determine the average electricity tariff for the tariff period July 1, 2017 - June 30, 2018. Thus, the amount of 16,747,482 lei does not become

the source of financing the investments in maintaining and / or increasing the cross-border interconnection capacity of the Romanian transport network, this amount being used in the calculation of the transport tariff as a source complementary to the revenue obtained from the transport tariff to cover the regulated costs for the tariff period is July 1, 2016 - June 30, 2017. In these circumstances, the revenues realized in 2017 from the allocation of the interconnection capacity (net profit and legal reserve), to be allocated for the creation of reserves, in order to realize investments in the network for maintaining or increasing interconnection capacities, in accordance with Regulation (EC) No 714/2009 and ANRE Order no. 53/2013, amounted to 47,065,524..

- the amount of 12,541,025 represents the distribution in reserve of the amount of the profit for which the profit tax exemption was granted, except the part related to the legal reserve, starting with July 1, 2014, according to the provisions of art. 22 of Law no. 227/2015 regarding the Fiscal Code, with subsequent amendments and completions.

The distribution of net profit as at 31 December 2017

The distribution of accounting profit on legal destinations after the deduction of the profit tax as of December 31st 2017, is the following:

Destination	**Amount**
Accounting profit remaining after deducting profit tax on December31st , 2017	28,267,175
Distributing accounting profit on the following destinations:	
Legal reserve (5%)	2,601,192
Other assignments provided by law - exemption from the payment of tax on reinvested profits	12,541,025
Other allocations provided by the law - revenues generated in 2017 from the allocation of the interconnection capacity (net of profit tax and legal reserve) - partial repartition, up to the accounting profit remaining after the deduction of the profit tax on December 31st ,2017	13,124,958
Non-distributed profit	-

The calculation of the distribution for the profit after the deduction of the profit tax on 31 December 2017 was made in accordance with the provisions of the legislation in force, namely:

- GO no. 64/2001 - on the distribution of profits to the national companies, the national companies and the companies with full or majority state capital, as well as the autonomous regies, approved with amendments by the Law no. 769/2001, as subsequently amended and supplemented;

- Law no. 227/2015 regarding the Fiscal Code, as subsequently amended and supplemented;

- Council Regulation (EC) (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) 1228/2003;

- ANRE Order no. 53/2013, with the subsequent modifications and completions regarding the approval of the Tariff Pricing Methodology for the electricity transmission service;

- The approval tariff for the average tariff for the transport service sent by ANRE with the address no. 48430 / 14.07.2017 on the data taken into consideration by ANRE in setting tariffs for the tariff period 1 July 2017 - 30 June 2018 (including the correction for revenues from the allocation of interconnection capacity).

The 2017 accounting profit after deducting the profit tax is allocated to the following destinations:

a) - the legal reserve amounting to 2,601,192, determined in the 5% quota according to the provisions of art. 26 par. (1) lit. a) of Law no. 227/2015 regarding the Fiscal Code, as subsequently amended and supplemented;

b) - other assignments provided by law in the amount of 12,541,025, represented by the exemption from the payment of the reinvested profit tax, according to the provisions of art. 22 of Law no. 227/2015 regarding the Fiscal Code, as subsequently amended and supplemented;

c) - other assignments provided by law in the amount of 13,124,958, represented by the revenues realized in 2017 from the allocation of the interconnection capacity (net profit and legal reserve), allocated according to the provisions of art. 1 lit. d) from GO no. 64/2001 on the distribution of profits to national companies, national companies and companies with full or majority state capital, as well as to the autonomous regies, as subsequently amended and supplemented, corroborated with the provisions of Regulation (EC) no. 714/2009 and the ANRE Order no. 53/2013 which provides for the use of revenues from the allocation of interconnection capacities for network investment to maintain or increase interconnection capacities.

In distributing the revenues from the allocation of the interconnection capacity made in 2017 on the destination "other assignments provided by the law", the negative correction in the amount of 16,747,482 of the regulated income was taken as a

correction element from the tariff period 1 July 2015 - June 30, 2016 (positive correction in the amount of 2,600,757) and from the tariff period 1 July 2016 to 30 June 2017 (negative correction in the amount of 19,348,239), applied by ANRE to determine the average electricity tariff for the tariff period July 1, 2017 - June 30, 2018. Thus, the amount of 16,747,482 lei does not become the source of financing the investments in maintaining and / or increasing the cross-border interconnection capacity of the Romanian transport network, this amount being used in the calculation of the transport tariff as a source complementary to the revenue obtained from the transport tariff to cover the regulated costs for the tariff period July 1, 2016 - June 30, 2017.

Under these conditions, the revenues realized in 2017 from the allocation of the interconnection capacity (net profit and legal reserve), to be allocated for the creation of reserves, in order to realize investments in the network to maintain or increase the interconnection capacities, according to the Regulation (EC) No 714/2009 and ANRE Order no. 53/2013, amounted to 47.065.524..
The 2017 accounting profit after the deduction of the profit tax allowed the distribution on the "Other reserves" destination for the realization of investments in the network to maintain or increase the interconnection capacities only of the amount of 13,124,958, within the limit of the net profit realized. Thus, for the amounts related to the remaining revenues not covered by the profit of 2017, it is necessary to set up the reserves in the amount of 33,940,566 of the surplus from the revaluation reserves not taxable at the change of the destination.

13. DEFERRED REVENUES

Deferred revenues are mainly represented by: the connection fee, other subsidies for investments, non-refundable European funds collected from the Ministry of European Funds, as well as revenues from the use of interconnection capacities.
On December 31st, 2017, the deferred revenues were as follows:

	December 31st, 2017	Out of which short term portion as of 31.12.2017	December 31st, 2016	Out of which: short-term portion as of 31.12.2016
Deferred revenues – interconnection capacity allocation	5,797,166	5,797,166	6,578,507	6,578,507
Deferred revenues - European Funds	2,558,135	2,558,135	1,320,318	1,320,318
Funds from the connection fee	311,396,019	23,558,353	319,025,555	21,082,024
European Funds	101,624,877	7,415,017	109,440,915	7,472,520
Other subsidies	30,147,052	1,552,393	31,618,306	1,671,705
Total	**451,523,249**	**40,881,064**	**467,983,601**	**38,125,074**

Evolution in advance short-term revenues during the 2017 is presented as follows:

	December 31st, 2017	December 31st, 2016
Balance at the beginning of the period	38,125,074	33,408,244
Advance income related to the interconnection capacity	75,479,347	38,685,253
Income from European Funds	1,327,202	1,213,273
Transfer of long-term deferred income	2,299,514	(313,881)
Revenues from the use of the interconnection capacity	(76,260,688)	(34,867,815)
Revenues from European Funds	(89,385)	-
Total	**40,881,064**	**38,125,074**

The evolution in advance long-term revenues during the 2017 is presented as follows:

	December 31st, 2017	December 31st, 2016
Balance at the beginning of the period	429,858,527	462,721,487

Connection subsidies	14,227,840	(2,951,432)
Non-refundable funds	173,928	32,742
Non-refundable funds to be repaid	-	(137,280)
Transfer to short-term deferred revenues	(2,299,514)	608,559
Release of deferred revenues	(31,318,596)	(30,415,549)
Total	**410,642,185**	**429,858,527**

In 2017, CNTEE Transelectrica SA collected from the Ministry of Economy the amount of 163,809 lei in order to start the expropriation procedures for the privately owned immovable properties constituting the expropriation corridor for the following works of national interest:

- Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja 400 kV OHL in the Medgidia Sud 400 kV substation - Stage II - Connections in the Medgidia Sud 400 kV OHL d.c. substation;
- Converting the Portile de Fier – Resita – Timisoara – Sacalaz – Arad axis/Portile de Fier – (Anina) – Resita 400 kV OHL to 400 kV;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV / stage I: Extension of the Portile de Fier 400 kV substation, Portile de Fier - Anina - Resita 400 kV OHL, Resita 400/220/110 kV Resita substation;
- Resita-Pancevo 400 kV OHL interconnection;
- Ostrovu Mare 220 kV OHL double circuit – PTG;
- Gutinas – Smardan 400 kV OHL d.c. and
- Cernavoda-Stalpu 400 kV OHL d.c. and connection in the Gura Ialomitei substation.

14. LOANS

Long-term loans

On December 31st, 2017 and December 31st, 2016, the amounts owed to credit institutions for a period of over one year are the following:

Description	**December 31st, 2017**	**December 31st, 2016**
NIB PI No 02/18 (a)	3,417,420	11,337,158
BIRD 7181 (b)	43,603,118	74,348,437
NIB PI No 03/5 (c)	10,717,310	20,889,060
NIB PI No 02/37 (d)	5,737,176	11,182,303
KfW 10431 (e)	-	9,521,818
KfW 11300 (f)	-	9,611,198
BEI 25709 (i)	89,742,370	98,390,500
BEI 25710 (i)	97,425,565	105,910,484
ING+BRD (j)	58,712,220	95,363,100
Unsecured bonds (k)	200,000,000	200,000,000
Total long-term loans from credit institutions, out of which:	**509,355,179**	**636,554,058**
Less: Current portion of long-term loans	**(314,169,245)**	**(134,624,060)**
Total long-term loans net of current installments	**195,185,934**	**501,929,998**

14. LOANS (continued)

Overview of the long-term loans as on December 31st, 2017

No.	Loan name	Date granted	Loan value (foreign currency)	Balance at 31.12.2017 (foreign currency)	Balance at 31.12.2017 (RON)	Interest rate	Maturity as per loan
1	NIB PI 02/18	19.02.2003	18,441,684.50 USD	878,175.45 USD	3,417,420	LIBOR 6M+0,9%	16.04.2018
2	BIRD 7181	15.07.2003	71,622,715.47 EUR	9,357,494.80 EUR	43,603,118	last transmitted 0%	15.01.2020
3	NIB PI 03/5	12.11.2004	23,000,000.00 EUR	2,300,000 EUR	10,717,310	EURIBOR 6M+0,85%	17.09.2018
4	NIB PI 02/37	25.02.2004	12,927,944.17 EUR	1,231,232.77 EUR	5,737,176	EURIBOR 6M+0,9%	17.09.2018
5	BEI 25709	05.08.2010	32,500,000.00 EUR	19,259,259.30 EUR	89,742,370	3.596%	10.09.2025
6	BEI 25710	05.08.2010	32,500,000.00 EUR	20,908,119.65 EUR	97,425,565	3.856% and 2.847%	11.04.2028
7	ING+BRD	26.07.2012	42,000,000.00 EUR	12,600,000 EUR	58,712,220	EURIBOR 6M+2,75%	13.02.2019
8	Unsecured Bonds	19.12.2013	200,000,000.00 RON	200,000,000 RON	200,000,000	6.1%	19.12.2018
	TOTAL				**509,355,179**		

14. LOANS (continued)

The long-term Loans are detailed as follows:

a) Loan no. 02/18 from NIB PIL

The loan from NIB was granted on February 19th, 2003. The total amount due as of December 31st, 2017 amounts to USD 878,175. The loan was granted to finance the rehabilitation of the Slatina 400/220 kV electrical substation. The loan bears a variable interest rate of six months LIBOR plus a 0.9% margin. Repayment is scheduled over 10 years in 20 instalments, from 2008 to 2018.

b) Loan no. 7181 from IBRD

The loan from IBRD was granted on July 15th, 2003 for the objective "Electricity Market". The total amount outstanding as of December 31st, 2017 is EUR 9,357,495. The loan bears a variable interest rate communicated by IBRD depending on the financing cost. The interest rate for the last instalment was 0%. The repayment is performed biannually (on January 15th and July 15th of each year), starting July 15th, 2008, with the last instalment being scheduled on January 15th, 2020.
The loan agreement includes certain financial provisions: (i) a debt service cover ratio of not less than 1.3 and (ii) a ratio of current assets to current liabilities of not less than 1.2.

c) Loan no. 03/5 from NIB PIL

The loan from NIB was granted on November 12th, 2004 for the objective "Rehabilitation of the Gutinas 400/220/110 kV electrical substation". The total amount outstanding as of December 31st, 2017 is EUR 2,300,000. The interest rate is 6 month EURIBOR plus 0.85%, repayment is performed biannually, in equal instalments starting March 15th, 2009, with the last instalment being scheduled on September 17th, 2018.

d) Loan no. 02/37 from NIB PIL

The loan was granted by NIB on February 25th, 2004 for the objective "Rehabilitation of the Rosiori 400/220 kV electrical substation". The total amount outstanding as of December 31st, 2017 is EUR 1,231,233. The interest rate is 6 month EURIBOR plus 0.90%, repayment is performed biannually, in equal instalments starting September 15th, 2008, with the last instalment being scheduled on September 17th, 2018.

e) Loan no. 10431 from KfW

The loan has been granted by KfW on August 12th, 2004 for the objective "Rehabilitation of the Sibiu Sud 400/220/110 kV electrical substation". As of December 31st, 2017, the loan was repaid in full. The interest rate is 6 months EURIBOR plus 0.60%, the repayment being performed biannually, in equal instalments starting January 31st, 2008, with the last instalment being scheduled on July 31st, 2017.

f) Loan no. 11300 from KfW

The loan has been granted by KfW on August 12th, 2004 for the "Rehabilitation and modernization of the Bucuresti Sud 400/220/100 kV electrical substation". As of December 31st, 2017, the loan was repaid in full. The interest rate is 6 months EURIBOR plus 0.60%, the repayment being performed biannually, in equal instalments starting January 31st, 2008, with the last instalment being scheduled on July 31st, 2017.

g) Loan no. 25709 and no. 25710 from EIB

The loans were granted by EIB on August 5th, 2010 for financing the modernization and rehabilitation of the Romanian Power Transmission Grid. Each loan amounts to EUR 32,500,000. EIB loan no. 25709 is not guaranteed, while EIB loan no. 25710 is guaranteed by CitiBank Europe PLC, Dublin – Romania branch. The repayment period is of 15 years, with a grace period of 2 years. The repayment is scheduled from 2012 to 2025 for EIB loan no. 25709 (on March 10th and September 10th of each year) and from 2013 to 2028 for EIB loan no. 25710 (on April 11th and October 11th of each year). The interest rates are 3.596% for EIB loan no. 25709 and 3.856% and 2.847% for EIB loan no. 25710.

The amount outstanding as of December 31st, 2017 for the EIB loan no. 25709 is EUR 19,259,259 and for EIB loan no. 25710 EUR 20,908,120.

14. LOANS (continued)

The EIB loan agreement no. 25709 includes certain financial provisions: (i) a ratio of EBITDA to interest payments for long-term loans during the year of not less than 4.2; (ii) a ratio of debt to equity of not more than 0.95; (iii) a ratio of total net debt and EBITDA of no more than 3.5.

Loan no. 25710 from EIB is guaranteed by CitiBank Europe PLC, Dublin – Romania branch. The contract bears a guarantee commission of 0.46% per annum, computed at 115% of the value of the balance. The guarantee agreement concluded on January 26th, 2011 includes certain financial provisions: (i) a ratio of consolidated EBITDA to consolidated net financial expenses of not less than 4.2; (ii) a ratio of total net debt to equity of not more than 0.95.

h) Loan from ING Bank N.V., Amsterdam (Bucharest branch) and BRD – Groupe Société Générale SA

The loan was granted on July 26th, 2012 by the consortium made up of ING Bank N.V., Amsterdam (Bucharest branch) and BRD – Groupe Société Générale SA. The loan is meant to finance the following investments: refurbishment of the Lacu Sarat 400/200/110/20 kV substation, refurbishment of the Mintia 220/110 kV substation, integrated security systems in substations and replacement of autotransformers and transformers in electrical substations. The repayment period is of 84 months with a grace period of 24 months, with equal instalments payable every semester starting from August 2014. The loan bears a variable rate of 6 month EURIBOR, plus a margin of 2.75%.The loan is 100% guaranteed through assignment of receivables. The total amount outstanding as of December 31st, 2017 is EUR 12,600,000.

The loan agreement includes certain financial provisions: (i) a ratio of EBITDA to financial expenses of no less than 4.2; (ii) a ratio of total net debt to EBITDA of no more than 3.5.

i) Bonds issue

The Extraordinary General Assembly of Shareholders of CNTEE Transelectrica SA approved, through Decision no. 7 of 30.09.2013, a limit of RON 900 million for the issue of corporate bonds during 2013 – 2017, from which RON 200,000,000 were issued during December 11th, 2013 – December 18th, 2013 through an initial public offering on the internal capital market. The bonds are unsecured and are not convertible into shares. The interest rate of the bonds issued is of 6.1% per annum, the interest being paid on an annual basis in December 2014, December 2015, December 2016, December 2017 and December 2018. The bonds are due on December 19th, 2018.

Following the consent given by the Council of the Bucharest Stock Exchange on January 14th, 2014, starting with January 16th, 2014, the corporate bonds of the Company are being traded on the Bucharest Stock Exchange, within the sector Securities – third category Corporate bonds under the symbol TEL 18.

During the entire period in which the bonds are not redeemed in full, the Company undertakes to comply with certain financial indicators: (i) Interest Cover Ratio to be at least equal to 4.2; (ii) the Debt/Equity Ratio to be equal or less than 0.95. As of December 31st, 2017, the financial indicators corresponding to loan agreements, including from bonds issue, were met. The long-term portion of loans will be repaid as follows:

	December 31st, 2017	**December 31st, 2016**
Between 1 and 2 years	51,449,375	311,711,992
Between 2 and 5 years	68,912,530	95,401,520
Over 5 years	74,824,029	94,816,486
Total	**195,185,934**	**501,929,998**

The company did not perform activities related to hedging its foreign currency obligations or to exposure to interest rate risks.

All the long-term loans, except for EIB 25709 and EIB 25710 and Bonds, bear a variable interest rate and consequently, the fair value of the long-term loans is similar to their book value.

As of December 31st, 2017, the long-term loans guaranteed by the Romanian Government through the Ministry of Public Finances are: BIRD 7181, NIB PIL 03/5, NIB PIL 02/18 and NIB PIL 02/37.

The loan from ING and BRD was initially guaranteed by assignment of receivables from SC E.On Energie Romania SA, SC E-Distributie Muntenia SA, SC Alpiq Romindustries SRL, SC Electromagnetica SA, SC Met Romania Energy Marketing

SRL and through the real movable security over the investment accounts opened with ING and one investment account opened with BRD SMCC.

From November 2016, the loan is secured by the assignment of the receivables that the Company has to collect only from SC EON Energie Romania SA and SC Enel Distributie Muntenia SA and by the real movable security over the investment accounts opened with ING and an investment account opened with BRD SMCC.

The guarantee agreement concluded with CitiBank Europe PLC is secured by assignment of receivables that the Company has to collect from SC Enel Energie Muntenia SA.

Short-term loans

The short-term Loans are detailed as follows:

	December 31st, 2017	December 31st, 2016
Current portion of long-term loans	314,169,245	134,624,060
Interest on long and short-term loans	2,460,222	3,140,317
Interest on bonds	434,521	440,555
Total short-term loans	**317,063,988**	**138,204,932**

Loans contracted for the current activity

Transelectrica has contracted a credit line in February 2017 from BRD GROUP SOCIETE GENERALE SA, the Large Corporates Branch, for a period of 12 months for financing the bonus type support scheme for high efficiency cogeneration, in the form of overdraft amounting to 150,000,000, with an interest calculated according to the ROBOR 1M reference rate, plus a negative margin of 0.10%. In the event that the value of the ROBOR 1M reference rate is smaller than 0.10%, the interest rate applied shall be of 0%.

This was guaranteed by:

- movable mortgage on the account opened at the bank;
-
- movable mortgage on receivables resulted from contracts regarding the contribution for high efficiency cogeneration, concluded with Cez Vanzare S.A., E.ON Energie Romania S.A., Tinmar Energy S.A.
-

On December 31st, 2017, the credit line is not used.

15. OBLIGATIONS REGARDING EMPLOYEE BENEFITS

According to Government Decisions no. 1041/2003 and no. 1461/2003, the Company provides in-kind benefits in the form of free electricity to the employees who retired from the predecessor entity.

Also, according to the collective labor agreement, the Company provides long-term benefits to both employees – depending on the length of service and seniority within the Company – and to former employees after retirement. The benefits awarded to management personnel are included in Note 28, under *Remuneration of the Company's management.*

The long-term benefits granted by the Company include the following:

- retiree premiums ranging from 1 to 5 gross monthly base salaries, depending on the number of years of seniority within the Company on the date of retirement;
- anniversary premiums between 1 and 5 gross monthly base salaries, depending on the number of years of seniority within the Company;
- free electricity paid after retirement of 1,800 kWh/year, paid according to the collective labor agreement.

The actuarial calculations referring to the post-employment benefits and other long-term benefits were made by an authorized actuary, based on the service agreement concluded with Mr. Daniel Ghervase.

The obligations regarding employee benefits are as follows:

	December 31st, 2017	December 31st, 2016
Anniversary premiums	24,339,697	20,697,649
Retiree premiums	12,010,992	11,482,723
Free energy provided to current and retired employees	16,296,217	11,033,095
Benefits for the employment contract termination	-	78,385
Maternity premiums	-	13,123
Total	**52,646,906**	**43,304,975**

As of December 31st, 2017 and December 31st, 2016, the Company has an obligation regarding long-term employee benefits, amounting to 52,646,906 and 43,304,975. The estimation of these obligations was made taking into account the following:

- electricity price at December 31st, 2017 and the price expected for future periods. The price estimated for the following periods is calculated as a forecast based on previous observed data for energy price;
- base salary at December 31st, 2017 and base salaries for future periods estimated by the actuary (a salary increase was taken into consideration, depending on the future development of the consumer price index);
- number of employees as of December 31st, 2017 and estimated annual number of Company employees based on projected rates of departure from the Company and statistical data on population mortality provided by INS;
- discount rate estimated by the actuary is based on the target level of inflation for the eurozone and an investment rate of return lower than 2%, a value which is considered desirable because it allows a long-term balance of financial markets.

	December 31st, 2016	Interest cost	Cost of current service	Payments from provisions	Actuarial loss for the period	December 31st, 2017
Benefits pertaining to anniversary premiums to be granted to current employees	20,697,649	291,633	689,558	1,597,678	4,258,535	24,339,697
Benefits pertaining to maternity premiums to be granted to current employees	13,123	-	-	-	(13,123)	-
Benefits pertaining to retiree premiums of current employees	11,482,723	126,861	422,554	1,144,725	1,123,580	12,010,992
Benefits pertaining to premiums granted for the labor agreement termination	78,385	-	-	-	(78,385)	-
Benefits pertaining to the counter value of electricity to be paid to current employees after retirement	6,678,368	105,443	332,554	-	919,529	8,035,894
Benefits pertaining to the counter value of electricity paid to current retirees	4,354,727	105,154	-	579,834	4,379,826	8,260,323
	43,304,975	**629,091**	**1,444,666**	**3,321,787**	**10,589,962**	**52,646,906**

The main assumptions considered in the actuarial calculation are as follows:

	December 31st, 2017	December 31st, 2016
Discount rate	Values in the range 3.5% - 4.6% set based on the government securities transactions on the interest curve in lei, without adjustments,	the interest curve in lei, without adjustments,
For the first 5 years	secondary market and correlated with the development of the inflation target level set by NBR for the following years. A long-term inflation of 2% per annum and a real return of 1.86%	or December 0.975%; 1.393%; 1.799%; 2.197%; 2.565% the interest curve in lei, without adjustments, supplied by EIOPA for December 2016, with a peak of 4.587% for 25 years and dropping to 4.358% for 85 years
For more than 5 years		4% in the first 3 years, 3% in the 4th year and 2% in the remaining years
Salary increase	The wages follow the inflation rate development.	

16. TRADE AND OTHER PAYABLES

On December 31st, 2017 and December 31st, 2016, trade payables and other payables are presented as follows:

	December 31st, 2017	December 31st, 2016
Providers - electricity market	538.923.244	591,678,777
Asset providers	62.898.568	76,404,309
Providers of other activities	27.782.443	27,546,104
Amounts due to the employees	5.866.258	5,291,891
Other liabilities	64.466.306	173,027,119
Total	**699.936.819**	**873,948,200**

- On December 31st, 2017 and December 31st, 2016, outstanding debts on the energy market amounted to 538,923,244 and 591,678,777respectively, and presented the following structure:

	December 31st, 2017	December 31st, 2016
Suppliers on the electricity market, out of which:		
- suppliers – operational activity – energy	110,803,907	122,864,250
- suppliers - balancing market	204,980,467	286,774,831
- suppliers in the bonus support scheme for the promotion of high-efficiency cogeneration	223,201,870	182,039,696
Total	**538,923,244**	**591,678,777**

- The decrease of liabilities to suppliers from the operational activity – energy came as a result of the payment of outstanding obligations on the electricity market as of December 31st, 2016.

- The decrease of liabilities to suppliers on the balancing market was due to the decrease of the amount of transactions on the balancing market in December 2017 compared to December 2016, causing an increase of liabilities to suppliers on this market, outstanding as of December 31st, 2017 compared to December 31st, 2016.

The providers on the electricity market are represented mainly by: SC Hidroelectrica SA, Electrocentrale Bucuresti, RAAN, Complex Energetic Oltenia, Mavir, Complex Energetic Hunedoara, Romgaz SA, OMV Petrom. On December 31st, 2017, their share was ca. 88% in the total number of energy suppliers.

- The increase in debts related to the support scheme towards the suppliers (producers) was determined by withholding from payment the cogeneration bonus and the ante-overcompensation owed to producers in the account of the Company's receivables not collected from the same producers in the support scheme, represented by the overcompensation of the period 2011-2013, 2015 and 2016 by applying the provisions of Art. 17 (5) of Order no. 116/2013 of the ANRE Chairman.

16. TRADE AND OTHER PAYABLES (continued)

On December 31st, 2017, payment obligations were registered towards suppliers (producers) in the amount of 111,233,189 (Electrocentrale Bucuresti – 56,680,387, RAAN – 51,183,836, CET Govora SA – 3,368,966), representing the cogeneration bonus and ante-overcompensation for the years 2014 and 2015, as well as the bonus not granted for the years 2015 and 2016. The amounts representing the debts of the Company regarding the support scheme towards Electrocentrale Bucuresti, RAAN and CET Govora have been retained from payment on the grounds of Article 17 (5) of the Order of the ANRE Chairman no. 116 / 2013, because the suppliers (producers) registered payment obligations towards the Company regarding the bonus type support scheme.

The Company requested the agreement of the producers (suppliers of the Company) who did not pay for the overcompensation invoices and the undue bonus, to compensate the reciprocal debts at their minimum level via the Management and Informatics Institute (IMI), entity that unitedly manages all information received from tax-payers, according to the provisions of GD no. 685/1999.

RAAN and Electrocentrale Bucuresti have not agreed to this method of discharging the reciprocal receivables and debts, and therefore the Company has applied and continues to apply the provisions of Article 17 (5) of the Order of ANRE Chairman no. 116/2013 for approving the Regulation on determining the way to collect the contribution for high efficiency cogeneration and payment of bonus for electricity produced in high efficiency cogeneration: "if the manufacturer did not make the payment in full to the administrator of the support scheme for its obligations resulted in accordance with the provisions of this Regulation, the administrator of the support scheme pays to the producer the difference between the invoices issued by the producer and the payment obligations of the producer on the support scheme with explicit mention on the payment document of the respective amounts" and detained from payment the amounts due related to the corresponding support scheme.

CNTEE Transelectrica SA has concluded an agreement with CET Govora on compensation and rescheduling of payments for the amounts representing the equivalent receivables from the counter value of the overcompensation for the timeframe 2011-2013 and of the undue bonus for 2014 (Agreement no. C 135/June 30th, 2015 and Addendum no. 1/August 4th, 2015). The period of the Agreement was 1 year (timeframe July 2015 - August 2016) and stipulated the Company's right to calculate and collect payment penalties over the installment period.

According to the Agreement, the Company's receivables to be collected from CET Govora SA were compensated with the debts to CET Govora SA, represented by the cogeneration bonus for the period May 2014 - October 2015 detained pursuant to the Art. 17 (5) from the Order of the ANRE Chairman no. 116/2013 and the provisions of the Agreement, in the amount of 40,507,669.

Following the suspension in court, by Civil sentence no. 3185/November 27th, 2015, the ANRE Decision no. 738/March 28th, 2014 on setting the overcompensation amount for the timeframe 2011 - 2013, CET Govora SA no longer respected the obligations undertaken according to the Agreement.

Starting with May 9th, 2016, the general insolvency proceedings were opened for CET Govora. To recover its liabilities recorded before the insolvency proceedings, the Company applied the specific procedures provided by the Law no. 85/2014 on Insolvency and requested admission of its liabilities, according to the law.

Given the aforementioned facts, starting with May 9th, 2016, the Company has terminated the enforcement of article 17 (5) from the Order of ANRE Chairman no. 116 / 2013 on approving the Regulation regarding the settlement of the collection procedure of the high efficiency cogeneration contribution and the payment of the bonus for the electricity produced via high efficiency cogeneration, and has paid the cogeneration bonus to CET Govora on a monthly basis.

Via Civil Decision no. 2430/October 5th, 2016, the High Court of Cassation and Justice admitted the appeal declared by ANRE against Civil Ruling no. 3185/November 27th, 2015, has partially cancelled the contested sentence and has rejected the suspension request lodged by CET Govora, the judgement being final. Thus, starting with 05.10.2016, the effects of the ANDRE Decision no. 738/28.03.2014 are no longer suspended, being in full effect.

Under these circumstances, the Company enforces the provisions of article 17 (5) of the ANRE Order no. 116 / 2013 for the reciprocal debts and receivables occurred after the insolvency proceedings, retaining the bonus owed to CET Govora SA up to the amounts unpaid to the Company according to the support scheme.

- The decrease of the balance of asset suppliers on December 31st, 2017 compared to December 31st, 2016 is due to the payment towards the equipment, works and services providers for the investment projects.

The debts towards suppliers of other activities are mainly represented by the not due debts related to the services provided by third parties, debts which have registered an insignificant decrease compared to December 31st, 2016.

The debts' structure recorded as "other liabilities" is presented as follows:

	December 31st, 2017	December 31st, 2016
Different Creditors	31,958,422	134,201,186
Clients - creditors	20,823,604	29,283,054
Dividends to be paid	2,414,333	1,312,744
Other liabilities	9,269,947	8,230,135
Total	**64,466,306**	**173,027,119**

On December 31st, 2017, the position "different creditors" in the amount of 31,958,422 mainly represents the net position of the support scheme for high-efficiency cogeneration, which on December 31st, 2017 registers a debt position amounting to 30,451,865 (December 31st, 2016: 128,272,529), down from December 31st, 2016 as a result of the decrease in value of the high-efficiency cogeneration contribution.

The net position of the support scheme is the difference between:

- the amount of contributions to be collected from the electricity suppliers, the amount of the overcompensation of the activity of electricity and heat production in high-efficiency cogeneration for 2011-2013, for the years of 2014, 2015 and 2016, the undue bonus for the years of 2014, 2015 and 2016 – to be collected from the producers, according to the ANRE decisions, on the one hand, and

- the cogeneration bonus amount withheld under Article 17 (5) of the Order of ANRE Chairman no. 116/2013, the ante-overcompensation for the years 2014, 2015 and 2016 and the bonus not granted for the years 2014, 2015 and 2016 - to be paid to the high-efficiency cogeneration energy producers, the beneficiaries of the support scheme, on the other hand.

"Customers creditors" on December 31st, 2017 amounted to 20,823,604, out of which 10,276,407 represent amounts collected in advance from MAVIR and 10,407,976 represent amounts collected in advance from OPCOM within the transactions related to the price coupling mechanism.

On December 31st, 2017, the dividends owed and unpaid to the Company's shareholders amount to 2,414,333, out of which the amount of 659,435 is related to dividends distributed from the profit of the year 2016 and the amount of 997,617 is related to dividends distributed from the profit unallocated, highlighted in the account balance "Other Revenues – Own sources of funding from profits" based on the Decision no. 11/16.10.2017 of the General Assemnly of Shareholders.

These amounts are available to the shareholders through the payment agent.

Other debts amounting to 9,269,947 are mainly represented by guarantees for the proper execution of service contracts on the electricity market concluded by CNTEE Transelectrica SA, amounting to 8,400,226.

Provisions

As of December 31st, 2017 and December 31st, 2016, the provisions are as follows:

	December 31st, 2017	December 31st, 2016
Provisions for litigations	2,992,215	3,351,880
	38.498.154	
Provisions for mandate contracts		42,354,707
Provisions for the shareholding fund for employees' profit	44,799	7,968,215
Other provisions	10,019	126,976
TOTAL	**41,545,187**	**53,801,778**

16. TRADE AND OTHER PAYABLES (continued)

Provisions in balance on December 31st, 2017 are as follows:

	Provisions for litigations	Share-based payment transactions	Provisions for the shareholding fund for employees' profit	Other provisions
Balance on January 1st, 2017	**3,351,880**	**42,354,707**	**7,968,215**	**126,976**
Additions in provisions (profit and loss account)	6,401		-	7,723
Reversal of provisions (profit and loss account)	(366,066)	(3,856,553)	(7,923,416)	124,680
Additions in provisions (AERG)	-	-	-	-
Reversal of provisions (AERG)	-	-	-	-
Balance on December 31st, 2017	**2,992,215**	**38,498,154**	**44,799**	**10,019**

Provisions for litigations outstanding as of December 31st, 2017 amounting to 2,992,215 consist mainly of provisions created for the litigation with the OPCOM subsidiary amounting to 2,670,029 regarding the fine imposed following the EU investigation.

On November 24th, 2014, the SC OPCOM SA subsidiary summoned CNTEE Transelectrica SA in order to force it to pay the amount of 582,086.31 euro (2,585,161 lei at the NBR exchange rate from November 24th, 2014), representing the amount paid by her as fine, from the total of the fine amounting to 1,031,000 euro applied to the subsidiary OPCOM S.A. by the European Commission, in the context in which the SC OPCOM SA subsidiary paid the entire fine established by the European Commission.

Also, the SC OPCOM SA subsidiary requested the court to order the Company to pay the amount of 84,867 lei as lawful interest related to the period between June 11th, 2014 - November 24th, 2014, plus legal expenses amounting to 37,828 (see Note 26 *iii*).

Other provisions in the amount of 10,020 represent provisions made for unpaid leave.

As of December 31st, 2017, the Company registered a provision of 38,498,154 (42,354,707 as of December 31st, 2016) for the annual variable component owed to the Directorate and Board of Supervisors members (see Note 28).

The provision amounting to 44,799 is mainly represented by the provision created for the employees' profit sharing for the financial years 2013, 2015 and 2016, amounts not granted until December 31st, 2017.

17. INCOME TAX

The income tax for the years 2017 and 2016 is presented as follows:

	2017	2016
Current income tax expense	(23,756,672)	(66,696,654)
Net income from deferred income tax	5.149.451	4,468,243
Total	**(18.607.221)**	**(62,228,411)**

The tax on the current and deferred income of the Company for 2017 and 2016 is determined at a statutory rate of 16% and is applicable for 2017 and 2016.

17. INCOME TAX (continued)

Reconciliation of the effective tax rate:

	2017	2016
Profit before income tax	**52,023,848**	**(28,852,692)**
Income tax at statutory rate of 16%	8,323,816	53,534,393
Effect of non-deductible expenses	38,443,660	21,529,593
Effect of non-taxable income	(22,983,684)	(5,260,670)
Taxable revaluation reserve	3,734,828	4,906,450
Legal reserve	(416.191)	(2,712,466)
Income tax exempted	(2,112,173)	(4,625,260)
Other effects	(6.383.035)	(5,143,629)
Total	**(18.607.221)**	**62,228,411**

17. INCOME TAX (continued)

The movement pertaining to deferred taxes during 2017 and 2016 is as follows:

Elements	Balance at January 1st, 2016	Recognized in profit and loss	Recognized directly in AERG	Balance at December 31st, 2016	Recognized in profit and loss	Recognized directly in AERG	Balance at December 31st, 2017
Property, plant and equipment – useful life	3,036,056	1,283,825	-	4,319,881	487,242	-	4,807,123
Property, plant and equipment – revaluation reserves	42,096,791	(4,520,670)	-	37,576,121	(3,605,915)	-	33,970,206
Property, plant and equipment financed by subsidies	(1,043,042)	(563,157)	-	(1,606,199)	(509,471)	-	(2,115,670)
Obligations regarding employee benefits	(3,986,704)	1,914,306	-	(2,072,398)	(1,013,028)	-	(3,085,426)
Interconnection estimate	(1,233,010)	(12,639)	-	(1,245,649)	(507,551)	-	(1,763,200)
Provisions	(4,206,845)	(2,569,908)	-	(6,776,753)	-	-	(6,776,753)
Tax (assets)/liabilities	**34,663,246**	**(4,468,243)**	**-**	**30,195,003**	**(5,158,723)**	**-**	**25,036,280**

Deferred tax consists of:

	Asset		Liability		Net	
	31-dec-17	31-dec-16	31-dec-17	31-dec-16	31-dec-17	31-dec-16
Property, plant and equipment – useful life	(1,244,583)	(854,269)	6,061,706	5,174,150	4,807,123	4,319,881
Property, plant and equipment – revaluation reserves	(3,605,916)	(4,520,669)	37,576,121	42,096,790	33,970,205	37,576,121
Property, plant and equipment financed by subsidies	(2,140,227)	(1,610,928)	24,557	4,729	(2,115,670)	(1,606,199)
Obligations regarding employee benefits	(3,085,426)	(2,072,398)	-	-	(3,085,426)	(2,072,398)
Interconnection estimate	(1,763,200)	(1,245,649)	-	-	(1,763,200)	(1,245,649)
Provisions	(6.776.752)	(6,776,753)	-	-	(6,776,753)	(6,776,753)
Net tax (assets)/liabilities	**(18.616.104)**	**(17,080,666)**	**43.652.384**	**47,275,669**	**25,036,280**	**30,195,003**

18. EARNINGS PER SHARE

As of December 31st, 2017 and December 31st, 2016, the earnings per share is as follows:

	2017	2016
Result for the period	**28,267,175**	**272,361,543**
Number of ordinary shares at the beginning and at the end of the period	73,303,142	73,303,142
Basic and diluted earnings per share (lei/share)	**0.3856**	**3.7155**

19. OTHER TAX AND SOCIAL SECURITY LIABILITIES

On December 31st, 2017 and December 31st, 2016, other taxes and social insurance obligations included:

	December 31st, 2017	December 31st, 2016
Contribution to social insurance funds	5,097,678	4,981,239
Payroll tax	1,913,700	1,928,808
Other taxes to pay	1,676,814	1,701,162
Total	**8,688,192**	**8,611,209**

On December 31st, 2017, the Company registered payment obligations for contributions to social insurance funds, payroll tax and other taxes that were paid in the month of January 2018.
Furthermore, on December 31st, 2017, the Company also registered taxes on dividends amounting to 90,586, taxes due in January 2018.

20. OPERATING REVENUES

Operating revenues include revenues from the transmission and system services provided by the Company on the electricity market, as well as the allocation of interconnection capacity, balancing market operating services and other revenues.
The average tariffs approved by ANRE for services provided on the electricity market are presented as follows:

	Average Price for the transmission service	Average Tariff for technological system services	Average Price for the functional system services
Order no. 48/2017 for the period July 1st – December 31st, 2017	16.86	9.39	1.11
Order no. 27/2016 for the period July 1st 2016 - June 30th, 2017	18.70	11.58	1.30
Order no. 93/2015 for the period July 1st - June 30th, 2016	20.97	12.58	1.17

The average tariff for the electricity transmission has two components: the tariff for the electricity injected into the transmission grid (T_G) and the tariff for the electricity drawn off the transmission grid (T_L).

The zonal tariffs regarding the transmission service for the injection of electricity into the transmission grid (T_G) and for drawing electricity off the transmission grid (T_L) have been approved by ANRE Order no. 48/2017, starting with July 1st, 2017.

20. OPERATING REVENUES (continued)

The amount of electricity delivered to consumers to whom the prices for services provided on the electricity market were applied, is presented as follows:

	2017	2016
The amount of electricity delivered to consumers (MWh)	54,753,325	53,523,021

The operating revenues earned in 2017 and 2016 are as follows:

	2017	2016
Transmission revenues	970,693,550	1,056,520,255
Revenues from allocating the interconnection capacity	75,726,834	82,232,459
Revenues from reactive energy	6,316,668	6,954,413
Revenues from Inter TSO Compensation (ITC)	1,106,452	253,892
Revenues from Own Technological Consumption (CPT) transactions	785,608	295,781
Transmission Revenues - total	**1,054,629,112**	**1,146,256,800**
Functional System Service Revenues	65,979,920	66,139,093
Revenues from technological system services	582,329,914	648,801,922
Revenues from unplanned shifts on DAM	2,436,720	1,398,572
System Service Revenues - total	**650,746,554**	**716,339,587**
Revenues on the balancing market	1,304,613,489	814,079,670
Other revenues	50,327,846	45,827,232
Total revenues	**3,060,317,001**	**2,722,503,289**

Transmission revenues

Given the rise in the amount of electricity delivered to consumers in 2017 compared to 2016, namely of 2.3% or 1,230,304 MWh, the income from the transmission service has registered a decrease in the amount of 85,826,705, determined by the decrease of the average tariffs approved by ANRE (according to the table on the average tariffs approved by ANRE for the analyzed timeframes, presented above), under the conditions laid down by the transport methodology. Thus, the tariff calculated as an average of the tariffs for the year 2017 - 17.78 lei was lower by 10.34% compared to the tariff calculated as average of the tariffs for the year 2016 - 19.83 lei

Functional system service revenues

In 2017, the revenues from functional system services registered a decrease with the amount of 159,173 compared to 2016, determined by the decrease of the average tariff approved by ANRE for these services (according to the table on the average tariffs approved by ANRE for the analyzed periods, presented above).

Revenues from allocating the interconnection capacity

In 2017, the income from the interconnection capacity allocation has registered a decrease compared to 2016, in the amount of 6,505,625, corresponding to the level of usage of the available interconnection capacity by traders on the electricity market. The mechanism for the allocation of interconnection capacity consists in organizing annual, monthly, daily and intra-daily auctions. The annual, monthly and intra-daily are explicit - only the transmission capacity is bid on, and the daily ones with Hungary are implicit - are allocated simultaneously with the energy and capacity via the coupling mechanism.

The incorporation of the regional energy exchange by Romania, Hungary, the Czech Republic and Slovakia on November 19th, 2014 requires that these four countries have a unique price of electricity traded on the spot markets. The capacity allocation between Romania and Hungary, the only country of the 3 with which Romania has a border, is made by the carriers: Transelectrica and MAVIR, through the common mechanism, based on a bilateral agreement.

20. OPERATING REVENUES (continued)

Starting with 2016, the UIOSI principle has been implemented at the border with Bulgaria, and starting with 2017 at the border with Serbia as well. According to this principle the participants not using the capacity won at the annual and monthly auctions, are compensated (by Transelectrica) for that capacity. The spare capacity is subsequently sold in the daily auctions. On the Hungarian border the direction is reversed, meaning that MAVIR compensates the participants for the unused capacities.

The market for interconnection capacity allocation is fluctuating, the prices evolve depending on demand and the need of the participants on the energy market to purchase interconnection capacity.

Using the net incomes from the interconnection capacity allocation is achieved in accordance with Article 22 (4) of the ANRE Order no. 53 / 2013 and Article 16 (6) of the Regulation (EC) no. 714 / 2009, as a source of financing for upgrading and development of the interconnection capacity with the neighboring systems.

Revenues from technological system services

The revenues from technological system services have registered a decrease in 2017 compared to 2016 in the amount of 66,472,008, mainly determined by the decrease of the average tariff approved by ANRE for these services (according to the table on the average tariffs approved by ANRE for the analyzed periods, presented above), given that the amount of electricity delivered registered an increase of 2.3%.

The income from the ancillary services gained in 2017 was lower with 78,993,262 compared with the expenditures on the purchase of ancillary services that were achieved, while in 2016, the revenues from technological system services were higher with the amount of 87,774,549. The loss was caused by the unfavorable conditions on the energy market, translated in higher average unit prices in auctions compared to the foreseen unit prices on which the tariff calculation for technological system services was based on, as well as the partial recovery of profits made in the previous year on a zero profit segment.
This amount lowers the gross profit of the Company reported on December 31st, 2017.

Revenues on the balancing market

The income from the balancing market have registered an increase in 2017 compared to 2016, with the amount of 490,533,819, determined by:

- the high degree of unpredictability and volatility of production from renewable sources (especially wind).
- over-contracting / subcontracting on the markets prior to the balancing market (given that PRE s did not have significant notification imbalance values) and reduced participation / trading on the intra-day electricity market. The increasing of the negative imbalance registered at the level of the suppliers of electricity on the balancing market, ie increasing the imbalance between the notified net contractual position and the actually supplied energy;
- the very low temperatures recorded in the first quarter of 2017, which generated the recording of higher values of the electricity consumption in the operation of the NES;
- the increase in electricity consumption amid the severe weather phenomena recorded in July and August 2017 (heat in late July and early August, strong wind with storm in July, so the production in wind power plants varied a lot during the day and with large production variations from one hour to the next);
- Hydraulic evolution (low hidraulicity).

Balancing market is an activity with zero profit for the Company.

Other revenues

"Other revenues" earned in 2017, have been higher than the ones earned in 2016. This development was mainly determined by the collection of fines and penalty payments in 2017, amounting to 6,020,590 (Arelco Power SRL with the amount of 3,215,471 and Enol Grup SA with the amount of 2,541,312, etc), compared to the collection of fines and penalty payments in 2016, amounting to 30,833.

21. EXPENSES FOR OPERATING THE SYSTEM AND FROM THE BALANCING MARKET

The system operating and balancing market expenses are as follows in 2017 and 2016:

	2017	2016
Expenses on own technological consumption	206,992,035	182,980,673
Expenses on congestions	241,042	2,931,330
Expenses on electricity consumption in RET substations	14,411,115	15,382,428
Expenses with functional system services	16,336,006	12,687,230
Expenditures on Inter TSO Compensation (ITC)	19,936,533	16,775,121
Total Operational Expenses	**257,916,731**	**230,756,782**
Expenses regarding the technological system services	661,323,176	561,027,373
Expenses on the balancing market	1,304,613,489	814,079,670
Total	**2,223,853,396**	**1,605,863,825**

Expenses on Own Technological Consumption

These represent the acquisition expenses of electricity in the free market of energy for covering its own technological consumption (CPT) in RET.

In 2017, these expenses have increased with the amount of 24,011,362 mil lei compared to the ones registered in 2016, given the reduction of the electricity quantity necessary to cover the OTC in PTG with ca. 4.6% (from 1,014,566 MWh in 2016, down to 968,042 MWh in 2017).

The energy crisis registered in the first quarter of 2017, determined by the very low temperatures, compared to the similar period of the year 2016, in conjunction with the extension of the unavailability of the main power production plants, have determined the sudden increase of prices on the Day-Ahead Market (DAM), Intra-Day Market (IDM) and on the Balancing Market (BM), regarding the purchase of electricity for the own technological consumption.

Thus, in 2017, the electricity for covering the OTC has been purchased on the free energy market, namely on the Centralized Market for Electricity Bilateral Contracts (CMBC), the Day–Ahead Market (DAM), the Balancing Market (BM) and the Intra–Day Market (IDM) at the average purchase price of 213.7 lei/MWh, compared to the average purchase price of 180.3 lei/MWh in 2016.

Expenses on congestions

Congestions (network restrictions) are requests for electricity transmission beyond the technical capacity of the network, requiring corrective actions from the transmission and system operator and occur in the situation in which, in the programming of the operation or the operation in real time, the power flow between two nodes or system areas leads to the non-accomplishment of the safety parameters in the operation of a power system. In 2017, the expenses on congestions have been registered in the amount of 241,042, being lower than the ones registered in 2016, the latter amounting to 2,931,330.

The registered congestion expenses in 2016 amounted to 2,931,330 resulted to a great extent from accidental disconnections as a consequence of bad meteorological conditions recorded in the first part of 2016 (Tariverde – Tulcea Vest 400 kV OHL, in the month of January 2016, Iernut – Gadalin 400 kV OHL, Iernut – Baia Mare III 220 kV OHL, in the month of June 2016).

In order to comply with the safety criterion in the Dobrogea region, the balancing market reduced the values notified by the Dobrogea WPP, which inputs into the 110 kV electricity grid from Dobrogea (except for the Pantelimon WPP and the Cerna WPP) and into the Tariverde 400 kV OHL substation.

Expenses with functional system services

The expenses on the functional system services represent the non-contracted international exchanges of electricity with the neighboring countries and the expenses on unplanned exchanges on the Day-Ahead Market.

These expenditures have registered an increase amounted to 3,648,776 in 2017 compared to 2016, mainly determined by the increase in the expenditures on the balancing market and the day-ahead market regarding the unplanned electricity exchanges (exports) with the neighbouring countries connected to the NPS, due to the rise in prices on the centralized electricity markets.

Expenditures on Inter TSO Compensation (ITC)

ITC expenses, amounting to 19,936,533, represent the monthly payment obligations/rights of collection for each transmission system operator (TSO). They are established within the compensation / settlement mechanism for the effects of using the electricity transmission grid (RET) for transits of electricity between TSO operators from 35 countries that acceded to this mechanism of the ENTSO-E. In year 2017, these expenditures have increased by 3,161,412 compared to 2016.

Expenses regarding the technological system services

The technological system services are purchased by the Company from producers in order to comply with the operational security limits of the NPS and of the quality of the electricity transmitted at the parameters required by the technical norms in force. The contracting of these services is performed:

- in a regulatory manner, based on Government Decisions and Decisions of the National Energy Regulatory Authority (ANRE);
- through competitive mechanisms.

According to GD no. 138/April 8th, 2013 on the adoption of measures regarding the electricity supply security, in the period April 15th, 2013 - July 1st, 2015, the Company purchased technological system services according to the terms of the regulations issued by ANRE, from SC Complexul Energetic Hunedoara SA, at an electrical power value of at least 400 MW and from SC Complexul Energetic Oltenia SA at an electrical power value of at least 600 MW. According to the provisions of GD no. 941/October 29th, 2014, the enforcement deadline for the provisions of Government Decision no. 138/2013, for SC Complexul Energetic Hunedoara SA, was extended until December 31st, 2017.

For the period January 1st - March 31st, 2017, the purchase of technological system services was conducted in the regulatory regime (slow tertiary reserve) according to GD no. 844/November 9th, 2016, as subsequently amended and supplemented, by which the "Winter Program in the Energy Sector for Assuring the safety and stability of the NES" was approved.

In the timeframe January 1st - June 30th, 2017, the purchase of the technological system services has been conducted under regulated regime from SC Hidroelectrica SA (ANRE Decision no. 1035/June 22th, 2016) and from SC Complexul Energetic Hunedoara SA (ANRE Decision no. 1034/June 22th, 2016).

In the period July 1st - December 31st, 2017, the purchase of technological system services has been conducted under regulated regime from SC Hidroelectrica SA (ANRE Decision no. 906/June 22th, 2017) and from SC Complexul Energetic Hunedoara SA (ANRE Decision no. 907/June 22th, 2017).

In 2017 the technological system services expenses registered an increase compared to 2016 amounting to 100,295,803, generated by the purchase prices for technological system services on the competitive market which were higher than the regulated prices.

A significant influence in the rise of prices for purchasing technological system services on the competitive market was generated by the increase in prices registered on the electricity market in 2017.

An important influence in the increase of the purchasing cost of TSS on the competitive market was also the extremely high level of concentration of the technological system services market by service type (secondary reserve, fast tertiary reserve, slow tertiary reserve). This extreme concentration of the market has created favorable conditions for the manifestation and exercise of power on the market, granted to certain participants by their dominant positions held (Hidroelectrica SA for SR and FTR, Romgaz for STR).

CNTEE Transelectrica SA re-invoices the value of the technological system services purchased from producers, to the electricity suppliers licensed by ANRE, entities who ultimately benefit from these services.

Expenses on the balancing market

The expenses from 2017 related to the balancing market amounted to 1,304,613,489 following the evolution presented in the chapter *Revenues on the balancing market*.

These expenses result from the notifications/achievements of the participants on this market, and are fully covered by the income from the balancing market.

22. EMPLOYEE-RELATED EXPENSES

i) Employee-related expenses

	2017	2016
Expenses on staff wages	127,077,882	123,760,248
Social expenses	6,224,282	6,011,964
Expenses with employee vouchers	8,522,379	9,004,373
Expenses regarding employees' shareholding to the profit of the previous year	6,443,745	6,603,220
Expenses of the mandate contract and other committees, commissions	1,722,908	3,579,344
Expenses for social security and protection	36,753,427	38,384,677
Provisions constituted for expenses with wages and similar expenses	(9,068,671)	23,629,139
Other expenses	899,259	894,401
Total	**178,575,211**	**211,867,366**

The lowering of the employee expenses in 2017 compared to 2016 has been mainly determined by the reduction of expenses pertaining to the constitution of provisions related to mandate contracts and provisions related to other wage and assimilated expenses.

ii) Average number of employees

As of December 31st, 2017 and December 31st, 2016, the average number of employees working under an indefinite individual employment contract is:

	2017	2016
Average number of employees	2,063	2,063

23. OTHER OPERATING EXPENSES

	2017	2016
Other expenses on third party services	48,979,955	50,087,334
Postal expenses and telecommunication fees	1,191,817	1,295,971
Expenses on rents	8,331,468	7,846,021
Operating expenses related to the impairment of current assets , out of which:	58,252,565	21,323,130
- net expense with adjustments for impairment of trade receivables	*22,07,688*	*12,59,534*
- (income)/net expenses with adjustments for impairment of various debtors	*34,976,142*	*6,230,412*
- net expenses with adjustments for impairment of inventories	*1,203,735*	*2,501,184*
Other expenses, out of which:	68,202,61817,584,603	53,167,91121,616,404
- expenses related to taxes and levies (tax on natural monopoly, other local taxes and levies)	1,164,391	3,929,041
- expenses related to provisions for other operating expenses	5,265,843	6,369,871
- travel expenses	3,121,617	3,012,478
- expenses related to international levies	3,093,953	2,070,747
- expenses related to commodities	2,189,564	2,333,148
- expenses related to purchased electricity for administrative consumption	99,927,934	22
- expenses related to late interest owed to the state budget, out of which:	-	-
- expenses related to banking services and other similar services	1,290,710	-
- expenses related to staff transportation	1,022,807	1,355,695
- expenses related to purchased natural gas	953,959	1,137,217
- expenses related to studies and research	760,566	984,042
- expenses related to disasters and other subsequent events (registered with ST Constanta and ST Craiova)	562,711	1,210,352
- other operating expenses	*6,991,048*	140,723
	-	-
		9,008,171
Total	**184,958,423**	**133,720,367**

Out of the amount of the late payment increases due to the state budget the amounts due in the amount of 24,200,846 (the amount obtained after the change by recording the loss resulting from the additional payment obligations recorded in the ANAF-DGAMC tax inspection report in the amount of 75,727. 088, as the result of the correction of accounting errors, according to the Address no. 1649 of 16.04.2018), the amount of 24,163,468 refers to the ANAF-DGAMC findings for the period 2005-2010, there are both additional debits and corresponding accessories unprocessed technological services provided in the framework contracts approved by ANRE, for which Transelectrica records revenues from penalties. At the same time, ANAF-DGAMC retained additional debits and accessories corresponding to the findings of the Court of Accounts regarding the expenditures that were not aimed at the continuous training of the employees and which are not vocational training and for which the RCC Decision no. 14/2011.

In 2017, the Company challenged the ANAF Taxation Decision and, given that until March 13, 2018, the ANAF-DGAMC had failed to resolve the appeal, it requested the annulment of the Decision by the Court of Appeal of Bucharest file No 1802/2/2018.

The Company has considered that the tax base was not reasonably determined by ANAF, depending on the fully regulated nature of the activity on the electricity market, this being determined in proportion to the number and value of the invoices issued in the period under review. Transelectrica has been entitled to bring an action in court because it believes that ANAF did not consider all data and documents relevant to the estimate as required by the Fiscal Procedure Code applicable at that time. Thus, the Company sued ANAF at the Bucharest Court of Appeal in August 2012 for the recovery of the sum and requested in the probationary case to be admitted the proof sample and the evidence with the judicial expertise.

On September 18th, 2013, the expert report was submitted, which was filed with the case file on September 20th, 2013. On October 18th, 2013, the parties filed objections regarding the report of judicial expertise that were approved by the Court of the Call on the deadline of November 15th, 2013, and which were communicated to the appointed expert. On March 7 th, 2014, the expert presented the response to the objections formulated by the Company. In relation to the revenues envisaged by ANAF, in relation to which ANAF estimated the value added tax collected in the sum of 16,303,174, the report of the judicial accounting expertise found the existence of unjustified incomes amounting to 551,013, the amount at which the VAT and its accessories should have been calculated. The hearing was postponed to take note of the content of the response to the objection to the expert report.

At the deadline of 30.04.2014, the solution pronounced by the substantive court - Bucharest Court of Appeal, Section VIII of the Administrative and Fiscal Contentious Division (Decision No. 1356/2014) in File no. 6657/2/2012 was as follows: "Rejects the request of the applicant CNTEE Transelectrica SA (Appeal against the ANAF fiscal act)". The company filed an appeal by formulating the application filed in the file, filed in this file, with a court term set on 07.04.2016, the hearing held at the High Court of Cassation and Justice, the Administrative and Fiscal Litigation Division. On 07.04.2016, due to the lack of procedure, a new deadline was set for 02.06.2016, the term in which the court stayed in pronouncement, postponing the pronouncement for 16.06.2016.

At this time, the High Court of Cassation and Justice - the Administrative and Fiscal Contentious Division issued the decision no. 1945 / 16.06.2016, ordering the following: "Accepts the request and puts the appellant-plaintiff within the time limit for declaring the appeal. Dismisses the appeal filed by the National Power Grid Company "Transelectrica" against the Sentinfo no.1365 of 30 April 2014 of the Bucharest Court of Appeal - the 8th Administrative and Tax Appeals Division as unfounded. Irrevocable. Pronounced in public session, today, June 16, 2016. "Decision No. 1945 / 16.06.2016 pronounced by the High Court of Cassation and Justice was communicated to the Company by photocopying it.

Against the decision No. 1945 / 16.06.2016 was filed an appeal for annulment filed with the High Court of Cassation and Justice. On March 1, 2017, the High Court of Cassation and Justice ordered by decision no. 779 the following: "rejects the exception of the inadmissibility of the contestation in annulment formulated by the contestant Transelectrica SA, invoked by the intimation of the General Directorate for Administration of Large Contributors. Dismisses the appeal in annulment formulated by the contestant Transelectrica SA against civil decision no. 1945 of 16 June 2016 of the High Court of Cassation and Justice - Administrative and Tax Appeals Division, pronounced in file no. 6657/2/2012, as unfounded. Irrevocable ". Until the date of preparation of these financial statements, the Company was not informed of the drafting of the Decision no. 779 / 01.03.2017.

The additional payment obligations established by ANAF-DGAMC through the Taxation Decision no. 62/2011 has been recorded in the *Other operating expenses* chapter, together with the resumption of the provision made in the financial years 2012 and 2014.

In "operating expenses related to impairment adjustments for current assets" are included adjustments for impairment of receivables for:
- Elcomex IEA SA in the amount of 31,868,316;
- Arelco Power SRL in the amount of 18,782,312;

- Other unscheduled clients and debtors in the amount of 7,601,937 (Elsaco Energy SRL, Eva Energy, Enol Group SA, CET Govora SA, PetProd SRL, etc.).

24. NET FINANCIAL RESULT

	2017	2016
Interest revenues	5,428,137	5,666,055
Revenues from exchange rate differences	11,430,141	21,157,006
Other financial revenue	2,240,682	3,136,969
Total financial revenue	**19,098,960**	**29,960,030**
Expenses on interest	(21,560,125)	(23,995,214)
Expenses from exchange rate differences	(18,659,073)	(22,407,867)
Other financial expenses	-	(585,227)
Total financial expenses	**(40,219,198)**	**(46,988,308)**
Net financial result	**(21,120,238)**	**(17,028,278)**

The decrease of the net financial result regarding the exchange rate differences in 2017 compared to 2016, amounting to 4.091.960, was negatively influenced by the evolution of the exchange rate of the national currency in relation to foreign currencies in which the Company has contracted bank loans for financing the investment programs (Euros, Dollars), which made that the decrease in exchange-rate income to be only partly offset by exchange and interest rate fluctuations, amid a 30% decrease in the Other Financial Income position.

The average exchange rate of the national currency registered in 2017, compared with the one registered in 2016 is as follows:

Currency	2017	2016
Lei / Euros	4.5681	4.4908
Lei / US Dollars	4.0525	4.0592

25. LEGISLATIVE AND FISCAL FRAMEWORK

The legislative and fiscal environment in Romania and its implementation into practice changes regularly and is subject to different interpretations by various control bodies. Income tax declarations are subject to review and correction by the tax authorities, generally for a period of five years after their submission. Management believes that it has adequately provided for tax liabilities in the accompanying financial statements; however, the risk remains that tax authorities could take differing positions with regards to the interpretation of these issues. Their impact cannot be estimated at this time.

26. COMMITMENTS AND CONTINGENCIES

i) Commitments

As of December 31st, 2017 and December 31st, 2016, the Company had commitments amounting to 1,121,769,861 and 1,036,117,363 mainly representing ongoing contracts related to the investment program for the modernization and upgrading of the transmission grid.

ii) Land plots used by the Company

As per the Company policy, the financial statements include only the value of the land for which certificates authenticating the ownership rights have been obtained as of the date of the financial statements.

According to Law No. 99/1999, in case the Company obtains the certificate authenticating the ownership rights for land plots after privatization, the land will be considered as contribution in kind of the Romanian State. These land plots are initially recognized in other reserves. In this respect, the Company will increase the share capital in line with the value of the land

plots, and the beneficiary of this increase will be the Romanian State. In accordance with Art. 130 of Law 297/2004 regarding the capital market, "the increase in the share capital of a listed company on a regulated market will be made with the possibility for the other shareholders to maintain their percentage in the share capital of that company".

As of the date of the issuance of these financial statements, the external legal opinion received by the management of the Company following the acquisition of legal consultancy, assistance and/or representation services needed for the share capital increase states that in the absence of other changes or clarifications in the legal framework, the general legal provisions applicable to the companies are contradictory with regards to the increase provisions for companies regulated by the privatization law. Taking into consideration the steps undertaken by the Company for the share capital increase by the value of the land plots for which certificates authenticating the ownership rights have been obtained, O.P.S.P.I. has communicated to the Company that in their opinion, the share capital increase should be performed after the changes in the legal framework.

iii) Pending disputes

The management regularly analyses the ongoing litigations, and after consulting with its legal representatives decides the need to create provisions for the amounts involved or of their presentation in the financial reports.

Taking into account the existing information, the Company's Management believes that there are no significant ongoing litigations in which the Company has the quality of defendant, except for the following disputes:

• Pending with the Mehedinti Court – Section II Civil, Administrative and Fiscal Litigation Section, the **file no. 3616/101/2014** was recorded, involving the "claims in the amount of 1,090,831.70, counter value of invoice no. 1300215/31.12.2013", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN.

By civil sentence no. 127 ruled on October 10th, 2014, the Mehedinti Court admitted the request lodged by plaintiff RAAN and ordered CNTEE Transelectrica SA to pay the amount of 1,090,831.70 lei, the counter value of invoice no. 1300215/31.12.2013.

The amount requested for payment represents penalties calculated by RAAN for the bonus due from the support scheme and withheld from payment by the Company, in its capacity as Administrator of the support scheme, who enforced the provisions of Article 17 (5) of ANRE's Order no. 116 / 2013 (see Note 9).

The amount was enforced by RAAN on July 15th, 2016, as per the Decision issued by the Bankruptcy Receiver Office Ailiesei si Guta in the enforcement file no. 12105/2016.

26. COMMITMENTS AND CONTINGENCIES (continued)

By civil decision no. 843/2015, the Craiova Court of Appeal rejected the appeal filed by CNTEE Transelectrica SA against civil sentence no. 127/10.10.2014, as lacking interest.

Against the decision no. 843/May 11th, 2015 of the Court of Appeal Craiova - Section II Civil, pronounced in the public hearing from May 11th, 2015, in file no. 3616/101/2014, as well as against the decision no. 127/2014 of the Mehedinti Court-Section II Civil, Administrative and Fiscal Litigation, pronounced in the public hearing from October 10th, 2014, in file no. 3616/101/2014, as well as against the Decision no. 1/2015 of the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation, pronounced in the public hearing from January 9th, 2015, in file no. 3616/101/2014, CNTEE Transelectrica SA filed an appeal asking the court to allow the appeal as it was filed and to reverse the judgment and sentences under appeal and to refer the case to the trial court in the territorial jurisdiction for judgement, and to declare the compliance with the requirements of Articles 1616 and 1617 of the Civil Code, reason for which it is being required to declare the intervention of the compensation of mutual debts, and their redemption up to the amount of the smallest of them, namely the total amount requested by the plaintiff in the application for summons, ordering the appellee - plaintiff to pay the expenses occurred with this appeal.

The appeal was registered on the docket of the High Court of Cassation and Justice who decided to reverse decision no. 843/2015 and to remand the case for retrial to the same court, the Court of Appeal Craiova.

By decision no. 124/2017, the Court of Appeal Craiova admitted the appeal declared by Transelectrica and remanded sentence no. 127/2014 pronounced by the Mehedinti Court, and the case was remanded for retrial to the Bucharest Court – Section VI Civil.On the docket of the Bucharest Court, the case was registered under no. 40444/3/2017 who, via civil sentence no. 4406/04.12.2017, admitted the request lodged by RAAN and ordered Transelectrica to pay the amount of 1,090,831.70 lei. The decision is subject to appeal in higher court.

In the period 2014 - 2015, the Company has retained the due support scheme bonus from payment to RAAN, pursuant to the provisions of the ANRE regulations, namely the Article 17 (5) of ANRE Chairman's Order no. 116/2013.

Under these conditions, RAAN calculated penalties for late payment of the due cogeneration bonus in the amount of 3,496,914, withheld from the payment by the Company in the account of non-cashed receivables. The amount of 3,496,914 was refused for payment by the Company and was not registered as a liability in the support scheme.

• Pending with the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigations, the **file no. 9089/101/2013/a138** was recorded, involving the "presidential ordinance", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities - RAAN – debtor in insolvency.

Through the sentence no. 63/2016, the court ordered the defendant to continue the electricity transmission and system services necessary for continuing the activity throughout the judicial reorganization of the RAAN.

Transelectrica filed an appeal against that decision.

On May 10th, 2016, the Craiova Court of Appeal delivered its judgment no. 457/05.10.2016, which ordered the following: "Dismisses the appeal. Rejects the appeal as ill-founded. Final."

Also, the hearing of the appeal declared by RAAN against the decision of starting the bankruptcy proceedings, subject of file no. **9089/101/2013/a137** before the Court of Appeal Craiova, was postponed until May 31st, 2016, when the case was taken for judgement.

Through the Decision no. 563/June 14th, 2016, the Court of Appeal Craiova - Section II Civil rejected the appeals lodged against interim decision no. 10/January 28th, 2016, ruled by the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section.

• Pending with the Mehedinti Court – Section II Civil, Administrative and Fiscal Litigation Section, the file no. **1284/101/2015** was recorded, involving the "claims in the amount of 11,637,440 ", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN.

By the application for summons filed by the plaintiff, they asked Transelectrica SA to pay the amount of 11,637,439.66 lei.
On May 22th, 2015, the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section, ruled the sentence no. 41/2015, by which it ordered the following: 'Admits the exception for lacking territorial jurisdiction. Declines jurisdiction in favor of Bucharest Court, Section VI Civil. With no means of appeal." The file was registered to the Bucharest Court - Section VI Civil, under no. 24206 / 3 / 2015.
The applicant RAAN filed a request to amend the amount of the alleged right, seeking the increased amount of 17,805,680.17 lei from Transelectrica SA.

On November 3rd, 2015, the Bucharest Court, Section VI Civil delivered the sentence no. 6075 / 2015, by which it ordered the following: 'Upholds the application in the way it was completed. Orders the defendant to pay the plaintiff the amount of 17,805,680.lei, representing the equivalent value of the bonus and penalties. Dismisses the application for granting legal expenses, lodged by the plaintiff, as ill-founded. With appeal within 30 days from communication. The appeal is lodged at the Bucharest Court - Section VI Civil."

The ruling was communicated on July 4th, 2016, according to the registration entry stamp of the correspondence with Transelectrica SA. An appeal was lodged against the sentence. By Hearing protocol from January 12th, 2017, pronounced in the file no. 24206/3/2015, the Court of Appeal Bucharest ordered the postponement of the hearing of the appeal until the final settlement of the file no. 9089/101/2013/a152 on the docket of the Mehedinti Court, on the grounds of Article 413 (1) (1) of the New Civil Procedure Code. With appeal throughout the suspension.

The Court of Appeal Bucharest decided the suspension of the judgement of the case, considering that its settlement depends on the decision that shall be pronounced in file no. 9089/101/2013/a 152 on the docket of the High Court of Cassation and Justice, involving the challenge of the additional receivables table of the Autonomous Authority for Nuclear Activities SA.

• Pending with the Bucharest Court – Section VI Civil the **file no. 26024/3/2015** was recorded, involving the "claims", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN.
By the application for summons filed by the applicant, they asked Transelectrica SA to pay the amount of 10,274,679.11.
The court reserved judgement on June 13th, 2016, postponing the ruling until June 27th, 2016 when, by hearing protocol, it ordered the redocking of the case in order to discuss the administration of additional evidence to establish mutual debts and compensation invoked by the defendant, to date, setting the next hearing on November 28th, 2016.

By Hearing protocol from November 28th, 2016, the Bucharest Court has suspended the cause according to Article 413 (1) of the New Civil Procedure Code, in conjunction with Article 411 (1) of the New Civil Procedure Code. With appeal throughout the suspension.

The Court of Bucharest decided the suspension of the judgement of the case, considering that its settlement depends on the decision to be ruled in file no. 3014/2/2014 on the docket of the High Court of Cassation and Justice, involving appeal - annulment of the Decision of the ANRE Chairman no. 743/2014.

• Pending with the Bucharest Court – Section VI Civil the file no. **3694/3/2016** was recorded, involving the "claims", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN.
By application for summons filed by the plaintiff, they asked Transelectrica SA to pay the amount of 15,698,722.lei.
On the grounds of Article 413 (1) (1) of the Civil Procedure Code, on October 20th, 2016, the Bucharest Court ordered the suspension of judgement until the final settlement of the file no. 3014/2/2014 on the docket of the High Court of Cassation and Justice, involving appeal – annulment of the Decision of the ANRE Chairman no. 743/2014. With appeal throughout the suspension.

• Pending with the Mehedinti Court – Section II Civil, Administrative and Fiscal Litigation Section, the **file no. 9089/101/2013/a140** was recorded, involving the "claims in the amount of 86,513,431", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN.

By application for summons filed by the plaintiff, they asked Transelectrica SA to pay the amount of 86,513,431lei.
On May 19th, 2016, the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section, pronounced a hearing protocol by which it ordered the following: "on the grounds of Article 413 (1) of the Civil Procedure Code, suspends the case until the settlement of the file no. 3014/2/2014 on the docket of the High Court of Cassation and Justice. With appeal throughout the suspension. Pronounced today, May 19th, 2016, in open court."

• We also mention the fact that, by the protocol dated on September 18th, 2013, ruled by the Mehedinti Court in file no. 9089/101/2013, the opening of the general insolvency proceedings has been ordered against the debtor Autonomous Administration for Nuclear Activities R.A. (R.A.A.N.)

Through the sentence no. 387/March 20th, 2014, the Mehedinti Court confirmed the reorganization plan of the debtor Autonomous Administration for Nuclear Activities, proposed by the insolvency administrator Tudor & Partners SPRL and voted on by the General Assembly of Creditors according to the minutes of February 28th, 2014.

By interim decision no. 10/January 28th, 2016, pronounced by the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation, the liquidator ordered the commencement of the bankruptcy procedure for the debtor pursuant to Article 107 (1) C of Law. no. 85/2006, and the dissolution of the debtor and cancellation of the debtor's right to administer.

Through the Decision no. 563/June 14th, 2016, the Court of Appeal Craiova - Section II Civil rejected the appeals lodged against interim decision no. 10/January 28th, 2016, ruled by the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section.

By the hearing protocol of June 30th, 2016, Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section set the new procedural time limit as follows: "Sets the deadline for the submission of claims arising in the proceedings to August 13rd, 2016. Sets the deadline for the verification of claims arising during the procedure, preparation, display and communication of additional table of receivables on September 29th, 2016. Sets the deadline for filing objections against receivables arising in the proceedings on October 9th, 2016 and for resolving the objections against receivables arising in the proceedings on October 20th, 2016. Sets the deadline for the preparation and display of the consolidated final table on November 10th, 2016."

Together with filing the receivables declaration in the bankruptcy proceedings of RAAN, Transelectrica SA may invoke the provisions of Article 52 of Law no. 85/2006, applicable to the bankruptcy proceedings for RAAN, provisions taken from Article 90 of Law no. 85/2014 concerning the creditor's right to invoke the compensation of his receivable with the one of the debtor, when the legal provisions on compensation in legal proceedings are completed on the date of commencement of the procedure.Transelectrica SA has been registered in the table of debtor RAAN with the amount of 11,264,777.30 lei under the category of receivables resulting from the continuation of the debtor's activity, the amount requested by our company being equal to 89,360,986.06 lei, our amount of 78,096,208.76 lei not being registered in the preliminary table because "this is not listed as owed in RAAN's accounting records." Moreover, the liquidator considered that the request regarding the registration in the table of the amount equal to 78,096,208.76 lei is tardily filed, being related to the timeframe 2011 – 2013, reason for which the receivable declaration should have been filed at the moment of commencement of the insolvency proceedings,

namely on September 18th, 2013. Objection was filed against the Table. The Mehedinti Court approved the evidence with the audit expertise. The parties lodged objections against the audit expertise report, which were admitted by the court who set the hearing on February 22nd, 2018.

• Following a verification conducted in 2013, the Court of Auditors issued several measures to be implemented by the Company as a result of a series of deficits identified within this verification. The decision and protocol issued by the Court of Auditors have been appealed before the Court of Appeal Bucharest, the file no. 1658/2/2014 being constituted.
At the hearing from January 20th, 2016, the court postponed the case so that the appointed accounting expert can express his point of view regarding the objections of the plaintiff against the expert report concerned and so that the technical expert can perform the expertise. On June 29th, 2016, the court postponed the case so that the technical expertise report may be finished. The next hearing was set on October 26th, 2016, and until the date of drafting this report, no other changes have been registered.

At the hearing from February 8th, 2017, the objections against the expert report have been notified. Hearing: 22.03.2017.

• CNTEE Transelectrica SA filed a complaint against the Order of the ANRE Chairman no. 51/June 26th, 2014, registered at ANRE under no. 47714/August 4th, 2014, and an appeal before the Court of Appeal Bucharest, subject of the file no. 4921/2/2014, requesting either the amendment of the aforementioned Order, or the issuance of a new order, which should recalculate the RRR value at the level of 9.87% (recalculated with a (β) coefficient of 1.0359, according to the internal analyses conducted by Transelectrica) or, should this request be rejected, using the same percentage of 8.52% set by ANRE for the year of 2013 and for the first semester of 2014.

On June 26th, 2014, the ANRE Order no. 51 was issued, published in the Official Journal under no. 474/June 27th, 2014 on the approval of the average tariff for the transmission service, the tariff for the system service and the zonal tariffs for the transmission service, payable to the National Power Grid Company "Transelectrica" - SA, and the repealing of Addendum no. 1 of the ANRE Chairman's Order no. 96/2013 regarding the approval of the average tariff for the transmission service, the tariff for the system service, the zonal tariffs for the transmission service and the tariffs for the reactive electrical energy, payable to economic agents from the electricity sector.

The values taken into consideration for calculating the Regulated Rate on Return (RRR[1]) by ANRE, according to the Methodology on establishing the tariffs for the electricity transmission service, approved by ANRE Order no. 53/2013 ("the Methodology") have determined a RRR value of 7.7%.

26. COMMITMENTS AND CONTINGENCIES (continued)

CNTEE Transelectrica SA considers that the enforcement of the provisions of Article 51 of the Methodology on establishing the Beta (β) parameter at the value of 0.432 shall determine the financial damage of the company by decreasing the rentability with an estimated value of 138.4 mil. lei[3], having a significant impact on the financial interests of the company.

At the hearing from February 9th, 2016, the court admitted the evidence with the audit expertise - specialization financial investments and other entities of movable goods, extended the discussion on the technical evidence discussion – electro-energetic specialization, after administering the evidence with the audit expertise - specialization financial investments and other entities of movable goods.

At the hearings from March 25th, 2016, April 22nd, 2016, June 10th, 2016 and March 3rd, 2017, the court postponed the judgement of the cause because of the missing technical expertise report. The next hearing was set for February 13th, 2018.

• On March 4th, 2014, the European Commission issued a communication stating that it has imposed a fine of 1,031,000 EUR to the subsidiary of SC OPCOM S.A. for the abuse of dominant position on the Romanian market in order to facilitate the trading of electricity on the spot market, in breach of the EU antitrust rules. The Company was included in the trial acting as parent company to the subsidiary SC OPCOM S.A., being jointly responsible for paying the fine.
The General Assembly of the subsidiary SC OPCOM SA shareholders, at the meeting from June 10th, 2014, decided upon full payment of the fine amounting to 1,031,000 euro imposed by the Directorate General for Competition – European Commission for breaching of Article 102 of the Treaty on the Functioning of the European Union, according to the Decision no. AT 39984 in the antitrust case. The subsidiary SC OPCOM SA has made full payment of the fine set by the European Commission.

[1] RRR - Regulated Rate on Return is presented in the technical literature as WACC – Weighted Average Cost of Capital – translated as Weighted Average Cost of Capital, the equation of both indicators being similar: RRR = WACC = CCP + Kp/(1 – T) + CCI x Ki
[2] The value that caused the decrease of the RRR to 7.7%
[3] Calculated value compared to the RRR of 8.52%

On November 24th, 2014, the subsidiary SC OPCOM SA summoned CNTEE Transelectrica SA in order to force it to pay the amount of 582,086.31 euro (2,585,161.72 lei at the National Bank of Romania exchange rate from November 24th, 2014), representing the amount paid by her as fine, from the total of the fine amounting to 1,031,000 euro.

Also, the subsidiary SC OPCOM SA requested the court to order the Company to pay the amount of 84,867.67 lei as lawful interest related to the period between June 11th, 2014 - November 24th, 2014, plus legal expenses amounting to 37,828.08. The action filed by the subsidiary SC OPCOM SA is subject of the **file no. 40814/3/2014** on the docket of the Bucharest Court, Section VI Civil, involving claims, litigation with professionals matter. CNTEE Transelectrica SA has lodged counterclaim against the application for summons in this case, invoking exceptions and defenses on the main issue of the matter regarding the unfounded and unlawful character of the action.

On July 24th, 2015, the Bucharest Court ruled the judgement no. 4275/2015, by which it ordered the following: "Admits the application for summons filed by plaintiff Romanian Gas and Electricity Market Operator - OPCOM S.A. against defendant National Power Grid Company "Transelectrica" S.A. Orders the defendant to pay the plaintiff the amount of 582,086.31 euro, representing the amount paid by the plaintiff in the defendant's stead from the fine in the amount of 1,031,000 euro, imposed by the Decision of the European Commission on March 5th, 2014 in the case no. AT.39984 and of the lawful interest related to the amount of 582,086.31 euro, calculated on June 11th, 2014 and up until de day of the actual payment. Orders the defendant to pay the plaintiff the amount of 37,828.08 lei, as legal expenses. With right of appeal within 30 days from notification. The request for appeal shall be lodged before the Bucharest Court – Section VI Civil."

Against sentence no. 4275/2015, pronounced in the aforementioned file, Transelectrica SA filed an appeal, which was registered on the docket of the Court of Appeal Bucharest. The resolution of the Court of Appeal is the following: Admits the appeal. Changes the appealed civil sentence completely, meaning that it rejects the application for summons as ill-founded. Orders the appellee - plaintiff to pay the trial expenses to the appellant - defendant amounting to 16,129, representing legal stamp duty. With appeal within 30 days from notification. Ruled in open court today, October 10th, 2016. Document: Decision 1517/2016 from October 10th, 2016.

OPCOM S.A. filed a second appeal. The High Court of Cassation and Justice decided the following: Grants, in principle, the appellant-plaintiff Operatorul Pieței de Energie Electrică și Gaze Naturale – OPCOM S.A. motion against decision no. 1517/10.10.2016, ruled by the Bucharest Court of Appeal – Section V Civil. Sets the hearing for solving the appeal on March 13th, 2018. The parties will be summoned. Ruled in open court today, December 5th, 2017.

In 2014, the company recorded a provision amounting to 2,670,029 for the litigation with the subsidiary SC OPCOM SA.

• In 2013, Conaid Company SRL took legal actions against CNTEE Transelectrica for the unjustified refusal of the latter to sign an addendum to the connection agreement or to sign a new connection agreement, and requested the compensation for costs incurred up to that time, amounted to 17,419,508 lei and loss of profit for the period 2013 - 2033 amounting to EUR 722,756,000. So far, the Company did not conclude an addendum to the connection agreement because the suspensive provisions included therein have not been met by Conaid Company SRL. A new connection agreement would have had to be concluded by March 11th, 2014, the date on which the technical connection permit has expired. On the date of these financial statements, the amounts claimed by Conaid Company SRL were regarded as contingent liabilities as it is unlikely to settle this obligation, there will be necessary outflows of resources embodying economic benefits and the value of obligation cannot be evaluated with sufficient reliability. **The file no. 5302/2/2013** was on the docket of the High Court, involving the obligation of issuing of an administrative document, the procedural stage – second appeal, the hearing being on December 9th, 2015. At this hearing, the High Court of Cassation and Justice admitted, in principle, the second appeals and set the hearing, in substance, of the second appeals on April 8th, 2016, Formation 4, summoning the parties. The case trial was postponed for the date of June 17th, 2016, when the court reserved judgement, postponing the judgement until June 29th, 2016, when it pronounced Decision no. 2148/2016, by which it ordered the following: 'Rejects the exceptions invoked by the appellant - plaintiff S.C. Conaid Company S.R.L., via insolvency administrator RVA Insolvency Specialists SPRL, and by the appellant - defendant National Company for Energy Transportation Transelectrica S.A. Admits the second appeal filed by the defendant National Company for Energy Transportation Transelectrica S.A. against the hearing protocol of February 18th, 2014 and the civil sentence no. 1866 of June 11th, 2014, pronounced by the Court of Appeal Bucharest – Section VIII, Administrative and Fiscal Litigation Section. Partially invalidates the contested protocol and judgment and refers the case to the Bucharest Court – Section VI Civil, for settlement of the application of the plaintiff sought against the National Power Grid Company Transelectrica S.A. Maintains the other provisions of the sentence concerning the plaintiff's action against the National Regulatory Authority for Energy. Rejects the second appeals of the plaintiff SC Conaid Company S.R.L. via insolvency administrator RVA Insolvency Specialists SPRL and the intervener S.C. Duro Felguera S.A. against the civil sentence no. 1866 of June 11th, 2014 pronounced by the Bucharest Court of Appeal – Section VIII, Administrative and Fiscal Litigation. Rejects the second appeal filed by the defendant National Power Grid Company Transelectrica S.A. against the hearing protocol from March 25th, 2014, pronounced by the Bucharest Court of Appeal - Section VIII, Administrative and Fiscal Litigation. Final. Ruled in open court today, June 29th, 2016.

On the docket of Bucharest Court – Section VI Civil, the case was registered under no. 12107/3/2017. By civil sentence no. 4364/23.11.2017, the Court admits the exception to the ineligibility of the claim and rejects it as ineligible. It also rejects the motion to intervene in the interest of the plaintiff. With right of appeal within 30 days from notification. The appeal is lodged at the Bucharest Court - Section VI Civil. Sent to the parties via registry today, November 23rd, 2017.

- Following a verification conducted in 2017, the Court of Auditors issued several measures to be implemented by the Company as a result of a series of deficits identified within this verification. CNTEE Transelectrica SA filed a total of 8 objections against the measures ruled by the Romanian Court of Auditors (CCR) via Decision no. 8/27.06.2017 requesting the annulment thereof, as well as the Decision no. 77/03.08.2017 registered with the Company's secretariat under no. 29117/08.08.2017, as well as the Control Report no. 19211/26.05.2017.

- Case file no. 47332/3/2017 on the docket of the Bucharest Court - Section VI Civil, by which the company FF Wind Energy Internațional SRL requests the following against CNTEE Transelectrica SA: - the annulment of the unilateral statement for the termination of the PTG connection agreement no. 85/14.03.2011 issued on March 2nd, 2016 under no. 8295, - ordering the Company to pay the amount of 33 mil. lei as damages following the termination of the agreement and to pay the amount of 45,000,000 euro as the amount of depreciation of the company FF Wind Energy Internațional SRL caused by the impairment of its purpose. Status of the file: in preliminary proceedings for notification of the action and filing statement of defense.

- Also the company is involved in significant litigations in which it has the quality of plaintiff, especially for debt recovery (e.g. Eco Energy SRL , Petprod SRL, Total Electric Oltenia SA, Arcelormittal Galati SA, Regia Autonoma de Activitati Nucleare, Romenergy Industry SRL, Energy Holding SRL, UGM Energy Trading SRL, CET Iasi, CET Bacau, CET Braila, CET Govora, CET Brasov, Elsaco Energy SRL, Elsaco Esco, Arelco Power SRL, Arelco Energy SRL, Inversolar Energy SA). The company recorded adjustments for value losses for the customers and other receivables in litigation and for the customers in bankruptcy. The Company also acted as plaintiff in a dispute with ANAF as shown in Note 9.

At the same time, the Company is also involved in litigation, with former members of the Directorate and the Supervisory Board, regarding the mandate contracts concluded between the Company and them.

The management of the Company considers it is likely that there will be no cases in which an outflow of resources will be required for settling the pending litigation. In addition, there are no other pending litigations which, either by their nature or by their value would deem necessary the presentation of some contingent assets or liabilities significant for the activity of the Company.

26. COMMITMENTS AND CONTINGENCIES (continued)

iv) Guarantees

As of December 31st, 2017 and December 31st, 2016, the guarantees are presented as follows:

	2017	2016
Guarantees granted, of which:	**381,752,861**	**461,878,512**
- letters of guarantee granted – production	44,554,186	36,325,204
- letters of guarantee granted – investments	183,961,869	238,616,854
- other guarantees granted	153,236,806	186,936,454
Guarantees received, of which:	**497,215,685**	**502,121,541**
- letters of guarantee received – production	184,226,150	220,878,950
- letters of guarantee received – investments	264,728,801	233,729,248
- other guarantees received	48,260,734	47,513,343

Guarantees granted

In accordance with the License no. 161/2000 updated by ANRE Decision no. 802/18.05.2016 regarding the provision of electricity transmission and system services and the administration of the balancing market, the Company has the obligation to establish and maintain a financial guarantee of 1% of the turnover related to the licensed activities, which enables the Company to continue its licensed activities, considering the major risks that may impact these activities and which covers any potential damages that may be incurred according to the concluded contractual clauses. In order to comply with this obligation, the Company concluded a loan agreement for issuance of bank letters of guarantee with EximBank SA, the value of which being 29,422,392 as of December 31st, 2017.

On December 27th, 2017, the Company concluded a loan agreement for issuance of bank letters of guarantee with Banca Comerciala Romana amounting to 26,805,370 and valid between January 1st, 2018 and December 31st, 2018.

The other guarantees granted consist mainly of bank letters of guarantee issued for contracts concluded on the centralized markets administered by OPCOM – the Centralized Market for Bilateral Electricity Contracts for Extended Auction (CMCB-EA), the Day-Ahead Market (DAM) and the Intra-Day Market (IDM), as well as commitments/guarantees granted for investments in relation to pending loan contracts.

Other guarantees granted consist of contracts assigned to secure the credit line contracted for the support scheme.

Guarantees received

The guarantees received consist mainly in bank letters of guarantee for due payment in relation to contracts concluded on the electricity market, the good performance bonds and down payment letters of guarantee in relation to investment contracts and other guarantees received based on contracts funded by the connection tariff.

v) Revaluation reserves as of December 31st, 2017

On December 31st, 2017, the revaluation reserves amount to 533,839,585 (compared to 586,619,248 in December 31st, 2016). Starting with May 1st, 2009, the reserves from the revaluation of fixed assets, including land plots, recorded after January 1st, 2004, which are deducted when calculating taxable income through tax depreciation expenses or transferred and/or ceased assets expenses, are taxed simultaneously with the tax depreciation deduction, namely when the assets are disposed, as the case may be.

Realized reserves are taxable in the future, in case of changing the destination of the reserves in any form, in case of liquidation, merger of the Company, including using the reserves for covering the Company's losses, except for the transfer of the aforementioned reserves after May 1st, 2009.

26. COMMITMENTS AND CONTINGENCIES (continued)

vi) Tariffs for electricity transmission and system services

The tariff for electricity transmission is set based on the "revenue cap" methodology. Using this methodology, ANRE sets an initial annual target revenue calculated by summing up the regulated costs and the regulated return of recognized assets. Certain costs included in the base of regulated costs are subject to efficiency requirements limiting the level of expenses that may be recovered through the regulated tariff (controllable operating and maintenance costs, own technological consumption). The annual target revenues calculated for a regulatory period are redirected through a linearization procedure aiming at softening any severe increases/decreases of revenues from one tariff year to the next. The revenues redirected in this way are annually adjusted by the price consumption index.

Certain changes in the tariff mechanism may have a significant impact on the recovery of the regulated depreciation of fixed assets included in the regulated assets base.

The current regulatory period lasts five years (July 1st, 2014 – June 30th, 2019), and comprises five tariff years (the tariff year begins on July 1st and lasts for 12 months). Thus, 2017 was the year of transition from the third tariff year to the fourth tariff year within the current regulatory period (the third tariff year ended June 30th, 2017, the fourth tariff year began July 1st, 2017). For 2017, the tariffs for the transmission and system services were calculated according to the provisions of ANRE Orders no. 53/2013 and 87/2013, as subsequently amended and supplemented. For the first semester of 2017, tariffs for the transmission and system services were approved by ANRE Order no. 27/2016 and for the second semester of 2017 by ANRE Order no. 48/2017.

According to ANRE Order no. 53/2013, as subsequently amended and supplemented, approving the Methodology for determining the tariffs for the electricity transmission service, for the calculation of the regulated revenue for the first tariff period, the competent authority determines the amount related to the efficiency gains (resulted from the reduction of controllable operating costs incurred in a tariff period) above the targets set for prior regulated period and allocates 50% of the surplus to the customers of the transmission service (gain sharing mechanism).

According to ANRE Order no. 87/2013 approving the Methodology for determining the tariffs for the system services, the competent authority determines the amount related to gains obtained by the transmission and system operator through an efficient management of technological system services within a tariff period and allocates 80% thereof to users (gain sharing mechanism). In June 2017, via Order no. 45/2017, ANRE approved the new Methodology for determining the tariffs for the system services, applicable starting with the tariff period July 1st, 2017 - June 30th, 2018 (repealing ANRE Order no. 87/2013). The tariffs for the transmission of electricity and system services are adjusted annually by the total corrections resulting from the previous tariff period's corrections (actual data for 8 months and estimated data for 4 months) and the corrections of the second last tariff period (actual data). By way of exception, the tariff for the technological system services approved for the fourth tariff year has been revised pursuant to the provisions of Art. 45 of ANRE Order no. 45/2017, from 9.39 lei/MWh to 12.06 lei/MWh, applicable starting with January 1st, 2018. The main underlying factor for the tariff increase was represented by the reconsideration of the price assumptions related to Transelectrica's purchase of system reserves on the competitive market.

Service	Tariff applied in the first semester of 2017 (approved by ANRE Order no. 27/2016) lei/MWh	Tariff applied in the second semester of 2017 (approved by ANRE Order no. 48/2017) lei/MWh
Electricity transmission service	18.70	16.86
Functional system services	1.30	1.11
Technological system services	11.58	9.39

26. COMMITMENTS AND CONTINGENCIES (continued)

vii) Contingencies

The following control measures are ongoing at the Company's headquarters:

Ministry of Public Finance - General Department of Economic and Financial Inspection - an inspection activity that started on 15.09.2017 and which was suspended by Address 243104 / 29.11.2017 on the same date, The objectives undergoing verification for 2012-2016 are presented below:

- substantiating and executing the revenues and expenses budget;
- compliance with the budgetary, economic, financial and accounting discipline;
- compliance with the legal provisions regarding the public and private property of the state and of the units administrative-territorial units, held in any form;
- compliance with the provisions of the Government Order no, 64/2001 on the distribution of profits to the national entities,national companies and commercial companies with full or majority state capital, as well as self-governing administrations with subsequent amendments and completions;
- the use of reserve holdings;
- the way of organizing and exercising the compulsory forms of internal / managerial control;
- the way in which the amounts granted from the consolidated general budget were substantiated and justified,
- The Ministry of Economy – Direction for Minister Control Body – the control commenced on January 18th, 2018 – the objectives of the measure are: verifying the observance of legal provisions and internal norms pertaining to the entity's organization and functioning, verifying the way in which the acquisition activity is organized and performed, verifying the way in which consultancy, legal assistance and representation and litigation agreements are concluded and performed, verifying the way in which the sponsorship agreements are concluded and performed, verifying the way in which the transportation expenses are made, analysis of the way in which orders, instructions and other requirements of the Ministry of Economy in the specific field of activity are performed, verifying the completion status of the measures ruled via previous reports, comparative analysis of the entity's economic and financial results in the last three years of activity.

- National Agency for Public Procurement – the control started on February 26th, 2018 – the control aimed at verifying the observance of the rules pertaining to the drafting of technical specifications for the allocation procedure of the agreement for the Technical upgrade of the Turnu Severin Este 220/110 kV substation – procurement notice no. 166637/15.03.2016.

On 31 December 2017 Teletrans SA, a Company subsidiary, was subject to control began on 29.05.2015 by the General Division of Economic–Financial Audit of the Public Finance Ministry, the audited interval being 01.01.2010-31.12.2014 according to Mission orders 82/27.05.2015 and 01.01.2015- to date, according to Mission order 38/31.05.2017; the objectives of the economic-financial audit were:

-fundamentals and execution of the revenue and expense budget;
-compliance with budgetary economic-financial and accounting discipline;
-Ccmpliance with the legal provisions regarding the assets from the state's public and private domain and in that of administrative-territorial units;
-the mode of organisation and exercise of compulsory internal / managerial control;
-verifying the compliance with the provisions of GO 26/2001 with respect to enhancing financial discipline at certain economic operators where the state or administrative-territorial units are single or majority shareholders or hold directly / indirectly some majority participation, from 2015 to date.

On December 31, 2017, Teletrans SA, the subsidiary of the Company, was subject to control by the General Division- for Economic and Financial Inspection of the Ministry of Public Finance regarding the period 2010-2014 and finalized in 2018. The Economic and Financial Inspection Report Draft issued on February 21st , 2018 specifies that, as a result of the leasing of the assets belonging to the public state domain (capacities and infrastructure elements of the public telecommunications network) with disregard by the Company's representatives and Teletrans S.A. of the provisions of art. 14, art. 15 and art. 16 of Law no. 213/1998 on the public property, the state budget would have been damaged in a total amount of 88,778,158 representing sums collected and not paid to the state budget in the period 2006-2016.

In the letter 13443 from26.03.2018 written by Teletrans, it notified Transelectrica of the following:

In 21.02.2018 – 10.032018 time frame several meetings took place between the representatives of Teletrans and the representatives of the Ministry's audit team, which decided the calculation base used in the draft report was wrong, as it strictly related to the revenues registered without taking into account the expenses made (total amortisement of the procured grid equipment, human resources as well as all indirect costs of such activities) and without fully understanding the commercial and juridical relations between Transelectrica and Teletrans;

- Consequently, the audit team together with the managers of the Economic-Financial Audit Division from the Ministry of Finance provided a new term to Teletrans by which it should submit the reviewed situation and additional explanations for the reviewed time interval, extending the 27,02,2018 term by 30,03,2018.

As regards the operation of the optical fibre excess, the juridical nature of the contractual relation took into account the legal opinion of Bostina&Asociatii according to which the previous contract C45/2006 was deemed a mandate contract without representation about "SC TELETRANS SA concluding in its own name but on account of Transelectrica's public telecommunication network contracts with a view to trade its capacity and infrastructure components". The construction of the juridical deed enabled concluding Covenant C111/2014, while maintaining the nature of juridical relations between the parties.

Until the date of approval of the stand-alone financial statements for the year ended on December 31st, .17, the Company did not complete the analysis necessary to determine the possible effect of the result of the economic and financial inspection report issued on 21 February 2018 on the separate financial statements of the Company for the year ended on 31 December 2017.

27. RELATED PARTIES

i) Subsidiaries held by the Company

Entity	Home country	December 31st, 2017 % of shares	December 31st, 2016 % of shares
SMART SA *)	Romania	70	70
TELETRANS SA	Romania	100	100
ICEMENERG SA **)	Romania	-	-
OPCOM SA	Romania	100	100
FORMENERG SA	Romania	100	100
ICEMENERG SERVICE SA	Romania	100	100

The total value of the shares held by the Company in its subsidiaries amounted to 78,038,750 on December 31st, 2017 and to 78,038,750 on December 31st, 2016.

The gross value of the Company's holdings in its subsidiaries is as follows:

SC SMART SA

SC SMART SA, with registered office at 33Magheru Blvd., district 1, Bucharest, and head office located at the work point in 246 C Calea Floreasca, "Sky Tower" Building, 20th floor, district 1 Bucharest, has as main activities the provision of maintenance services for the transmission-dispatch system. The subsidiary was incorporated by GD no. 710/July 19th, 2001 on November 1st, 2001. The share capital as of December 31st, 2016 amounted to 55,036,300, of which 38,528,600 is subscribed and fully paid up by the Company.

By Decision no. 14/10.12.2014, the Extraordinary General Assembly of Shareholders of SC Smart SA approved the company's share capital increase by in-kind contribution with the land plots value for which the certificate authenticating the ownership rights was obtained.

On December 30th, 2014, the Trade Registry Office attached to the Bucharest Court settled the application to register the share capital increase of SC Smart SA and, consequently, as of December 31st, 2015, the shareholding of SC Smart SA was the following:

- CNTEE Transelectrica SA - no. of shares 3,852,860
  - shareholding quota in gains and loss: 70.005%
- The Romanian State via the Government Secretariat-General - no. of shares 1,650,770
  - shareholding quota in gains and loss: 29.994%

On January 25th, 2016, the amendment regarding the change of the shareholding structure of SC Smart SA was processed at the National Trade Registry Office, namely the mention regarding the administration of State's assets, amendment required by Art. 10 of GEO no. 86/2014, as amended and revised.

*) On the docket of the courts there was a litigation - file no. 32675/3/2015 - involving the annulment of Resolution of the Designated Person No. 154954/December 30th, 2014, pronounced in file no. 449314/December 23rd, 2014, under which the Trade Register attached to the Bucharest Court has registered the share capital increase of the subsidiary SC Smart SA with contribution in kind and amended the Articles of Association according to Decision no. 12375/December 22nd, 2014 of the Chairman of the Board of Directors of the subsidiary and according to Board Decision no. 19/December 22nd, 2014. The Company also requested the competent court for the annulment of the two aforementioned decisions and the suspension of the enforcement of deeds whose annulment is requested, until the resolution of the promoted action.

In the file no. 32675/3/2015, the Bucharest Court – Section VI Civil pronounced the civil sentence no. 6468/November 16th, 2015, through which it ordered the following: "Admits the exception of inadmissibility. Dismisses the application for summons filed by the plaintiff Transelectrica against the defendants: the subsidiary Company for electricity transmission grid maintenance services SMART SA, the Romanian State and ONRC, as inadmissible. With right of appeal within 30 days from notification. The appeal is lodged with the Bucharest Court Section VI Civil. Pronounced in open court today, November 16th, 2015". CNTEE Transelectrica SA lodged an appeal, which was registered on the docket of the Court of Appeal, the case being settled at the hearing from May 23rd, 2016, when the Court of Appeal Bucharest ruled the civil decision no. 903/23.05.2016, by which it ordered the following: "Rejects the appeal as ill-founded. Admits the notification of the Constitutional Court. Pursuant to Article 29 (4) of Law no. 47/1992, notifies the Constitutional Court to resolve the exception of unconstitutionality of Article 114 (3) of Law no. 31/1990 in relation to the provisions of Article 16, Article 21 and Article 44 of the Constitution, exception invoked by the appellant. Final."

SC TELETRANS SA

SC TELETRANS SA, with registered office at 16 – 18 Hristo-Botev Blvd., district3, Bucharest, has as main activities process and management IT maintenance services, telecommunication and IT specific services in the PTG, telephony and data transmission. The subsidiary was incorporated as per Decision no. 3/2002 of the General Assembly of Shareholders. The share capital as of December 31st, 2016 amounted to 6,874,430, subscribed and fully paid up.

SC ICEMENERG SA

SC "Filiala Institutul de Cercetări și Modernizări Energetice" – ICEMENERG SA, with registered office at 8 Energeticienilor Blvd., district 3, Bucharest, has as main activities research and development in physical and natural sciences, innovation, studies, development strategies, design, city planning, engineering and other technical services. The subsidiary was incorporated as per GD no. 1065/September 4th, 2003. The share capital as of December 31st, 2016 amounted to 1,083,450, subscribed and fully paid up.

**) On April 7th, 2014 it was accepted by the National Trade Register, the file registration number 121452/April 3rd, 2014 involving the deregistration of the Subsidiary Institute for Energy Research and Modernization – ICEMENERG SA Bucharest. Through the order no. 123/March 13th, 2014 (act of registration and authorization of functioning), was registered at the Trade Register the "National Institute of Research and Development for Energy Bucharest" (GD no. 925/2010). The company filed a complaint against the resolution of ORC director ordering the registration in the trade register of the deregistration of the Subsidiary ICEMENERG SA Bucharest.

Bucharest Court, Civil Section VI, through the sentence no. 3569/July 14th, 2014 pronounced in the file no. 15483/3/2014, in which the company was found in contradiction with the defendants the Subsidiary Institute for Energy Research and Modernization "Icemenerg" S.A. Bucharest and the National Institute of Research and Development for Energy-Icemenerg Bucharest rejected the complaint of the Company, motivated by the fact that GD no. 925/2010 was not abolished until the deregistration at ORC (Trade Register Office). The Court of Appeal has notified on February 24th, 2015 the solution pronounced in the file no. 15483/3/2014 and namely Decision no. 173/2015, which dismissed the appeal of CNTEE Transelectrica SA as ill-founded, the decision being final.

Against the Decision no. 173/2015, pronounced by Bucharest Court of Appeal, Transelectrica SA filed an appeal for annulment, which makes the object of the file no. 1088/2/2015 before the Court of Appeal - Section VI Civil, with hearings on 13th May, 2015. On May 13th, 2015, by Decision no. 777/2015, the Court of Appeal Bucharest dismissed the appeal for annulment as ill-founded, the decision being final.

At the meetings from March 28th, 2016 and August 30th, 2016, the Extraordinary General Assembly did not approve the decrease of the share capital of CNTEE Transelectrica SA with the amount of 1,084,610, representing the share capital

subscribed and paid of the ICEMENERG SA Bucharest subsidiary, by decreasing the shareholding of the Romanian State in the share capital of CNTEE Transelectrica SA, for enforcing the provisions of GD no. 925/2010.
In 2015, the Company registered an impairment amounting to 1,083,450 for the shares held by the Institute for Energy Research and Upgrades – ICEMENERG SA Bucharest subsidiary, which was removed from the register.

SC OPCOM SA

SC OPCOM SA with its registered office at 16-18 Hristo Botev Blvd., district 3, Bucharest, with legal personality, has as its main object of activity the organization, administration and supervision of the energy market and was incorporated by GD no. 627/2000. The share capital as of December 31st, 2016 amounted to 30,687,300, subscribed and fully paid up.
In 2016, the share capital of SC OPCOM SA was increased by 22,587,300, by in-kind contribution of shareholder CNTEE Transelectrica SA.

The in-kind contribution consists of intangible assets, namely "OPCOM Electricity Trade Exchange" and "OPCOM Electricity Regional Exchange", self-funded by the Company and from IBRD funds, valued as per Valuation Report no. 786/15.03.2016 issued by JPA Audit & Consultanta SRL.

The amendment of the articles of incorporation of SC OPCOM SA, based on the Decision no. 6/15.06.2016 of the Extraordinary General Assembly of Shareholders, was registered at the Trade Registry Office according to the Certificate for Registration of Specifications of 11.07.2016. As of 31.12.2016, the share capital is registered in the financial statements subject to GAS approval by OPCOM are presented as subscribed and fully paid-up share capital.

SC FORMENERG SA

SC FORMENERG SA with its registered office at 3 Gh. Sincai Blvd., district 4, Bucharest, with legal personality, has as its main object of activity the initial and continuous training of energy personnel and other beneficiaries in all fields of activity and was incorporated by Decision no. 33/2001 of the General Assembly of Shareholders. The share capital as of December 31st, 2016 amounted to 1,948,420, subscribed and fully paid up.

SC ICEMENERG SERVICE SA

SC ICEMENERG SERVICE SA with its registered office in Bucharest, 8 Energeticienilor Blvd., district 3 has as its object of activity the design, manufacturing, implementation, repair, modernization and marketing of machines, equipment and specialized installations inland and abroad. GD no. 2294/09.12.2004 approved the transfer of the package of shares held by subsidiary "Institutul de Cercetari si Modernizari Energetice – ICEMENERG" - S.A. Bucharest in the subsidiary "ICEMENERG-SERVICE" - S.A. Bucharest to the National Power Grid Company "Transelectrica" - S.A. The share capital as of December 31st, 2016 amounted to 493,000, subscribed and fully paid up.

On June 9th, 2017, the Bucharest Court – Section VI Civil pronounced the entering into bankruptcy under the simplified procedure of the debtor subsidiary ICEMENERG SERVICE – SA, and appointed Solvendi SPRL as temporary liquidator.
In 2016, the Company registered an impairment amounting to 493,000 for the shares held by the SC ICEMENERG SERVICE SA subsidiary.

ii) Related parties – main economic and financial indicators obtained by the Company's subsidiaries as of December 31st, 2016

The main economic and financial indicators obtained by the Company's subsidiaries as of December 31st, 2016 (the last financial year for which the financial statements were approved) are as follows:

No.	Indicator name:	SMART	TELETRANS	OPCOM	FORMENERG	ICEMENERG SERVICE
1.	Turnover	73,679,190	39,206,834	28,344,278	3,338,817	980,381
2.	Gross profit/(loss)	(10,500,488)	4,980,340	672,262	(1,510,957)	(3,550,431)
3.	Paid-up share capital	55,036,300	6,874,430	8,100,000	1,948,420	493,000
4.	Paid-up share capital	-	-	22,587,300	-	-
5.	Reserves	4,232,189	17,582,354	8,991,096	1,721,952	12,709
6.	Equity - total	76,466,840	30,463,704	44,471,886	13,267,819	(1,923,521)

iii) Related parties – transactions with subsidiaries held by the Company

As of December 31st, 2017 and December 31st, 2016, the outstanding balances with subsidiaries are presented as follows:

	Trade receivables		Trade payables	
Related party	**December 31st, 2017**	**December 31st, 2016**	**December 31st, 2017**	**December 31st, 2016**
SC SMART SA	16,884,019	404,257	8,992,426	15,471,838
SC TELETRANS SA	192,966	267,525	7,361,973	6,531,203
SC FORMENERG SA	-	-	-	3,960
SC OPCOM SA	23,995,729	30,921,913	7,442,483	6,747,421
TOTAL	**41,072,714**	**31,593,695**	**23,796,882**	**28,754,422**

The transactions with subsidiaries during 2017 and 2016 are detailed below:

Related party	Sales		Purchases	
	2017	**2016**	**2017**	**2016**
SC SMART SA	739,124	1,064,431	65,360,069	79,564,566
SC TELETRANS SA	3,174,815	2,879,312	32,164,216	32,619,227
SC FORMENERG SA	-	-	177,072	158,301
SC OPCOM SA	516,466,529	342,103,814	217,836,584	153,759,926
TOTAL	**520,380,468**	**346,047,557**	**315,537,941**	**266,102,020**

In 2017, the Company received dividends from the following subsidiaries:

- SC TELETRANS SA – 2,179,493 (1,819,170 in year 2016);
- SC OPCOM SA – 0 (1,218,069 in year 2016);

iv) Related parties – transactions with other State-owned companies

The Company is a majority State-owned company.

The transfer of the 43,020,309 shares representing 58.69% of the Company's shares, from the Romanian State under the administration of the Secretariat General of the Government to the Romanian State under the administration of the Ministry of Economy, Commerce and Tourism was registered by the Central Depositary in the Company's Shareholders' Registry of February 20th, 2015.

The value of the Company's transaction with State controlled entities or over which the State has significant influence account for an important share of sales and purchases registered in the year ended December 31st, 2017.

As described in Note 1 ("Regulatory environment") the Company's activities are regulated by ANRE. As described in Note 3 (b), according to the concession contract, the Company pays an annual royalty computed as 1/1000 of the total electricity transmission revenues.

During 2017, CNTEE Transelectrica SA collected from the Ministry of Economy the amount of 163,809 lei in order to start the expropriation procedures for the privately owned immovable properties constituting the expropriation corridor for the following works of national interest:

- Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja 400 kV OHL in the Medgidia Sud 400 kV substation - Stage II - Connections in the Medgidia Sud 400 kV OHL d.c. substation;

- Converting the Portile de Fier – Resita – Timisoara – Sacalaz – Arad axis/Portile de Fier – (Anina) – Resita 400 kV OHL to 400 kV;

27. RELATED PARTIES (continued)

- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV / stage I: Extension of the Portile de Fier 400 kV substation, Portile de Fier - Anina - Resita 400 kV OHL, Resita 400/220/110 kV Resita substation;
- Resita-Pancevo 400 kV OHL interconnection;

- Ostrovu Mare 220 kV OHL double circuit – PTG;

- Gutinas – Smardan 400 kV OHL d.c. and

- Cernavoda-Stalpu 400 kV OHL d.c. and connection in the Gura Ialomitei substation.
(see Note 13).

28. REMUNERATION OF COMPANY'S MANAGEMENT

The wages paid to the management employed based on Individual Employment Contracts (IEC) for the services rendered consist primarily of base salary, benefits upon termination of employment and post-employment and the fixed and variable components for the members of the Directorate and the Board of Supervisors. These are detailed as follows:

	2017	2016
Management employed based on IEC		
Short-Term Benefits	9,822,029	10,269,611
Other long-term benefits	121,078	266,803
Members of the Directorate and the Board of Supervisors		
Fixed component	1,611,448	1,566,138
Variable component	-	2,013,206
Total	**11,554,555**	**14,115,758**

In 2013, the 4 year mandate was approved for the members of the Board of Supervisors and the Directorate. The General Assembly of Shareholders of November 6th, 2013 approved the mandate of the Board of Supervisors members and their variable remuneration level starting with the business day immediately following the date of approval of the Administration Plan of CNTEE Transelectrica SA for the period 2013-2017 prepared by the Board of Supervisors, i.e. from 01.10.2013.

Decision no. 1 of 23.03.2015 of the Ordinary General Assembly of Shareholders approved under items 3.3 and 3.4 the setting of the general caps of the fixed remuneration granted to the Board of Supervisors members of CNTEE "Transelectrica" – S.A. and the general caps of the variable component of their remunerations.

As of December 31st, 2017, the number of OAVTs granted to the Board of Supervisors members of Transelectrica is as follows:

Package	No. of OAVTs	Date granted	Due date	Weighted average price for the month prior to granting as per the mandate contract
Package 1				
November 15th, 2013	644,545	15.11.2013	15.11.2016	13.1484 (lei/share)
Package 2				
November 15th, 2014	571,561	15.11.2014	15.11.2017	26.6040 (lei/share)
Package 3				
November 15th, 2015	355,640	15.11.2015	15.11.2018	25.9986 (lei/share)
Package 4				
November 15th, 2016	415,274	15.11.2016	15.11.2019	29.0861 (lei/share)

28. REMUNERATION OF COMPANY'S MANAGEMENT (continued)

As of December 31st, 2017, as per the certificates issued by the Company, the number of OAVTs granted to the Transelectrica Directorate members is as follows:

Package	No. of OAVTs	Date granted	Due date	Weighted average price for the month prior to granting as per the mandate contract

Package 1				
May 15th, 2014	567,978	15.05.2014	15.11.2016	13.1484 lei/share
Package 2				
November 15th, 2014	657,973	15.11.2014	15.11.2017	26.6040 lei/share
Package 3				
November 15th, 2015	522,418	15.11.2015	15.11.2018	25.9986 lei/share
Package 4				
November 15th, 2016	474,837	15.11.2016	15.11.2019	29.0861 (lei/share)

Details pertaining to OAVT calculation model:

	Package 1	**Package 2**	**Package 3**	**Package 4**
Validity	3 years	3 years	3 years	3 years
Way of exerting	1/3 of the package granted yearly			
Weighted average price for the month prior	13.1484 lei/ share	26.6040 lei/ share	25.9986 lei/ share	29.0861 lei/ share

Thus, as of December 31st, 2017, the Company recorded a provision amounting to 38,498,154 (42,354,707 as of December 31st, 2016) for the annual variable component owed to the Directorate and Board of Supervisors members for the fair value of the virtual shares of the Company as of the end of the financial year.

29. FINANCIAL INSTRUMENTS

Financial risk management

The Company is exposed to the following risks that arise from financial instruments: market risk (interest rate risk and currency risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to mitigate potentially adverse effects on the Company's financial performance. Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's revenues or the value of its holdings of financial instruments.

The Company does not have formal arrangements to mitigate financial risks. However, the financial risks are monitored by management focusing on the needs of the Company in order to make sure that the opportunities and threats are matched efficiently.

This note presents information about the Company's exposure to each of the aforementioned risks, the Company's objectives, policies and processes for risk measurement and management, and the Company's management of capital.

29. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

The Company's operating cash flows are affected by changes in interest rates, mainly due to the foreign currency long-term borrowings with variable interest rates contracted from external financing banks. The Company has significant long-term borrowings with variable interest rates that expose it to significant cash flow risk.

At the reporting date, the ratio of the Company's financial instruments with fixed interest rate to the ones with variable interest rate is presented as follows:

	December 31st, 2017	December 31st, 2016
Fixed interest rate instruments		
Financial liabilities	389,449,493	478,649,422
Variable interest rate instruments		
Financial liabilities	122,800,429	161,485,508

The cash flow risk determined by the interest rate is the risk of fluctuation over time of the interest and consequently, the expense therewith. The Company has significant long-term borrowings, with variable interest rates, which may expose it to cash flow risk.

Sensitivity analysis of interest rate

As of the reporting date, a 100% appreciation of the interest rate for the borrowings with variable interest rates date would have decreased the gross profit for the period by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	Loss 2017	Loss 2016
RON	-	(5,323)
EUR	(19,980)	(1,325,060)
USD	(1,696)	(21,266)
Total	**(21,676)**	**(1,351,649)**

As of the reporting date, a 100% depreciation of the interest rate for the borrowings with variable interest rates date would have increased the gross profit for the period by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	Profit 2017	Profit 2016
RON	-	5,323
EUR	19,980	1,325,600
USD	1,696	21,266
Total	**21,676**	**1,351,649**

The Company did not conclude any hedging contracts regarding the debts in foreign currencies or the exposure to the interest rate risk.

Exchange rate risk

The Company may be exposed to the foreign exchange rates fluctuations through cash and cash equivalents, long-term borrowings and commercial debts denominated in foreign currencies.

The Company's functional currency is the Romanian Leu. The Company is exposed to foreign currency risk on cash and cash equivalents, purchases and borrowings that are denominated in a currency other than the functional currency. The currencies giving rise to this risk are primarily EUR, USD and JPY. The long-term loans and other liabilities denominated in foreign currencies are subsequently recalculated in lei at the prevailing exchange rate at each balance sheet date, as communicated by

Romanian National Bank. The resulting differences are included in the profit and loss account, but do not affect cash flows until the settlement of the debt.

29. FINANCIAL INSTRUMENTS (continued)

The Company's exposure to foreign currency risk, expressed in RON, is as follows:

December 31st, 2017	**Value**	**RON**	**EUR**	**USD**
Monetary assets				
Cash and cash equivalents	520,746,500	465,835,289	54,895,551	15,660
Other financial assets	-	-	-	-
Receivables	818,529,879	753,382,084	65,147,795	-
Gross exposure	**1,339,276,379**	**,1,219,217,373**	**120,043,346**	**15,660**
Monetary liabilities				
Suppliers and other liabilities	708,625,011	642,775,953	65,849,058	-
Loans	512,249,922	200,434,521	308,380,208	3.435.193
Gross exposure	**1,220,874,933**	**843,210,474**	**374,229,265**	**3.435.193**
Net balance sheet exposure	**118,401,446**	**376,006,899**	**(254,185,920)**	**(3.419.533)**

December 31st, 2016	**Value**	**RON**	**EUR**	**USD**
Monetary assets				
Cash and cash equivalents	933,661,193	893,637,035	40,019,176	4,983
Other financial assets	135,090,000	135,090,000	-	-
Receivables	861,746,642	818,493,527	43,253,115	-
Gross exposure	**1,930,497,835**	**1,847,220,562**	**83,272,290**	**4,983**
Monetary liabilities				
Asset providers	882,559,409	801,770,284	80,789,125	-
Loans	640,134,730	200,000,000	428,797,572	11,337,158
Gross exposure	**1,522,694,139**	**1,001,770,284**	**509,586,697**	**11,337,158**
Net balance sheet exposure	**407,803,696**	**845,450,278**	**(426,314,407)**	**(11,332,175)**

Trade and other receivables, suppliers and other liabilities, except suppliers of non-current assets are only denominated in RON.

The following significant exchange rates were used:

	Average exchange rate		**Exchange rate as of**	
	2017	**2016**	**December 31st, 2017**	**December 31st, 2016**
RON/ EURO	4.5682	4.4908	4.6597	4.5411
RON/ USD	4.0524	4.0592	3.8915	4.3033

29. FINANCIAL INSTRUMENTS (continued)

Sensitivity analysis of exchange rate risk

A 10% appreciation of the RON against the following currencies as of December 31st, 2017 and December 31st, 2016 would have increased the gross profit by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit 2017	**Profit 2016**
EUR	25,418,592	42,631,441
USD	341,953	1,133,218
JPY	-	-
Total	**25,760,545**	**43,764,658**

A 10% depreciation of the RON against the following currencies as of December 31st, 2017 and December 31st, 2016 would have had the equal but opposite effect on the above currencies to the amounts shown above, assuming that all other variables remain constant.

	Loss 2017	**Loss 2016**
EUR	(25,418,592)	(42,631,441)
USD	(341,953)	(1,133,218)
JPY	-	-
Total	**(25,760,545)**	**(43,764,658)**

Credit risk

The credit risk is the risk in which the Company bears a financial loss following the non-fulfilment of contractual obligations by a customer or counterparty to a financial instrument. This risk results mainly from trade receivables and the cash and cash equivalents.

The treatment of counterparty risk is based on internal and external factors of success of the Company. The external factors of success – which have an effect upon the systematic reduction of the risk, are: decentralizing the energy sector in which the production, transmission, distribution and supply are separate activities and the customer interface is represented by the supplier, the electricity trading on the Romanian market on two market segments: the regulated market and the competitive market. The internal factors of success in the treatment of counterparty risk include: diversifying the client portfolio and diversifying the number of services on the electricity market.

Financial assets that may submit the Company to the risk of collection are mainly the trade receivables and the cash and cash equivalents. The company has enforced a series of policies that ensure that the sale of services is performed towards the customers with an appropriate collection by including in their commercial contracts of their obligation to provide financial guarantees. The value of receivables, net of the adjustments for value losses, represents the maximum amount exposed at the risk of collection.

The risk of collection related to such receivables is limited, as these amounts are mainly owed by the state-owned companies.

The cash is placed in financial institutions, which are considered as having minimal risk. The deposits are placed with Banca Comeciala Romana, BRD – Groupe Societe Generale, Credit Europe Bank, Garanti Bank, Alpha Bank, Banca Transilvania, Exim Bank, ING Bank and CITI Bank.

At the date of reporting, the maximum exposure to the risk of collection was:

	December 31st, 2017	**December 31st, 2016**
Financial Assets		
Net trade receivables	724,176,710	764,760,133
Other net receivables	47,347,178	87,211,550
VAT to be recovered	47,005,991	28,432,828
Cash and cash equivalents	520,746,500	933,661,193
Other financial assets	-	135,090,000
	1,339,276,379	**1,949,155,704**

Total

The situation of receivables' seniority on the date of drafting the financial position report was:

	Gross value December 31st, 2017	Provision December 31st, 2017	Gross value December 31st, 2016	Provision December 31st, 2016
Not due	557,134,751	1,268,176	639,151,930	4,568,505
Due date exceeded by 1 to 30 days	1,649	2,345	12,638,227	-
Due date exceeded by 31 to 90 days	2,780,207	2,853,477	5,519,233	-
Due date exceeded by 90 to 180 days	(322,245)	-	836,994	359,345
Due date exceeded by 180 to 270 days	58,688,984	1,618,294	27,274,940	7,725,361
Due date exceeded by 270 to 365 days	25,856,404	21,850,588	6,206,328	-
Due date exceeded by more than a year	202,687,679	95,057,839	173,710,511	87,924,820
Total	**846,827,429**	**122,650,719**	**865,338,164**	**100,578,031**

The situation of other receivables' seniority on the date of drafting the financial position report was:

	Gross value December 31st, 2017	Provision December 31st, 2017	Gross value December 31st, 2016	Provision December 31st, 2016
Not due	70,307,272	2,525,896	64,477,570	323,854
Due date exceeded by 1 to 30 days	55,235	0	15,861	8,810
Due date exceeded by 31 to 90 days	63,007	57,063	56,503	30,487
Due date exceeded by 90 to 180 days	34,644,875	34,533,556	6,064,159	4,791,499
Due date exceeded by 180 to 270 days	2,954,880	2,925,623	2,317,148	669,292
Due date exceeded by 270 to 365 days	179,445	112,945	3,159,723	594,621
Due date exceeded by more than a year	66,439,763	40,136,225	101,200,666	83,661,517
Total	**174,644,477**	**80,291,308**	**177,291,630**	**90,080,080**

The amount of 174,644,476 includes 47,005,991 which represents the VAT to be recovered in the balance at 31.12.2017 (2016: 28,432,828).

The Company's policy is to record impairment adjustments for value loss of 100% for clients in litigation, insolvency and bankruptcy, and 100% of trade receivables and other receivables not re paid in more than 180 days, except for outstanding claims generated by the support scheme. The Company also carries out an individual analysis for trade receivables and other uncollected receivables.

The highest impairment adjustments as of 31st December 2017, calculated for trade receivables and related penalties were recorded for SC Eco Energy SRL (24,736,066), SC Petprod SRL (23,539,650), Arelco Power (17,359,453), SC Total Electric Oltenia SA (14,185,577), Romenergy Industry (13,512,997), Elsaco Energy (9,293,972), RAAN (8,516,707), Elsaco Energy (7,177,167), CET Brasov (4,664,627), OPCOM (4,517,460). In order to recover the receivablesadjusted for impairment, the Company took the following measures: court action, enrollment at creditor table, requesting clarifications from ANAF (for VAT to be collected from Opcom), etc.

At the same time, the Company has registered an impairment adjustment of the amount of 44,442,936 due to the total liabilities paid to ANAF. (see Note 9).

The evolution of adjustments for impairment of receivables is presented as follows:

	December 31st, 2017	December 31st, 2016
Balance on the 1st of January	**100,578,031**	**87,986,497**
Recognition of adjustments for impairment	36,575,509	21,129,610
Reversal of adjustments for impairment	14,502,821	(8,538,076)
Balance at the end of the period	**122,650,719**	**100,578,031**

The evolution of impairment adjustments for other receivables is presented as follows:

	December 31st, 2017	December 31st, 2016
Balance on the 1st of January	**90,080,080**	**84,159,760**
Recognition of adjustments for impairment	38,009,855	7,501,245
Reversal of adjustments for impairment	47,798,627	(1,580,925)
Balance at the end of the period	**80,291,308**	**90,080,080**

Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulties in fulfilling the obligations associated with financial liabilities that are settled in cash or by another financial asset's transfer.

A prudent policy regarding liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through adequate credit facilities.

	December 31st, 2017	December 31st, 2016
Assets		
Monetary assets in RON	1,218,732,263	1,847,220,562
Monetary assets in foreign currency	120,059,006	83,277,273
	1,338,791,269	**1,930,497,835**
Liabilities		
Monetary liabilities in RON	(843,210,474)	(1,001,770,284)
Monetary liabilities in foreign currency	(377,664,459)	(520,923,855)
	(1,220,874,933)	**(1,522,694,139)**
Net monetary position in RON	**375,521,789**	**845,450,278**
Net monetary position in foreign currency	**(257,605,453)**	**(437,646,582)**

The Company's policy on liquidity is to maintain sufficient liquid resources to meet the obligations as they mature.

29. FINANCIAL INSTRUMENTS (continued)

The following table illustrates the contractual maturities of financial liabilities, including interest payments:

December 31st, 2017	**Net value**	**Contractual valu**	**<12 months**	**1 – 2 years**	**2 – 5 years**	**> 5 years**
Financial liabilities						
Suppliers and other liabilities	(699,936,819)	(699,936,819)	(686,485,795)	(12,613,029)	(837,995)	
Other tax and social security liabilities	(8,688,192)	(8,688,192)	(8,688,192)	-	-	
Loans	(512,249,922)	(1,271,507,524)	(317,063,988)	(51,449,375)	(68,912,530)	(74,824,029)
Total	**(1,220,874,933)**	**(1,980,132,535)**	**(1,012,237,975)**	**(64,062,404)**	**(69,750,525)**	**(74,824,029)**

December 31st, 2016	**Net value**	**Contractual value**	**<12 months**	**1 – 2 years**	**2 – 5 years**	**> 5 years**
Financial liabilities						
Suppliers and other liabilities	(873,948,200)	(873,948,200)	(873,948,200)	-	-	-
Other tax and social security liabilities	(8,611,209)	(8,611,209)	(8,611,209)	-	-	-
Loans	(640,134,730)	(1,622,599,794)	(138,204,894)	(311,711,992)	(95,401,520)	(94,816,486)
Total	**(1,522,694,139)**	**(2,505,159,203)**	**(1,020,764,303)**	**(311,711,992)**	**(95,401,520)**	**(94,816,486)**

29. FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments

The fair value is the amount at which the financial instrument can be exchanged in current transactions by willing parties in an arm's length transaction, other than determined through liquidation or forced sale. The fair values are obtained from quoted market prices or through cash flows models, as appropriate. As of December 31st, 2017 and December 31st, 2016, management believes that the fair values of cash and cash equivalents, trade and other receivables, trade payables, loans and other short-term liabilities approximates their carrying value. The carrying amount of the loan is the depreciated cost.

December 31st, 2017	**Book value**	**Fair value**	**Level**
Financial assets			
Net trade receivables	724,176,710	724,176,710	Level 1
Other net receivables	47,347,178	47,347,178	Level 1
VAT to be recovered	47,005,991	47,005,991	Level 1
Cash and cash equivalents	520,746,500	520,746,500	Level 1
Other financial assets	-	-	Level 1
	1,339,276,379	**1,339,276,379**	

December 31st, 2017	**Book value**	**Fair value**	**Level**
Non-current financial liabilities			
Loans, less bonds	195,185,934	195,185,934	Level 1
Bonds	-		Level 1
	195,185,934	**195,185,934**	
Current financial liabilities			
Trade payables and suppliers of non-current assets	699,936,819	699,936,819	Level 1
Loans	117,063,988	117,063,988	Level 2
Bonds	200,000,000	200,000,000	Level 1
Liabilities towards employees and other liabilities	8,688,192	8,688,192	Level 1
	1,025,688,999	**1,025,688,999**	

December 31st, 2016	**Book value**	**Fair value**	**Level**
Financial assets			
Trade receivables	764,760,133	764,760,133	Level 1
Other net receivables	87,211,550	87,211,550	Level 1
Cash and cash equivalents	933,661,193	933,661,193	Level 1
Non-reimbursable funds to be received	135,090,000	135,090,000	Level 1
	1,951,132,524	**1,951,132,524**	

December 31st, 2016	**Book value**	**Fair value**	**Level**
Non-current financial liabilities			
Loans, less bonds	301,929,798	440,134,730	Level 1
Bonds	200,000,000	200,000,000	Level 1
	501,929,798	**640,134,730**	
Current financial liabilities			
Trade payables and suppliers of non-current assets	873,948,200	776,167,704	Level 1
Loans	138,204,932	167,362,306	Level 2
Liabilities towards employees and other liabilities	8,611,209	6,763,363	Level 1
	1,020,764,341	**950,293,373**	

Categories of financial assets

	December 31st, 2017	December 31st, 2016
Financial assets		
Cash and bank balances	520,746,500	1,068,751,193
Receivables	818,529,879	861,746,642
Financial liabilities		
Depreciated cost	1,220,874,933	1,522,694,139

Personnel risk and the salary scheme

As of December 31st, 2017, the average age of the Company's personnel is quite high. It is likely that in the nearest future, the Company will face a lack of personnel due to natural causes.

The Company could also face the risk that highly qualified employees leave for private companies which may offer more attractive salary packages than those offered by the Company.

The salary policy imposed by the State on companies in which it is the majority shareholder may lead to a major fluctuation within the specialized work force.

Capital risk management

The Company's policy is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to sustain the future business development.

Debt ratio indicator

	December 31st, 2017	December 31st, 2016
Short and long-term loans	512,249,922	640,134,930
Cash and bank balances	(520,746,500)	(933,661,193)
Other financial assets	-	(135,090,000)
	(8,496,578)	**(428,616,263)**
Shareholders' equity	2,717,631,766	3,107,714,414
Debt ratio	-	-

30. FEES CHARGED BY EACH STATUTORY AUDITOR OR AUDIT FIRM

The total fees charged by each statutory auditor or audit firm for the statutory audit of the annual financial statements and the total fees charged by each statutory auditor or audit firm for other assurance services, for tax consultancy services and for non-audit services according to Art. 38 of Annex no. 1 to the Order no. 2844/2016 of the Ministry of Public Finances, as subsequently amended and supplemented, related to the year 2017, are as follows:

- **SC Deloitte Audit SRL -** Contract no. C210/30.10.2017 – audit services for the stand-alone and consolidated financial statements, issuance of the report on the conformity of the Directorate's Report with the stand-alone and consolidated financial statements, audit services regarding the fulfillment of the financial conditions specified in the loan agreements concluded with Commercial Banks/International Financial Institutions, in bond issuance contracts, audit report in compliance with Art. 113 letter G paragraph (6) of Regulation no. 1/2006 issued by the National Securities Commission – fees for 2017 – 200,000, to which VAT is added;

- **SC PKF Finconta SRL –** Contract no. C75/11.04.2016 – tax consultancy services – fees for 2017 – 36,700, to which VAT is added.

- **SC Econsulting SRL –** Contract no. C266/03.12.2015 – audit services for the project called "Studies regarding the new 400 kV OHL d.c between the Smardan and Gutinas substations", financed via European Funds within the TEN-E program for the period April 1st, 2011 - January 27th, 2017 - fees for 2017 - 2,569;

- **SC Deloitte Audit SRL –** Contract no. C166/04.09.2017 – Independent report for limited assurance of information included in current reports drafted by the company as per provisions of Law no. 297/2004 and Regulation no. 1/2006 - fees for 2017 – 4,500, to which VAT is added;

31. SUBSEQUENT EVENTS

Acceptance of mandate for interim member of the Supervisory Board

According to the Decision no 1 of Ordinary General Shareholders'Meeting from January 9, 2018, Mr. Constantin DUMITRU was appointed as a temporary member of the Supervisory Board, with a term of office until March 30, 2018.

The appointment of Mr. Constantin DUMITRU became effective starting with January 15, 2018, the date of signing before the public notary of the statement of acceptance of the mandate as an interim member of the Supervisory Board of the National Power Grid Company "Transelectrica" S.A.

Extension of the directorate mandate

In the meeting on January 15th, 2018, the Supervisory Board decided to extend through an addendum, the Mandate Contract of the interim members of the Directorate for a period of 2 months, respectively until March 16th, 2018. Therefore, the composition of the Directorate is as follows:
1. Georgeta - Corina POPESCU 2. Andreea - Georgiana FLOREA 3. Dan - Valeriu ARDELEAN 4. Mircea - Toma MODRAN 5. Florin - Cristian TĂTARU.

Grant approval in the amount of 27,085,000 euro

On January 25, 2018, the European Commission approved a grant of € 27,085,000 for the construction of the Cernavoda-Stalpu 400 kVpower line. The Cernavodă - Stâlpu airline will contribute to increasing interconnection capacity between Romania and Bulgaria and to the integration of wind energy in the Dobrogea area.

The Cernavodă-Stâlpu 400 kV line will be about 160 km long and for its commissioning it is necessary to build the 400 kV Stâlpu station and to expand the Cernavoda and Gura Ialomiţei stations. According to the 10-year Development Plan of CNTEE Transelectrica SA, 400kV Cernavoda-Stâlpu OHL will be completed in 2020.

The Cernavoda-Stalpu Line Project, part of the Black Sea Corridor Cluster, is one of the six major investment objectives of the National Power Grid Company Transelectrica SA, which is on the third list of projects of common interest (PCI) on energy infrastructure adopted in November 2017 by the European Commission. The total value of the six investments is about one billion lei. All of these projects contribute to the achievement of the 400kV national ring, an objective included in the governance program, which leads to an increase in the operational safety of NPSs and the achievement of an economical operating regime for the PTGs.

Loans for current activity

Transelectrica signed the credit contract no. C55 / 01.03.2018 with Raiffeisen Bank for a period of 12 months for the financing of the high efficiency cogeneration bonus scheme, in the form of an overdraft facility amounting to 100,000,000, at an interest rate calculated according to the refereance rate ROBOR 1M, plus a negative margin of 0.35%. If the reference rate is less than 0.35%, the interest rate applied is 0%. This was guaranteed by:

- Mortgage on the bank account opened at the bank

- Mortgage on the receivables resulting from the High Efficiency Contribution Contribution Agreements concluded with CES Sale S.A., E.ON Energie Romania S.A .

Appointment of interim Directoratw Members

As the term of office of the current members of the Directorate ceases on March 16, 2018, the Board of Supervisors, as of March 17, 2018, appointed the following persons as interim members of the Board of Directors as of March 17, 2018:

1. Georgeta – Corina POPESCU
2. Andreea – Georgiana FLOREA
3. Dan – Valeriu ARDELEAN
4. Florin - Cristian TĂTARU

The mandate is granted for a period of 4 months with the possibility of extending the mandate, for solid reasons, for further two months. The term of office shall not exceed the date of finalization of the selection procedure of the members of the Directorate of the National Power Grid Company "Transelectrica" SA in the conditions of art. 642 of G.E.O. no. 109/2011 if the procedure is completed within this interval. In accordance with Art. 18 par. (4) of the Constitutive Act of the National Power Grid Company "Transelectrica" -SA, the Supervisory Board elects as the Chairman of the Executive Board, alternatively Chief Executive Officer or Chief Executive Officer - "CEO" - of the Company) of the National Company of Power Transmission "Transelectrica" SA, starting with March 17, 2018, Ms Georgeta - Corina POPESCU. The appointment of the above-mentioned Directors will become effective on the date of signing before the public notary of the declaration of acceptance of the mandate of the Director of the National Power Grid Company "Transelectrica" SA.

Mandate Acceptance – Imterim Directorate Members

The interim members of the Executive Board, appointed on March 14, 2018 by the Supervisory Board, signed the declaration of acceptance of the mandates on March 15, 2018, their appointment becoming effective as of March 17, 2018, according to the declaration of acceptance of the mandates .

Appointment of interim Supervisory Board Chairman

At the meeting on April 13th, 2018, by Decision no. 30, the members of the Supervisory Board appointed Mr. Olteanu Gheorghe as the Chairman of the Supervisory Board.

Appointment of interim Directorate Member

At the meeting on April 20th , 2018, the Supervisory Board appointed by Decision no. 37/2018 as interim member of the Directorate Mr. Adrian - Constantin Rusu. The mandate shall be granted for the for the remainder of the term of office of the members of Directorate, respectively until July 16th , 2018. The appointment of Mr. Adrian - Constantin RUSU became effective starting with the date of signing before the public notary the declaration of acceptance of the mandate as member of the Directorate of the National Power Grid Company "Transelectrica" SA - April 23rd,2018, and his appointment became effective starting with the date of the Company's announcement.

Contract signing regarding the financing from European funds of the project of common interest "The internal line between Cernavoda and Stâlpu" between the European Commission and Transelectrica on April 20th, 2018

The National Power Grid Company Transelectrica SA received on May 8th , 2018 the first installment of 2.2 million euros from the financing approved in January by the European Commission for the construction of the Cernavodă-Stâlpu high voltage internal line, listed as project of common interest. The total grant amount approved by the European Commission through Europe's Interconnection Mechanism is EUR 27 million. This amount covers 50% of the eligible expenses of the investment, the rest of the costs being insured from the Company's own sources. The deadline for completion of the investment is December 31st , 2020. "The Cernavoda-Stalpu 400 kV line is the first project to receive funding from the six projects Transelectrica has on the list of projects of common interest of the European Commission. The 400 kV double circuit Cernavodă - Stâlpu line is aimed at consolidating the cross-section between the western coast of the Black Sea (eastern Romania) and the rest of the European system, while also contributing to the strengthening of the Romanian electricity transmission network, increasing the interconnection capacity between Romania and Bulgaria and the integration of wind energy in the Dobrogea area. The new 400 kV line will have a length of about 160 kilometers, and for its commissioning it is necessary to build the 400 kV Stâlpu station and the extension of the Cernavodă and Gura Ialomiţei stations.

Change of Directorate Chairman of the National Power Grid Company "Transelectrica" SA

By Decision 38 dated May 4th , 2018, the Supervisory Board assigned the position of Chairman of the Directorate, alternatively named Chief Executive Officer or "CEO" - of the National Power Grid Company "Transelectrica" SA, starting with May 7th , 2018, to Mr. RUSU Adrian-Constantin. Starting with May 7th , 2018 ceases the appointment as Chairman of the

Directorate, Chief Executive Officer or "CEO" of the Society of the National Power Grid Company "Transelectrica" SA of Mrs. POPESCU Georgeta-Corina.

Government Decision to supplement the budget of the Ministry of Economy from the Budget reserve fund available to the Government provided for in the state budget for 2018, as well as the application of the provisions of Law no. 255/2010 in the case of ongoing expropriation proceedings concerning privately owned buildings that represent the corridor for the expropriation of public utility works of national interest "LEA 400 kv Oradea-Beckescsaba Installing a 100 KVAr compensation coil at the 400 kv Oradea South Station. Telecommunication and remote-transmission equipment for LEA 400 kV Oradea-Beckescsaba ""

On May 10th , 2018, the Government Decision was adopted that allows the completion of ongoing expropriation procedures for privately owned real estate located in the expropriation corridor of the public utility project of national interest 400 MW Oradea-Bekescsaba LEA. By the same Government Decision, funds were approved for installing a 100 MVAr compensation coil in the Oradea South 400 kV station and for the acquisition of telecommunication and remote-transmission equipment for Oradea-Bekescsaba 400 kV LEA.

The 400 kV LEA 400 kV Oradea-Bekescsaba was put into operation only partially, namely the double-circuit section, 400 kV Nadab (RO) - Bekescsaba (HU): 60 km, out of which 22 km in Romania, kV Arad-Nadab. The LEA 400 kV Oradea Sud - Nadab section has a length of 72 km, simple circuit A and is partially completed.
The commissioning of the Oradea - Nadab section and thus the completion of the 400 kV Oradea - Bekescsaba LEA contributes to closing the 400 kV ring of the country's electricity transmission network, a priority objective of Romania.

Also, the existence of this line leads to avoiding congestion costs in the northwest, which last year amounted to about 39,000 lei - in March, and about 160,000 lei - in November.

At the same time, due to the urgent completion of the works at the 400 kV Oradea - Bekescsaba LEA will be eliminated the risk of damage to the safety in operation of the National Electricity System, a higher risk generated by the potential unavailability of the interconnection line between Romania and Ukraine 400 kV Rosiori - Mukacevo), the situation in which maintaining the operational safety of the north - western area of the country would become extremely difficult and costly.

The completion of the line can be assimilated with the provision of a new flow / new power supply to the northwest of the country, with a significant impact on the increase of the operational safety, the availability of the electric energy transport service, the speed of the reaction / refueling, capacity and flexibility in the event of disruptions in the transport infrastructure caused by major damage, natural disasters, disasters, armed attack, terrorist attack, etc.
Also, by putting into operation the 400 kV Oradea Sud - Nadab LEA, the transfer capacity in the interconnection will increase in the export direction by 100 MW, and in the import direction by 300 MW, depending on seasonal and specific factors, internal and external.

Currently, Romania has an interconnection capacity of only 7% of the power installed in the NPS, compared to the target of 10% as stipulated in the European regulations for 2020, this aspect being notified to the European Commission. Putting into operation of the 400 kV Oradea Sud - Nadab LEA will help bring the European target closer.

Directorate

Adrian-Constantin RUSU	**Dan-Valeriu ARDELEAN**	**Andreea Georgiana FLOREA**	**Georgeta-Corina POPESCU**	**Florin-Cristian TATARU**
Chairman	Member	Member	Member	Member

Cristina STOIAN
Economics and Financial Strategy Department Director

Veronica CRISU
Accountant Department Manager

CNTEE Transelectrica SA
Two-Tier Company

Consolidated Financial Statements
on the date and for the financial year concluded on
December 31st, 2017

in accordance the
Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica" - SA from April 30th , 2018

(free translation)

CNTEE TRANSELECTRICA SA
Consolidated Statement of Financial Position
in accordance with the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th , 2018
(All amounts are in "thousand LEI", unless stated otherwise)

	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	**5**	3,085,762	3,254,345
Intangible assets	**6**	15,612	14,775
Other investments		32,636	32,636
Long-term receivables	**7**	-	9,775
Total non-current assets		**3,134,010**	**3,311,531**
Current assets			
Inventories	**8**	50,106	45,475
Trade and other receivables	**9**	825,949	864,332
Other financial assets	**10**	-	135,090
Cash and cash equivalents	**11**	553,875	960,489
Total current assets		**1,429,930**	**2,005,386**
Total assets		**4,563,940**	**5,316,917**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		733,031	733,031
Share premium		49,843	49,843
Legal reserves		119,153	116,552
Other reserves		57,627	57,627
Revaluation reserves		408,899	458,184
Retained earnings		1,366,936	1,714,462
Equity attributable to the owners of the Group	**12**	**2,735,489**	**3,129,699**
Non-controlling interests		4,065	5,484
Total equity		**2,739,554**	**3,135,183**
Non-current liabilities			
Deferred income	**13**	412,866	433,692
Borrowings	**14**	195,186	501,930
Deferred tax liability		27,263	32,565
Employee benefits obligations	**15**	62,513	58,050
Total non-current liabilities		**697,828**	**1,026,237**

CNTEE TRANSELECTRICA SA
Consolidated Statement of Financial Position
in accordance with the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th , 2018
(All amounts are in "thousand LEI", unless stated otherwise)

	Note	31 December 2017	31 December 2016
Current liabilities			
Trade and other liabilities	**16**	693,349	877,058
Provisions	**17**	42,921	55,274
Other tax and social security liabilities	**20**	11,225	12,291
Borrowings	**14**	338,183	155,548
Deferred income	**13**	40,881	38,025
Income tax payable		-	17,301
Total current liabilities		**1,126,558**	**1,155,497**
Total liabilities		**1,824,386**	**2,181,734**
Total shareholders' equity and liabilities		**4,563,940**	**5,316,917**

Directorate

Adrian-Constantin RUSU	**Dan-Valeriu ARDELEAN**	**Andreea Georgiana FLOREA**	**Georgeta-Corina POPESCU**	**Florin-Cristian TATARU**
Chairman	Member	Member	Member	Member

Cristina STOIAN
Economics and Financial Strategy Department Director

Cristiana ZIRNOVAN
Budgeting and Management Reporting Department Manager

CNTEE TRANSELECTRICA SA
Consolidated Statement of Profit and Loss
in accordance with theDecision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th , 2018
(All amounts are in "thousand LEI", unless stated otherwise)

	Note	2017	2016
Revenues			
Transmission revenues		1,054,629	1,146,257
System services revenues		650,747	716,340
Balancing market revenues		1,304,613	814,080
Other revenues		58,015	61,411
Total revenues	**21**	**3,068,004**	**2,738,088**
Operating expenses			
System operating expenses	**22**	(257,917)	(230,757)
Balancing market expenses	**22**	(1,304,613)	(814,080)
Technological system services expenses	**22**	(661,323)	(561,027)
Depreciation and amortization		(321,027)	(331,433)
Personnel expenses		(237,262)	(271,938)
Repairs and maintenance expenses		(52,383)	(28,913)
Consumables		(22,206)	(27,741)
Other operating expenses	**23**	(147,127)	(130,483)
Total operating expenses		**(3,003,859)**	**(2,396,372)**
Operating result		**64,145**	**341,716**
Financial revenues		17,229	28,676
Financial expenses		(40,854)	(48,520)
Net financial result	**24**	**(23,625)**	**(19,844)**
Result before income tax		**40,520**	**321,872**
Income tax expense	**18**	(19,096)	(62,878)
Result for the year from continuing operations		**21,424**	**258,994**
RESULT FOR THE YEAR			
Attributable to:			
Owners of the Group		22,843	265,155
Non-controlling interests		(1,419)	(6,161)
Basic and diluted lost/earnings per share (lei/share)	**19**	**0.29**	**3.53**

CNTEE TRANSELECTRICA SA
Consolidated Statement of Profit and Loss
in accordance with theDecision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th , 2018
(All amounts are in "thousand LEI", unless stated otherwise)

	Note	2017	2016
Result of the financial year		**21,424**	**258,994**
Other comprehensive income			
Elements which will not be reclassified in the profit and loss account, out of which:			
- Effect of taxation on revaluation reserve			
- Surplus from the revaluation of tangible assets			
- Actuarial losses on defined benefit plans	**14**	(5,035)	(3,318)
Other comprehensive income		**(5,035)**	**(3,318)**
Total comprehensive income for the year		**16,389**	**255,676**
Attributable to:			
Owners of the Group		22,843	265,155
Non-controlling interests		(1,419)	(6,161)

Directorate

Adrian-Constantin RUSU	**Dan-Valeriu ARDELEAN**	**Andreea Georgiana FLOREA**	**Georgeta-Corina POPESCU**	**Florin-Cristian TATARU**
Chairman	Member	Member	Member	Member

Cristina STOIAN
Economics and Financial Strategy Department Director

Cristiana ZIRNOVAN
Budgeting and Management Reporting Department Manager

CNTEE TRANSELECTRICA SA
Statement of Changes in Shareholders' Equity
in accordance with theDecision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th , 2018
(All amounts are in "thousand LEI", unless stated otherwise)

	Share Capital	Share premium	Legal reserve	Revaluation reserve	Other reserves	Retained earnings	Attributable to the owners of the group	Non-controlling interests	Total
Balance on January 1st, 2017	**733,031**	**49,843**	**116,552**	**458,184**	**57,627**	**1,714,462**	**3,129,699**	**5,484**	**3,135,183**
Comprehensive income for the year									
Result for the year	-	-	-	-	-	21,424	21,424	-	**21,424**
Other comprehensive income	-	-	-	-	-	-	-	-	-
Defined benefit plan actuarial loss	-	-	-	-	-	(5,035)	(5,035)	-	(5,035)
Surplus from revaluation of tangible assets	-	-	-	-	-	-	-	-	-
Deferred tax liability generated by revaluation reserve	-	-	-	-	-	-	-	-	-
Total other comprehensive income	**-**	**-**	**-**	**-**	**-**	**(5,035)**	**(5,035)**	**-**	**(5,035)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**16,389**	**16,389**	**-**	**16,389**
Legal reserve	-	-	-	-	-	-	-	-	-
Transfer of revaluation reserve to retained earnings	-	-	-	(49.285)	-	49.285	-	-	-
Increase of the legal reserve	-	-	2.601	-	-	(2.601)	-	-	-
Adjustments of fixed assets obtained through	-	-	-	-	-	-	-	-	-
Adjustment for inflation of share capital to cover losses resulted from applying IAS 29	-	-	-	-	-	-	-	-	-
Non-controlling interests arising from decrease of ownership in SMART SA	-	-	-	-	-	1,419	1,419	(1419)	-
Other elements	-	-	-	-	-	(75,727)	(75,727)	-	(75,727)
Total other elements	**-**	**-**	2,601	(49,285)	**-**	(27,624)	(74,308)	(1,419)	(75,727)-
Land derecognision	-	-	-	-	-	(50)	(50)	-	**(50)**
Dividends distributed from the profit of 2016	-	-	-	-	-	(165,445)	(165,445)	-	**(165,445)**
Special dividends according to GO 29/2017	-	-	-	-	-	(170,796)	(170,796)	-	**(170,796)**
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	(336,291)	(336,291)	**-**	**(336,291)**
Balance as of December 31st, 2017	**733,031**	**49,843**	**119,153**	**408,899**	**57,627**	**1,366,936**	**2,735,489**	**4,065**	**2,739,554**

Directorate

Adrian-Constantin RUSU	**Dan-Valeriu ARDELEAN**	**Andreea Georgiana FLOREA**	**Georgeta-Corina POPESCU**	**Florin-Cristian TATARU**
Chairman	Member	Member	Member	Member

Cristina STOIAN
Economics and Financial Strategy Department Director

Cristiana ZIRNOVAN
Budgeting and Management Reporting Department Manager

The accompanying notes form an integral part of the consolidated financial statements drafted according to the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th , 2018

CNTEE TRANSELECTRICA SA
Statement of Changes in Shareholders' Equity
in accordance with theDecision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th , 2018
(All amounts are in "thousand LEI", unless stated otherwise)

	Share Capital	Share premium	Legal reserve	Revaluation reserve	Other reserves	Retained earnings	Attributable to the owners of the group	Non-controlling interests	Total
Balance on January 1st2016	**733,031**	**49,843**	**99,599**	**512,781**	**56,368**	**1,608,506**	**3,060,128**	**11,645**	**3,071,773**
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	**258,994**	**258,994**	-	**258,994**
Other comprehensive income	-	-	-	-	-	-	-	-	-
Defined benefit plan actuarial loss	-	-	-	-	-	**(3,318)**	**(3,318)**	-	**(3,318)**
Surplus from revaluation of tangible assets	-	-	-	-	-	-	-	-	-
Deferred tax liability generated by revaluation reserve	-	-	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	**(3,318)**	**(3,318)**	-	**(3,318)**
Total comprehensive income for the year	-	-	-	-	-	**255,676**	**255,676**	-	**255,676**
Legal reserve	-	-	**16,953**	-	-	**(16,953)**	-	-	-
Transfer of revaluation reserve to retained earnings	-	-	-	**(54,597)**	-	**54,597**	-	-	-
Fixed assets obtained through public funds	-	-	-	-	-	-	-	-	-
Adjustments of fixed assets obtained through	-	-	-	-	-	-	-	-	-
Adjustment for inflation of share capital to cover losses resulted from applying IAS 29	-	-	-	-	-	-	-	-	-
Non-controlling interests arising from decrease of ownership in SMART SA	-	-	-	-	-	**6,161**	**6,161**	**(6,161)**	-
Other elements	-	-	-	-	-	**743**	**743**	-	**743**
Total other elements	-	-	**16,953**	**(54,597)**	-	**44,548**	**6,904**	**(6,161)**	**743**
Contributions by and distributions to owners									
Grants related with property assets	-	-	-	-	**1,259**	-	**1,259**	-	**1,259**
Dividends distributed	-	-	-	-	-	**(194,268)**	**(194,268)**	-	**(194,268)**
Total transactions with owners	-	-	-	-	**1,259**	**(194,268)**	**(194,268)**	-	**(194,268)**
Balance as at 31 December 2016	**733,031**	**49,843**	**116,552**	**458,184**	**57,627**	**1,714,462**	**3,129,699**	**5,484**	**3,135,183**

Directorate

Adrian-Constantin RUSU	**Dan-Valeriu ARDELEAN**	**Andreea Georgiana FLOREA**	**Georgeta-Corina POPESCU**	**Florin-Cristian TATARU**
Chairman	Member	Member	Member	Member

Cristina STOIAN
Economics and Financial Strategy Department Director

Cristiana ZIRNOVAN
Budgeting and Management Reporting Department Manager

The accompanying notes form an integral part of the consolidated financial statements drafted according to the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th , 2018

CNTEE TRANSELECTRICA SA
Consolidated Statement of Cash Flows
in accordance with the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica"- SA on April 30th , 2018
(All amounts are in "thousand LEI", unless stated otherwise)

Cash flows from operating activities	**2017**	**2016**
Recording loss in retained earnings from correction off accounting errors	(75,727)	-
Result for the year	**21,424**	**258,994**
Adjustments for:		
Income tax expense	19,096	62,878
Depreciation expenses	321,027	331,433
Expenses on provisions for impairment of trade receivables and other receivables	74,586	32,739
Losses from various debtors	45,081	-
Income from reversal of value losses for trade receivables and other receivables	(61,874)	(11,324)
Net expenses for adjustments for inventory impairment	1,612	-
Loss from disposal of intangible assets, net	838	273
Financial expenses regarding the adjustments for impairment of fixed assets	2,867	411
Value adjustments for property, plant and equipment	382	18,805
Value adjustments for provisions	(12,884)	19,100
Interest expense, interest income and unrealized foreign exchange gains	21,484	19,844
	357,912	**733,152**
Changes in:		
Trade and other receivables	(6,243)	308
Inventories	(10,374)	(156,359)
Trade and other liabilities	(81,148)	51,861
Other tax and social security liabilities	(1,066)	3,597
Liabilities paid according to NAFA tax decision	(99,891)	-
Deferred income	(17,970)	(29,640)
Cash generated from operating activities	**141,220**	**602,919**
Interest paid	(22,246)	(25,390)
Income tax paid	(8,861)	(66,538)
Net cash from operating activities	**110,013**	**510,992**
Cash flows used in investing activities		
Purchase of property, plant and equipment and of intangible assets	(191,801)	(142,730)
Other financial assets	135,090	(65,005)
Dividends received	-	1,219
Interest received	5,991	5,880
Cashing from the sale of property, plant and equipment	26	-
Net cash used in investing activities	**(50,694)**	**(200,636)**
Cash flows used in financing activities		
Proceeds from long term borrowings		
Repayments of long term borrowings	(134,372)	(162,486)
Repayments of short term borrowings	3,776	4,133
Dividends paid	(165,541)	(194,342)
Special dividends acordingly with GD 29/2017	(169,799)	-
Net cash used in financing activities	**(465,935)**	**(352,695)**

	2017	2016
Cash flows from operating activities		
Net increase in cash and cash equivalents	(406,614)	(42,339)
Cash and cash equivalents as at 1 January (see Note 11)	**960,489**	**1,002,829**
Cash and cash equivalents at the end of the period (see Note 11)	**553,875**	**960,489**

Directorate

Adrian-Constantin RUSU	**Dan-Valeriu ARDELEAN**	**Andreea Georgiana FLOREA**	**Georgeta-Corina POPESCU**	**Florin-Cristian TATARU**
Chairman	Member	Member	Member	Member

Cristina STOIAN
Economics and Financial Strategy Department Director

Cristiana ZIRNOVAN
Budgeting and Management Reporting Department Manager

1. DESCRIPTION OF ACTIVITY AND GENERAL INFORMATION

The main activity of CNTEE Transelectrica SA ("the Company") and its subsidiaries (collectively with the Company, "the Group") consists of: the electricity transmission services and of the system service, operator of the balancing market, administrator of the bonus type support scheme, other related activities. These activities take place according to the provisions of the business license no. 161/2000 issued by ANRE, updated through the Decision ANRE no. 270/February 4th, 2015, of the general Conditions associated to the license approved through the ANRE Order no. 104/2014 and of the final certification of the Company as a transport operator and system of the National Electroenergetic System according to the model of separating the property ("ownership unbundling").

The registered headquarters is located in: 33 General Gheorghe Magheru Blvd., Bucharest, district 1. Currently, the activity of the Company's executive takes place at the place of operations in 2-4 Olteni Street, district 3, Bucharest.

The Group's consolidated financial statements as at December 31, 2017 prepared in accordance with the International Financial Reporting Standards adopted by the European Union are available at the Company's working point located at Str. Olteni nr. 2 – 4, sector 3, Bucharest.

Starting with August 2006, the Company's shares are traded on the Bucharest Stock Exchange, under the symbol TEL.

According to the Decision of the Extraordinary General Assembly of Shareholders from July 18th, 2012, the Company switched from one-tier to two-tier Company in order to perform a clear separation of the management activities from the controlling activities. Thus, the Company is managed by a Directorate under the supervision of a Board of Supervisors.

Establishment of the Company

In accordance with Government Decision ("GD") no. 627 on the reorganization of the National Power Company - SA (the "Predecessor Entity") issued on July 31st, 2000 by the Government of Romania, the National Power Company was split into four newly created legal entities ("Successor Entities"). The sole shareholder of the Successor Entities was the Romanian State, through the Ministry of Economy ("ME"). CNTEE Transelectrica SA was established as a result of this reorganization as a joint-stock company which has as main activity the electricity transmission, dispatching of electricity, organization and management of the electricity market.

As described in Note 12, as of December 31st, 2017, the shareholders of the Company are: the Romanian State via the Ministry of Economy, Commerce and Tourism, which holds 43,020,309 shares (58.69%), DEDEMAN SRL with 4,192,363 (5.72%), other legal entity shareholders which hold 20,689,339 shares (28.22%) and other natural person shareholders which hold 5,401,131 shares (7.37%).

According to GEO no. 86/17.12.2014 "on the establishment of reorganization measures at the level of the central public administration and to amend and supplement certain legal acts", the Ministry of Economy, Commerce and Tourism exercises the rights, as of December 17th, 2014, and fulfills the obligations arising from its capacity as State shareholder in the National Power Grid Company "Transelectrica" - S.A.

GD no. 47/2013 on the organization and operation of the Ministry of Economy was amended and supplemented accordingly by GD no. 41/2015.

To enforce the provisions of GEO no. 86/2014, on February 20, 2015, Depozitarul Central SA recorded the transfer of 43,020,309 shares (representing 58.68% of the share capital) issued by CNTEE Transelectrica SA, from the account of the Romanian State represented by the Government through the General Secretariat of the Government into the account of the Romanian State through the Ministry of Ministry of Economy, Commerce and Tourism.

Based on the provisions of art. 2 of GEO no. 55/November 19th, 2015 on establishing reorganization measures in the central public administration and amending certain legal acts, the Ministry of Economy, Commerce and Relations with the Business Environment was established, by reorganizing and taking over the activities of the Ministry of Economy, Commerce and Tourism, which was closed, and by taking over the activity and structures of small and medium-sized enterprises from the Ministry of Energy, Small and Medium-Sized Enterprises and the Business Environment.

The mission of the Group

The mission of the Group is to ensure safety and security in the functioning of the National Power System (NPS) by complying with the standards and the performance stipulated by the technical regulations in force, providing a public

service for all users of the electricity transmission grids, ensuring transparency, non-discrimination and fairness for all the market participants.

1. DESCRIPTION OF ACTIVITY AND GENERAL INFORMATION (continued)

Other information relating to the Group's activity

CNTEE Transelectrica SA became a member of the Union for the Coordination of Transmission of Electricity ("UCTE") in October 2004, and from November 2004 became a member of the European Electricity Systems Operators Association ("ETSO"). As of July 2009, ENTSO-E was created by joining ETSO, UCTE and other four European Transmission System Operators ("TSO") associations have been fully integrated into the European Network of Transmission System Operators for Electricity ("ENTSO-E"), joining 42 TSOs from 35 countries. The activity of ENTSO-E is regulated by the European legislation in force (Regulation 714/2009).

CNTEE Transelectrica SA is an affiliate member to the following international organizations:

- ENTSO – E - European Network of Transmission System Operators for Electricity
- CIGRE - International Council on Large Electric Systems
- LWA - Live Work Association;

The Group is responsible for the secure, reliable and efficient functioning of the NPS, by carrying out the provisions of Directive (EU) no. 54/2003, Art. 9.

On May 23, 2017, Moody's Investors Service's credit rating agency published its updated credit rating, assessing Transelectrica's current and future ability to meet its payment obligations to creditors.
The credit rating of Moody's Investors Service credit rating agency maintained the Company's rating at the level of the previous year, respectively Ba1.

Starting January 2017, the Company has signed a contract with Fitch Ratings International Credit Company.
On July 5, 2017, Fitch grants the Company a stable BBB rating, as a recognition of the Company's efforts to achieve operational excellence and a responsible approach to the business environment in which it operates. On Oct. 11, 2017, Fitch maintains the BBB rating, stable outlook, rating one step above the country's rating (BBB- / stable outlook) for the Company.

Legislative environment

The activity in the energy sector is regulated by the Romanian Energy Regulatory Authority ("ANRE"), an autonomous public institution whose object of activity is to design, approve and monitor the application of all the regulations mandatory at national level necessary for the efficient operation of the electricity, heat and gas sectors and markets, observing the competition, transparency and consumer protection rules.

ANRE has the following main responsibilities in the field of electricity and heat produced in cogeneration: to grant, suspend or revoke the permits and licenses, to set up and approve the methodologies and criteria for the calculation of tariffs and regulated prices, to approve tariffs and regulated prices, prepare framework contracts, approve commercial and technical regulations etc.

ANRE establishes the tariffs for electricity transmission and system services. Consequently, the decisions made by ANRE can have significant effects on the Company's activity.

The Company's operating activity has been carried out according to License no. 161/2000 for electricity transmission and provision of system services issued by ANRE, valid until 2025, revised by ANRE Decision no. 802/18.05.2016 and the General Conditions associated to the license approved by ANRE Order no. 104/2014, as subsequently amended and supplemented.

Taking into account that the Group's operations and revenues are regulated by ANRE, the most important risks arising from this aspect are:

- the regulatory framework is relatively new and constantly prone to changes, which may affect the Company's performances;
- ANRE decisions regarding future tariffs may affect the Company's activity;

- the volume risk, namely the decrease in the amount of tariffable energy that may adversely affect the Company's financial situation. In 2017, according to ANRE Decision no. 71/2017, a simulation of two-tier tariffs has been performed by inserting a tariff for grid capacity reservation (the tariff component – fixed – for power) additional to

1. DESCRIPTION OF ACTIVITY AND GENERAL INFORMATION (continued)

the tariff for the energy distributed in the grid (the tariff component – variable – for energy). The application of two-tier tariffs aims at better reflecting the costs of use of the electricity transmission grid (by applying the fixed tariff

- component), optimizing investments in the electricity transmission grid and protecting the revenues of the transmission operator through the stability offered by the fixed tariff component.

Final certification of Transelectrica as TSO of the NPS, according to the ownership unbundling model

In accordance with the provisions of Law no. 123/2012 regarding electricity and natural gas, with the subsequent amendments, the Romanian Energy Regulatory Authority (ANRE) approved by Order no. 164/07.12.2015 the certification of the Company as transmission and system operator of the National Power System according to the ownership unbundling model.

The ownership unbundling model has become available to the Company based on Law no. 123/2012 regarding electricity and natural gas which transposes Directive 2009/72/EC.

ANRE Order no. 164/07.12.2015 accompanied by European Commission Approval no. C (2015) 7053 final/12.10.2015, as integral part of the Order, was published in Official Journal no. 908/08.12.2015 and together with the Approval Report thereof is communicated by ANRE to the European Commission.

This order enforces the provisions of the European Union and the national legislation regarding the certification of transmission and system operators.

The certification notification was sent to the European Union, which published it in the Official Journal of the EU of 08.01.2016, in accordance with Art. 10 paragraph (2) of Directive 2009/72/EC.

Tariffs for electricity transmission and system service

Electricity transmission is a general interest activity in the field of electricity, authorized and monitored by a public authority (public service), in the form of natural monopoly. The tariffs charged by the Company for transmission and system services are established and approved by ANRE (see Note 20).

Regulated assets base ("RAB")

The transmission tariff is set, among others, based on the regulated asset base. The regulated asset base includes the carrying amount of property, plant and equipment and intangible assets which correspond to the private patrimony of the Company and the carrying amount of the State's public patrimony assets that were financed through the Company's sources, recognized by ANRE and used in providing the electricity transmission service.

Assets resulting from additional investments made with the approval of the regulatory authority, due to exceptional circumstances as compared to the investment program initially approved at the beginning of the regulatory period are inserted in the RAB in the specific period if in the regulation period savings amounts were registered and only within the limits thereof, or will be included in the RAB at the beginning of the next regulatory period, by the amount remaining depreciated if a valuable saving was not made.

The current regulatory period lasts five years (July 1st, 2014 – June 30th, 2019), and comprises five tariff years (the tariff year begins on July 1st and lasts for 12 months). Thus, 2017 was the year of transition from the third tariff year to the fourth tariff year within the current regulatory period (the third tariff year ended June 30th, 2017, the fourth tariff year began July 1st, 2017).

The regulated return on assets in 2017 for the electricity transmission activity is 7.7%, a value determined ANRE for the current regulatory period.

Inclusion of Transelectrica in the local and international stock exchange indexes

Starting from 29.08.2006, CNTEE Transelectrica SA shares are traded on the regulated market managed by the BSE, in category I under the symbol TEL. The Transelectrica shares are part of the BET index [which reflects the evolution of the 10 most traded companies on the BSE Regulated Market, excluding financial investment companies (SIFs)], with a share

1. DESCRIPTION OF ACTIVITY AND GENERAL INFORMATION (continued)

of 2.21% as of December 31st, 2017 (December 31st, 2016: 4.11%), with a stock exchange capitalization of 1,799,592,136 as of December 31st, 2017 (December 31st, 2016: 2,140,451,746).

Transelectrica is also included in the local stock exchange indexes BET-XT, BET-NG, BET-XT-TR, BET Plus, BET-TR,

BET-BK, ROTX and in the international indexes Dow Jones Wilshire Global Indexes (Dow Jones Wilshire Global Total Market Index SM; Dow Jones Wilshire Romania Index SM; Dow Jones Wilshire Electricity Index SM). Starting with January 5th, 2015, the Company was included in the Premium category of the regulated market managed by the BSE.

Group's revenues

The main revenue generating activities for the Group are:

- Electricity transmission service;
- System services (the technical operational management of the NPS);
- Balancing market operator.

Electricity transmission service

The transmission service consists in ensuring the electricity transmission between two or more points of the power transmission grid ("PTG"), under conditions of efficiency and safety, whilst observing the applicable performance standards.

The Group ensures the non-discriminatory access to the transmission grid of all electricity market participants. The transmission activity is carried out through eight branches located in Bucharest, Bacau, Cluj, Craiova, Constanta, Pitesti, Sibiu and Timisoara.
The transmission service provided by Transelectrica consists in ensuring the technical conditions and maintaining the PTG parameters during the injection/extraction of energy in/from PTG.

System services

The Group's responsibility is to maintain the National Power System operating uninterruptedly under safe conditions while complying with the quality standards provided in the technical code of the electricity transmission grid. To this effect, the Group uses its own resources called functional system services and purchases technological system services from electricity producers.

The Company provides this service by using dispatch management systems under a tariff regulated and approved by ANRE, which is applied to the same base - electricity delivered to consumers - and includes:

tariff for system services, of which:

tariff for functional system services.

Technological system services are purchased from energy producers at the request of the Company pursuant to a procedure regulated by ANRE for maintaining the operational safety of the NPS as well as the quality of electricity transmitted at the parameters required by the applicable legislation. The Company re-invoices the entire amount of system services purchased from producers (except for the active energy component which covers the PTG losses) to electricity suppliers licensed by ANRE which are the end beneficiaries of such services.

The functional system services pertain to the dispatch services provided by CNTEE Transelectrica SA and consist of planning and operationally managing the NPS, as well as the other activities of CNTEE Transelectrica SA in order to balance production against consumption in real time, in order to safely cover the electricity consumption at minimum costs whilst maintaining the operational safety level of the NPS.

Balancing market operator

In accordance with the provisions of the Commercial Code of the Wholesale Electricity Market, the balancing market was introduced and started functioning in Romania in July 2005. The purpose of this market is to maintain the balance between

1. DESCRIPTION OF ACTIVITY AND GENERAL INFORMATION (continued)

production and consumption in real time, using resources offered in a competitive system.

CNTEE Transelectrica SA is the balancing market operator which, based on procedures and regulations approved by ANRE, must approve all the participants on the balancing market, collect, verify and process all the bids and perform the clearing procedures.

High-efficiency cogeneration

Starting with April 1st, 2011, the Company is the administrator of the support scheme for high-efficiency cogeneration. The purpose of this support scheme is to promote highly efficient systems cogenerating heat and power, with the advantage of a more environmentally friendly electricity production. It aims to provide easy access on the market for electricity produced in high-efficiency cogeneration plants via a cogeneration bonus granted if the total electricity and heat

production costs generated by such cogeneration plants exceed the market prices of the two types of energy. The support scheme targets electricity and heat producers owning or operating high-efficiency power plants, so as to encourage new investments in cogeneration, as well as the refurbishment of existing facilities.
Government Decision no. 1215/2009 establishes the legal framework according to the European Union regulations necessary for implementing the bonus support scheme for promoting high-efficiency cogeneration based on the demand for thermal energy, in order to cover the difference between high-efficiency cogeneration production costs and sale prices. ANRE approved the reference bonus values per megawatt an hour ("MWh") of electricity produced and delivered in the grid from high-efficiency cogeneration plants. The beneficiaries of the scheme are the producers that meet certain criteria established by ANRE.
According to provisions of article 14 of Government Resolution no. 1215/2009, the Company is designated as being responsible for the administration of the support scheme. The main tasks of the Company as the administrator of the support scheme are to collect the contribution from the suppliers of the electricity consumers in a bank account distinct from the core activity and by the payment of the bonus to the producers of electricity and heat in high-efficiency cogeneration; to conclude contracts with the contribution collectors and with the producers that will be the beneficiaries of the scheme; to verify the total value of the contribution collected; to issue invoices to suppliers; to refund the contribution to the suppliers for the energy imported and produced in cogeneration in other member states; to monitor and report to ANRE the way of administration of the support scheme; to pay the bonus to energy producers beneficiaries of the scheme; to pay late penalties to the producers for not paying the bonus on the due date.

The Company acts as an agent of the State in collecting the cogeneration contribution on a monthly basis and paying the bonus on a monthly basis. Under such circumstances, the operations associated to the support scheme do no influence the income and expense accounts, except for the own administration costs recognized by ANRE to run the support scheme, which are self-invoiced.

On December 8th, 2016, by Government Decision no. 925, the amendment and supplement have been adopted for GD no. 1215/2009 on setting the necessary criteria and conditions to implement the support scheme for promoting the high efficiency cogeneration based on the effective heat demand. The main amendments refer to the following:

- to receive the bonus, produces are requested not to generate liabilities to the administrator of the support scheme or to conclude conventions for the settlement of liabilities and receivables;
- the over-compensation is recovered according to the national legislation and the legislation of the European Union in the field of State aid;
- the undue over-compensation/bonus remaining to be paid by producers, for which all the legal actions have been taken, will be recovered by including the amount in the cogeneration contribution, according to the methodology issued by ANRE;
- the ANRE decisions regarding the amount of the over-compensation and/or the undue bonus are mandatory for producers and are enforced for recovering the amount by issuing a decision by the scheme administrator in accordance with the legislation in the field of State aid;
- the financial closing of the support scheme is made in the first semester of 2024, according to the regulatory framework drawn up by ANRE.

Electricity markets price coupling mechanism

On November 19, 2014, the „4M Market Coupling" project became operational, which provides the connection of Day Ahead electricity markets (Day Ahead Market) in Romania, Hungary, The Czech Republic and Slovakia.

1. DESCRIPTION OF ACTIVITY AND GENERAL INFORMATION (continued)

In terms of the internal regulatory framework,, the roles and responsibilities of the operators involved, i.e., the Company and SC OPCOM SA as well as the operations carried out within the market coupling processes are provided in the Regulation for the Organization and Operation of the Day-Ahead Electricity Market, approved by ANRE Order no. 82/2014 (the Regulation), by observing the price coupling mechanism of markets and amending certain legal acts that regulate the day-ahead electricity market.

The target model for the day ahead market, based on the principle of price coupling of regions (PCR - Price Coupling of Regions) uses a single algorithm to correlate bids and set the price.

If coupling is not possible on the 4M MC market, the TSOs in Romania, Hungary, the Czech Republic, and Slovakia will apply the fallback procedures, by which cross-border capacity is allocated.

Art. 138 of the Regulation provides that, during post-coupling, Transmission and System Operators (TSOs) act as agents that transfer the electricity resulting from the coupling algorithm as being transferred between two adjacent bidding zones.

Within the price coupling mechanism of day-ahead markets, the electricity exchanges correlate, based on auctions, the day-ahead electricity trades depending on the interconnection capacity made available by TSOs through which it is implicitly allocated.

CNTEE Transelectrica SA, acting as TSO, transfers the electricity both in physical and commercial terms to the neighboring TSOs (MAVIR-Hungary) and manages the congestion income on the respective interconnection (Article 139 from ANRE Order no. 82/2014), while in relation to SC OPCOM SA it acts as Implicit Participant on the Day-Ahead Market.

As a Shipping Agent and Implicit Participant, the Company has the commercial task to settle the power traded between SC OPCOM SA and MAVIR.

Thus, within the price coupling mechanism of regional markets, the Company:

- fulfils the role of implicit participant on the DAM and acts as shipping agent;
- provides the interconnection capacity for the physical supply of electricity traded on the DAM, namely the transfer of power from one bidding zone to another through the interconnection lines, limited to the available transfer capacity of such lines.

Congestion income is divided on a monthly basis between transmission and system operators and foreign exchange differences are withheld or covered by TSOs, as the case may be.

The Company approved that the transactions related to the price coupling mechanism of regional markets will not influence the income and expense accounts, except for income from congestion management across interconnection lines, for income/expenses from foreign exchange differences and for expenses with bank fees resulting from clearing transactions carried out by the Company as shipping agent.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements ("financial statements") were drafted according to the Order of the Ministry of Public Finances no. 2844/2016 approving the Accounting arrangements pursuant to the International Financial Reporting Standards with subsequent amendments and additions ("OMFP no. 2844/2016"). Within the meaning of Order no. 2844/2016, the International Financial Reporting Standards mean the standards adopted according to the procedure provided by Regulation (EC) no. 1.606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards ("EU IFRS").

The Group applies International Financial Reporting Standards as endorsed by the European Union upon the preparation of the separate financial statements for 2016 in accordance with MoPFO no. 881/2012 as subsequently amended and supplemented.

Basis of assessment

The financial statements are prepared at historical cost, except for property, plant and equipment other than the ones in progress, which are assessed at revaluated value, while the liabilities related to cash settled share-based payment transactions are assessed at fair value.

Functional and presentation currency

The financial statements are presented in Romanian Lei ("LEI" or "RON") according to the applicable accounting regulations, which is the Group's functional currency.

Use of estimates and judgements

The preparation of consolidated financial statements in accordance with EU IFRS requires management to use professional judgment, estimates and assumptions that impact the application of accounting policies and the recognized value of assets, liabilities, income and expenses, assumptions regarding the fair value (see Note 4), commitments and contingencies (see Note 26), the recognition of non-refundable funds to be received (see Note 13), the provision for impairment of receivables (see Note 9), the liabilities related to cash settled share-based payment transaction (Note 28) and the liabilities for defined benefit plans (Note 15).

Actual results may differ from these estimates. Estimates and assumptions are revised periodically. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future impacted periods.

Information about assumptions and estimates due to significant uncertainties are included in the following notes:

Note 13 – the Company's management estimate related to the existence of a reasonable assurance that the conditions regarding non-refundable funds will be fulfilled and the funds will be received;

Note 15 – assessment of liabilities for defined benefit plans;

Note 26 – recognition and assessment of provisions, commitments and contingencies; key assumptions regarding the probability and magnitude of an outflow of resources;

Note 28 – assessment of liabilities related to cash settled share-based payment transactions.

Information regarding the critical professional judgement applied to the accounting policy regarding the service concession agreements is presented in the following paragraphs.

In 2004, the Group (operator) concluded a service concession agreement with the Ministry of Economy (grantor) according to which the Company has the right to use public patrimony assets which mainly include the electricity transmission grid and the land on which it is located, in exchange for providing electricity transmission services (see Note 3 (b)). Taking into consideration that the majority of the Company's shares are held by the State, the Company's management considers it to be a public-sector company and therefore out of the scope of IFRIC 12 "Service Concession Arrangements". With no other specific international financial reporting standard pertaining to service concession agreements, the Company considered whether IFRIC 12 should nevertheless be applied, based on the hierarchy set out in IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", which requires to first consider the requirements of other IFRSs dealing with similar issues.

2. BASIS OF PREPARATION (continued)

In determining if IFRIC 12 is applicable, the Group considered whether the following features of a public-private service concession agreement are to be applied to the concession agreement it had entered into with ME, as at the date at which IFRIC 12 is required to be adopted:

- The grantor controls or regulates what services the operator must provide within the infrastructure, to whom it must provide them, and at what price;
- The grantor controls - through ownership - the beneficial entitlement or otherwise-any significant residual interest in the infrastructure at the end of the term of the agreement; 49 years;
- The contractual agreement would include the same terms if entered into with a private-sector company.

The analysis of the characteristics of the concession agreements of public-private services reveals as follows:

- the services provided by the Group are regulated by ANRE, therefore the grantor – the competent ministry – does not control or regulate the type of services that the Group must supply;
- at the end of the contractual period, the residual interest in infrastructure is approximately nil, and most of the goods belonging to the State public domain are completely depreciated;
- there are currently are no other similar contracts, the Company holds the monopoly in the electricity transmission sector..

The concluded that accounting for the concession agreement under IFRIC 12 would not reflect the economic substance of the transaction, as the Company pays an annual fee as royalty for the use of the assets under the concession agreement of 1/1000 of the total annual revenue from electricity transmission services, computed based on the actual transmitted quantity, a fee that is significantly lower than the amount of the depreciation that the Company would have recorded for these assets, had the concession agreement not been signed. As a result, IFRIC 12 is not applicable, and the Company applied the accounting policies as explained in Notes 3 (a) and (b).

3. ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for those aspects disclosed in Note 3 letter (x) which discloses the changes in accounting policies.

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Loss of control

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

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Property, plant and equipment

Owned assets

3. ACCOUNTING POLICIES (continued)

Property, plant and equipment, except for the ones in progress, are stated at their revalued value, less any accumulated depreciation and accumulated impairment losses. Property, plant and equipment in progress is stated at cost. The cost of assets built by the Company includes cost of materials, direct salaries, initial estimate, where applicable, of costs with dismantling and relocating items and restoring the site, plus a share of indirect costs.

Recognition

Property, plant and equipment is initially valued at cost.

The cost includes the costs that are directly attributable to the acquisition. The cost of constructed assets by the entity includes:

- cost of materials and direct staff costs;
- other costs directly attributable to bringing the asset to the location and condition/stage necessary for the intended use; and
- capitalized loan costs.

Impairment allowances for the idle or obsolete tangible assets,

Subsequent expenditure

The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognized in the income statement as occurred.

Depreciation

Property, plant and equipment items are depreciated using the straight-line method over their useful lives, as follows:

	Normal useful life (years)
Buildings and special installations	40-60
Machinery and equipment	15-40
Control and measurement devices	7-12
Vehicles	5-8
Other property, plant and equipment	3-5

Land is not depreciated. Where parts of an item of property, plant and equipment have different useful lives, these are accounted for as separate items of property, plant and equipment (major components). Depreciation methods, useful lives and residual values are revised and adjusted, if the case, at the end of each reporting period.

Revaluation

The Group chose to disclose property, plant and equipment at revalued amount, except for advances and construction in progress presented at historical cost.

Revaluations are performed by independent appraisers, with sufficient regularity so that the book value does not differ significantly from the value which can be determined based on the fair value as at the reporting date.

(c) Public patrimony assets

As stipulated by Law no. 213/1998, the electricity transmission grids are State's public patrimony goods.

Government Resolution no. 627/2000 establishes in Annex no. 8 the State public patrimony fixed assets which are under the Company's administration since August 1st, 2000, and which are subject to inventory count and are updated whenever necessary, through legal act (GD).

3. ACCOUNTING POLICIES (continued)

Prior to signing the concession agreement described below in this note, public patrimony assets were treated as assets contributed by the Romanian state through its representative, the Ministry of Economy, as the Group did not have to pay any tax for using the assets.

In November 1998, Law no. 213/1998 was issued, which regulates the status of public patrimony. The law stipulates that the State or local authorities have ownership of the State public patrimony and that they can rent or grant use of such patrimony. According to the provisions of Law no. 213/1998 and Law no. 219/1998, the Ministry of Economy has signed, on behalf of the State, a concession agreement pertaining to the energy transmission grid (high voltage electricity lines and electrical substations) and the land on which they are built. Concession agreement no. 1 was concluded on June 29th, 2004 between the Ministry of Economy and the Company for all public patrimony tangible assets in balance as of December 31st, 2003 and is in effect for 49 years.

Following the execution of the concession agreement with the Ministry of Economy on behalf of the Romanian State, on June 29th, 2004, the nature of the relationship between the Ministry and the Company changed and thus the Company derecognized public patrimony assets, including the public patrimony reserve included in equity. Subsequent to the conclusion of the concession agreement, the Company accounts as operating lease the assets over which it has been granted a right of use. The payments for the concession agreement (royalty) are accounted for by the Company as expenses in the profit or loss account during the year.

Concession agreement no. 1/2004 was published in the Official Journal of Romania no. 298 bis of April 30th, 2015.

Between 2005 and 2013, seven addenda were concluded to the concession contract. Therefore, assets from the public patrimony obtained out of the development fee after June 29, 2004 have been derecognized.

Taking into account Government Resolution no. 1009/2012 and Government Resolution no. 984/2012 through which was approved the modification of Appendix no. 7 to Government Resolution no. 1705/2006 approving the centralized stock take of the assets from the public patrimony that were transferred to the Company under concession, and following the inventory procedure of the assets part of the public patrimony in 2012 and the revaluation/valuation of these goods, on 14.02.2013, Addendum no. 7 to Concession contract no. 1/29.06.2004 was signed with the Ministry of Economy.

Government Decision no. 1032 from December 11th, 2013, published in the Official Journal no. 22 from January 13th, 2014, approved the amendment and supplementing of Addendum no. 7 to Government Decision no. 1705/2006 approving the centralized inventory of the assets under public patrimony, following the 2012 inventory of the assets under public patrimony.

The main terms of the concession contract are as follows:

- The Ministry of Economy has legal ownership over the assets within the scope of the agreement;
- The Company has the right of use over these assets for a period of 49 years from June 1st, 2004 until May 31st, 2053;
- The annual fee paid by the Company in the form of royalty for use of the assets is set by the Ministry of Economy and represents 1/1000 of the total revenue gained from the electricity transmission services, based on the actual capacity transmitted;
- The assets will be returned to the Ministry of Economy upon termination or expiration of the agreement; the contract can be unilaterally terminated by either party;
- The Company has the obligation to use the assets according to the provisions of the concession agreement and pursuant to the operating license.

The amount that the Company paid under the concession agreement for the period January 1st – December 31st, 2014 is significantly lower than the amount of the depreciation that the Company would have recorded for such assets had the concession agreement not been concluded. However, the Company has not recorded into the financial statements any

amount related to this potential benefit, as the Company is unable to determine the amount that a third party would pay for the use of the assets in an arm's length transaction.

Self-funded investments made by the Company regarding the assets from the concession contract are capitalized and depreciated over the remaining useful life of the assets. After the depreciation of the investment if recovered, they will be included in the inventory of goods belonging to the State's public domain.

3. ACCOUNTING POLICIES (continued)

In the case of assets representing self-funded finished non-current assets, they will be included in the inventory of goods belonging to the State's public domain after recovering the depreciation of the investment, namely upon the expiry of the normal period of utilization, of the concession or lease contract, according to the legal provisions in force, based on a normative act adopted in this regard.

(d) Intangible assets

The intangible assets by the Group are stated at cost less any accumulated amortization and accumulated impairment losses. The amortization is recognized in the income statement on a straight-line basis over the estimated useful life of the intangible asset. Intangible assets consist mainly of intangibles in progress and customized software, which are amortized on a straight-line basis over 3 years.

Asset depreciation methods and useful lives are revised and adjusted, if necessary, at the end of each reporting period.

Subsequent expenditures

Subsequent expenditures are capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(e) Foreign currency transactions

Transactions in foreign currencies are converted to LEI by applying the exchange rates applicable at the date of the transaction. Monetary assets and liabilities expressed in foreign currencies at the end of the period are converted to LEI at the exchange rates applicable on that date. Exchange gains and losses, realized or unrealized, are included in the profit and loss account for that year. The exchange rates at December 31st, 2017 and December 31st, 2016 are as follows:

The exchange rates at December 31, 2017 and December 31, 2016 are as follows:

Currency	December 31, 2017	December 31, 2016
1 EUR	4.6597	4.5411
1 USD	3.8957	4.3033

Non-monetary assets and liabilities denominated in foreign currencies are measured at fair value, at the exchange rate at the date of the transaction.

(f) Receivables

Trade receivables are initially recognized at fair value and subsequently assessed using the effective interest method, less the value losses. A value loss is established when there is clear evidence that the Company will not be able to collect all amounts due within the agreed deadline. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganization and late payments (over 180 days) are considered indications that these trade receivables might be impaired.

A value loss corresponding to an asset is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced via the use of a value loss, and the amount of the loss is recognized in profit or loss account under "Other operating expenses".

(g) Inventories

Inventories consist of:

- raw materials, materials, spare parts that do not meet the definition of PPE and other consumables that are to be used during the performance of the basic activity of the Company;
- security and intervention stock needed for fast repairs of the failures occurred in the PTG installations in order to assure the safe functioning of the NPS. These materials are recorded as inventories when purchased and then expensed when consumed or capitalized, as the case may be.

3. ACCOUNTING POLICIES (continued)

Inventories are assessed at the lowest value between the cost and net realizable value. The cost of inventories consumed is determined based on the FIFO method and includes expenditures with acquisition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion, if any, and selling expenses.

The Company's policy is to write off a loss of value of 100% for current inventories older than 365 days and that are not expected to be used in the future.

(h) Cash and cash equivalents

Cash and cash equivalents include cash on hand, in current accounts and bank deposits with original maturities of 3 months or less that are subject to an insignificant risk of change in fair value.

(i) Revaluation reserves

After the recognition as an asset, an item of property, plants and equipment whose fair value can be measured reliably is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the balance sheet date.

(h) Revaluation reserves (continued)

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

If the carrying amount of property, plant and equipment decreases as a result of a revaluation, such decrease is recognized the in profit or loss account. However, the decrease is made by decreasing revaluation reserves, if there is any credit balance existing in the revaluation surplus in respect of such property, plant and equipment.

Revaluation reserve included in equity related to an item of property and equipment is transferred directly to retained earnings as the revaluated item is depreciated and when the item is derecognized.

Starting with May 1st, 2009, the reserves from the revaluation of property, plant and equipment, including land plots, recorded after January 1st, 2004, which are deducted when calculating taxable income through tax depreciation expenses or transferred and/or ceased assets expenses, are taxed simultaneously with the tax depreciation deduction, namely when the assets are disposed, as the case may be.

The Group registered deferred tax for the liability with reserves from the revaluation of fixed assets, including land plots, recorded after January 1st, 2004.

Reserves from the revaluation of property, plant and equipment, including land plots, recorded before December 31st, 2003, as well as the portion of the revaluation performed after January 1st, 2004 and related to the period before April 30th, 2009 will not be taxed when transferred to retained earnings.

The Group did not register deferred tax for the liability pertaining to the reserves from the revaluation of fixed assets, including land plots, recorded until December 31st, 2003.

Reserves from the revaluation of property, plant and equipment are taxable in the future, in case of changing the destination of reserves in any form, in case of liquidation, merger of the Company, including using the reserves for covering the Group's losses, except for the transfer in the retained earnings after May 1st, 2009 of revaluation reserves when the revaluation was performed after January 1st, 2004, which are taxed at the same time with the deduction of tax depreciation.

3. ACCOUNTING POLICIES (continued)

(j) Impairment of non-financial assets

The carrying amount of the Company's non-financial assets, other than inventories and deferred tax assets, are revised at each reporting date to determine whether there is any indication of impairment. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

The recoverable amount of an asset or cash generating unit is the greater value between the value of use and the fair value less selling costs. In assessing the value of use, the estimated future cash flows are updated in order to determine the presented value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continued and use that are largely independent of the cash inflows of other assets or groups of assets ("cash generating unit").

Impairment losses are recognized in the profit or loss account. Impairment losses recognized in respect of cash generating units are primarily allocated to reduce the carrying amount of the goodwill allocated to cash generating units (group of cash generating units), as the case may be, and then to reduce the carrying amount of other assets in the cash generating unit (group of cash generating units) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, the impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

(k) Share capital

Ordinary shares are classified as part of equity. Incremental costs directly attributable to the issue of new shares and shares options are recognized as a deduction in equity at the value net from tax effects.

(l) Dividends

Dividends are recognized as a liability when the shareholder's right to payment is established.

(m) Trade and other payables

Trade accounts payables and other payables are recorded at depreciated cost and include the value of invoices issued by suppliers of goods, executed works and provided services.

(n) Interest-bearing loans

Interest-bearing loans are initially recognized at fair value net of attributable transaction costs. Subsequent to the initial recognition, interest-bearing loans are recorded at depreciated cost with any difference between cost and redemption value being recognized in the profit and loss account over the period of the loan based on the effective interest rate.

(o) Recognition and de-recognition of the non-derivative financial instruments

Non-derivative financial assets

The Group initially recognizes receivables on the date when they originated. All other financial assets are initially recognized on the trading date when the Company becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset upon the expiry of the contractual rights on the cash flows generated by the asset, or upon the transfer of the rights to collect the contractual cash flows generated by the financial asset in a transaction in which all the risks and rewards associated with the ownership of the financial asset are significantly transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

3. ACCOUNTING POLICIES (continued)

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

The Group's non-derivative financial assets are mainly represented by trade and other receivables and cash and cash equivalents.

Non-derivative financial liabilities

The Group initially recognizes debt securities issued and subordinated liabilities on the date they originated. All other liabilities (including liabilities designated at fair value through the profit or loss account) are initially recognized on the trade date when the Company becomes a party to the contractual provisions of the instrument.
The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire. The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise loans, trade and other payables.

(p) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in the profit or loss account except for the extent that it relates to a business combination or items directly recognized in equity or in other elements of comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the fiscal profit or loss for the current year, using tax rates enacted or substantively enacted at the reporting date, as well as any adjustment to income tax payable in respect of previous years. Current income tax also includes any tax liability arising from declared dividends.

(ii) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base used for taxation purposes.

(o) Income tax (continued)

(ii) Deferred tax (continued)

Deferred tax is not recognized for:

- temporary differences that occur at the initial recognition of assets and liabilities in a transaction that is not a business combination and that impact neither accounting nor fiscal profit or loss;
- temporary differences related to investments in subsidiaries or jointly controlled entities to the extent that it is probable that they will not be reversed in the foreseeable future; and

- temporary differences occurring at the initial recognition of goodwill.

The assessment of deferred tax reflects the tax consequence that would ensue from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is calculated based on the tax rates that are expected to be applied to temporary differences at the moment of their reversal, pursuant to the enacted legislation or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset current tax liabilities and assets, and if they relate to taxes levied by the same tax authority for the same taxable entity, or for different tax entities which intend to settle current tax assets and liabilities with the current tax on a net basis or whose tax assets and liabilities will be realized simultaneously.

3. ACCOUNTING POLICIES (continued)

A deferred tax asset is recognized for unused fiscal losses, tax credits and deductible temporary differences, only to the extent that it is probable that future taxable profits are possible to be used for covering the fiscal loss. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related fiscal benefit will be realized.

(iii) Income tax exposure

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities may affect tax expense in the period when such determination is made.

(q) Employee benefits

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits, other than pension plans, is the value of future benefits that employees have earned in return for their service in the current and prior periods. Such benefit is updated to determine its fair value, and the fair value of any related asset is deducted. Such benefits are estimated using the projected unit credit method. Any actuarial gains or losses are recognized in other elements of the comprehensive income in the period in which they arise. Other long-term employee benefits are represented by anniversary premiums.

Cash settled share-based payment transactions

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities over the period during which employees become unconditionally entitled to payment. Until the liability settlement date, the Company must reassess the fait value of the liability at each reporting date and at the settlement date, and any changes in the fair value are recognized in the profit or loss account of the period.

As the employees render their service, the Company recognizes the services received and a liability to pay for those services. Certain share appreciation rights vest immediately and the employees are therefore not required to complete a specified period of service in order to become entitled to the cash payment. In such cases, the Company recognizes the entire value of the right as an expense, at the date of granting.

Short-term employee benefits

Short-term employee benefit obligations are assessed on an un-updated basis and are recognized as the related service is provided. A provision is recognized for the amount estimated to be paid for short-term benefits as premiums or profit sharing plans only if the Company has a present legal or implicit obligation to pay this amount as a result of past service provided by employees and the obligation can be reliably estimated. The short-term employee benefits are represented mainly by salaries.

The Company, in the normal course of business, makes payments to the pension funds on behalf of its employees. All

employees of the Company are members of the Romanian State pension plan. These payments are expensed as the related services are provided by the employees.

(r) Revenues

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable and the associated costs can be estimated reliably. Revenues comprise mainly the value of electricity transmission service, system service and balancing market computed based on the volume of energy supplied to consumers. The tariffs for transmission and system services are regulated by ANRE. Revenues include also the transactions on the balancing market as described in Note 1.

The Romanian State, via ANRE, regulates the prices charged by the Group for electricity transmission and system operator services. The Romanian State has a number of roles to fulfil, apart from being the majority shareholder, and might thus have broader goals and objectives than an investor, whose main concern is return on investment.

3. ACCOUNTING POLICIES (continued)

As mentioned in Note 1, the Company is also the administrator of the bonus support scheme for promoting high-efficiency cogeneration. The Company acts as agent because it is involved in the collection and distribution of money.

In addition, the Company and SC OPCOM SA are involved in the price coupling mechanism of regional markets based on ANRE Order no. 82/2014 (see Note 1).

Thus, within the mechanism of price coupling of regional markets, the Group:

- fulfils the role of implicit participant on the DAM and acts as shipping agent;

- provides the interconnection capacity for the physical supply of electricity traded on the DAM, namely the transfer of power from one bidding zone to another through the interconnection lines, limited to the available transfer capacity of such lines.

IFRIC 18 "Transfers of Assets from Customers" applies to contracts with customers in which the Company receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant or equipment and the Company must then use the item of property, plant or equipment to connect customers to the network.

According to Art. 25(1) of Law no. 123/2012 on electricity and natural gas, as subsequently amended and supplemented, the "access to power grids of public interest shall be a mandatory service provided under regulated conditions, which the transmission and system operator, as well as the distribution operator, must ensure".

The connection tariff is a regulated fee which represents the expense incurred by a network operator to perform the works for connecting a demand and/or production facility of a user to the power grid.

If the connection of a customer to the power transmission grid does not represent a separate component of the connection contract, then the connection tariffs are recognized in the profit and loss account on a systematic basis throughout the useful life of the asset.

The Group recognizes the cash received from the connection tariff as a credit under the account "Deferred income" in the statement of financial position in order to subsequently reverse it under "Other income" in the profit and loss account on a systematic basis over the useful life of the asset.

(s) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, except for borrowings costs capitalized to qualifying assets, dividend income, foreign exchange gains and losses, commitment fees and risk commissions.

In accordance with revised IAS 23 "Borrowing Costs", invoking the optional exception from the retrospective application according to IFRS 1 "First-time adoption of IFRS" the Group capitalizes the borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale for which financing was obtained after January 1, 2011, the date of transition to IFRS.

Interest revenues are recognized in the income statement as they accrue, using the effective interest method. Dividend revenues are recognized in the income statement as at the date when the Group's right to receive dividends is recognized.

(t) Subsidies

Subsidies pertaining to assets are initially recognized as "deferred income" at fair value when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the subsidies, and then the subsidies shall be recognized in the profit and loss account as other operating revenues over the useful life of the asset. Non-refundable funds are recognized as assets when there is reasonable assurance that they will be received and the conditions corresponding will be met.

(u) Provisions

A provision is recognized when, and only when the following conditions are met: the Group has a current obligation (legal or implicit) as a result of a past event; it is probable (i.e. more likely than not) that an outflow of resources representing economic benefits will be required to settle the obligation; a reliable estimate for the value of the obligation can be made. Where the effect of the time value of money is significant, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

3. ACCOUNTING POLICIES (continued)

(v) Earnings per share

Pursuant to SIC 33, "Earnings per share", the earnings per share are calculated by dividing the profit or loss allocated to the Company's shareholders by the weighted average of ordinary shares outstanding during the period.

The weighted average number of ordinary shares outstanding during the period is the number of shares outstanding at the beginning of the period, adjusted by the number of shares issued during the period multiplied by the number of months when the shares were outstanding during the year.
Dilution is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, or that ordinary shares are issued upon the satisfaction of specified conditions. The objective of diluted earnings per share is consistent with that of basic earnings per share, namely to provide a measure of the interest of each ordinary share in the performance of an entity.

(w) Contingencies

Contingent liabilities are not recognized in the accompanying financial statements. They are disclosed only when an outflow of resources embodying economic benefits is possible, but not probable.

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

(x) Operating segments

An operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which distinct financial information is available.

The Group's activities are taking place in different parts of Romania with each location being involved in both transmission and dispatch activities. The management of the Group considers all activities together, as "a single segment".

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments.

(y) Implications of the New International Financial Reporting Standards (EU IFRS)

Initial application of the new amendments to existing standards in force for the current reporting period

The following amendments to the existing standards and the new interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) have entered into force for the current period:

Amendments to IAS 7 "Statement of cash flows" – Disclosure initiative (applicable for annual periods starting with or after January 1st, 2017),Amendments to IAS 12 "Income taxes" – Recognition of deferred tax assets for unrealized losses (applicable for annual periods starting with or after January 1st, 2017),

Amendments to IFRS 12 following the "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) with the primary objective to remove inconsistencies and clarify wording (amendments to IFRS 12 are applicable to annual periods starting with or after January 1st, 2017, and amendments to IFRS 1 and IAS 28 are applicable to annual periods starting with or after January 1st, 2018),

The adoption of such amendments to the existing standards has not changed the Group's accounting policies.

3. ACCOUNTING POLICIES (continued)

Amendments to standards issued by IASB and adopted by the EU, not yet entered into force

IFRS 9 "Financial Instruments" – adopted by the EU on November 22nd, 2016 (applicable for annual periods starting with or after January 1st, 2018),

IFRS 15 "Revenue from contracts with customers" with the subsequent amendments and the amendments to IFRS 15 "Effective date of IFRS 15" – adopted by the EU on September 22nd, 2016 (applicable for annual periods starting with or after January 1st, 2018).

IFRS 16 "Leasing" - adopted by the EU on 31 October 2017 (applicable for annual periods beginning on or after 1 January 2019),

Amendments to IFRS 4 "Insurance contracts" – Applying IFRS 9 financial instruments with IFRS 4 Insurance contracts (applicable for annual periods starting with or after January 1st, 2018 or when IFRS 9 "Financial instruments" is applied for first time),

Amendments to IFRS 15" Revenue from contracts with customers" – Clarifications to IFRS 15 Revenues from contracts with customers - adopted by the EU on 31st,October 2017 (applicable for annual periods beginning on or after 1 January 2018),

Amendments to IFRS 1 and IAS 28 following the "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) with the primary objective to remove inconsistencies and clarify wording – adopted by the EU on February 7 th, 2018(amendments to IFRS 12 are applicable to annual periods starting with or after January 1st, 2018).

The Group chose not to adopt these new standards and amendments to existing standards prior to the effective dates of entry into force .The Group predicts that the adoption of these standards and amendments to existing standards will not have a significant impact on the Group's financial statements during the initial period of application.

New Standards and interpretations issued by IASB but not yet adopted by the EU

At the time of authorization of these financial statements, IFRS as adopted by the EU do not significantly differ from regulations adopted by IASB, except for the following standards, amendments and interpretations which were not endorsed for use in EU as of the date of authorization of these financial statements:

IFRS 14 "Regulatory deferral accounts" (applicable for annual periods starting with or after January 1st, 2016) – the European Commission has decided not to launch the approval process of this interim standard, but to wait for the issuance of the final standard,

IFRS 17 "Insurance Contracts" (applicable for annual periods beginning on or after January 1st,2021),

Amendments to IFRS 2 "Share-based payment" – Classification and measurement of share-based payment transactions (applicable for annual periods starting with or after January 1st, 2018,

Amendments to IFRS 9 "Financial Instruments" - advance payment charges with negative compensation (applicable for annual periods beginning on or after January 1st, 2019),

Amendments to IFRS 10 "Consolidated financial statements" and IAS 28 "Investments in associates and joint ventures" – Sale or contribution of assets between an investor and its associate or joint venture and further amendments (effective date deferred indefinitely until the research project on the equity method is concluded),

Amendments to IAS 19 "Employee Benefits" - Change, reduction or settlement of a plan (applicable for annual periods beginning on or after January 1st, 2019),

Amendments to IAS 28 "Investments in associates and joint ventures" - Long-term interests in associates and joint ventures (applicable for annual periods beginning on or after January 1st, 2019),

Amendments to IAS 40 "Investment property" - Real estate investment transfers (applicable for annual periods beginning on or afterJanuary 1st,2018),

3 ACCOUNTING POLICIES (continued)

Amendments to various Standards following the "IFRS Improvements (Cycle 2015-2017)" resulting from the annual IFRS Improvement Project (IFRS 3, IFRS 11, IAS 12 and IAS 23) with the primary aim of eliminating inconsistencies and clarifying certain formulations (applicable for annual periods beginning on or after January 1st, 2019),

IFRIC 22 "Foreign currency transactions and advances" (applicable for annual periods beginning on or after January1st)

IFRIC 23 "Income Tax Treatment Uncertainty" (applicable for annual periods beginning on or after January 1st, 2019).

TheGroup predicts that the adoption of these standards and amendments to existing standards will not have a significant impact on the Group's financial statements during the initial period of application.

4. DETERMINATION OF FAIR VALUE

Certain accounting policies and information disclosures of the Group require the measurement of fair values, for both financial and nonfinancial assets and liabilities. When measuring the fair value of an asset or liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques, as follows:

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

The fair values were determined in order to measure and / or disclose information based on the methods described below:

Property, plant and equipment

The fair value of items of property, plant and equipment are based primarily on the cost method considering the particularities of the Group's property, plant and equipment, except for assets in progress, which are accounted for under the cost model.

5. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment between January 1, 2017 and December 31, 2016 are as follows:

	Freehold land and land improvements	Buildings and special installations	Machinery and equipment	Control devices	Vehicles	Other fixed assets	Construction in progress	Total
COST								
Balance on January 1st, 2017	**55,015**	**1,370,623**	**3,063,346**	**459,864**	**60,740**	**272,489**		**5,772,906**
Additions	-	10	3	-	-	17	156,323	156,352
Transfers from capital assets in progress	-	37,621	107,321	36,796	3,360	16,844	(201,941)	-
Reclass between assets accounts	-	-	-	-	-	-	(2,182)	(2,182)
Disposals	(59)	(277)	(15,092)	(909)	(612)	(2,261)	(1,221)	(20,431)
Balance on December 31st, 2017	**54,956**	**1,407,976**	**3,155,579**	**495,751**	**63,488**	**287,088**	**441,809**	**5,906,646**
Balance on January 1st, 2016	**55,015**	**1,350,150**	**3,019,564**	**452,861**	**53,035**	**269,792**	**406,625**	**5,607,041**
Additions	-	554	745	-	-	-	175,454	176,753
Transfers form capital assets in progress	-	19,717	49,818	8,067	7,985	5,369	(90,956)	-
Reclass between assets accounts	-	444	(437)	(7)	-	-	-	-
Disposals	-	(242)	(6,344)	(1,057)	(280)	(2,672)	(293)	(10,888)
Balance on December 31st, 2016	**55,015**	**1,370,623**	**3,063,346**	**459,864**	**60,740**	**272,489**	**490,830**	**5,772,906**

5. PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold land and land improvements	Buildings and special installations	Machinery and equipment	Control devices	Vehicles	Other fixed assets	Construction in progress	Total
ACCUMULATED DEPRECIATION								
Balance on January 1st, 2017	**138**	**92,428**	**1,822,827**	**347,874**	**42,238**	**181,310**	**-**	**2,486,815**
Depreciation expense	-	91,642	152,844	40,628	3,740	29,935	-	318,789
Accumulated depreciation of disposals	-	(18)	(14,593)	(896)	(604)	(2,169)	-	(18,281)
Reevaluation impact	-	-	-	-	-	-	-	-
Balance on December 31st, 2017	**138**	**184,052**	**1,961,078**	**387,606**	**45,373**	**209,076**	**-**	**2,787,323**
Balance on January 1st, 2016	**138**	**(0)**	**1,653,574**	**319,333**	**41,811**	**153,132**	**-**	**2,167,988**
Depreciation expense	-	92,498	175,370	29,598	707	30,770	-	328,943
Accumulated depreciation of disposals	-	(70)	(6,117)	(1,057)	(280)	(2,592)	-	(10,116)
Reevaluation impact	-	-	-	-	-	-	-	-
Balance on December 31st, 2016	**138**	**92,428**	**1,822,827**	**347,874**	**42,238**	**181,310**	**-**	**2,486,815**
IMPAIRMENT ALLOWANCES								
Balance as at January 1, 2017	**-**	**14,068**	**-**	**-**	**-**	**-**	**17,678**	**31,746**
Impairment allowances	-	368	-	-	(113)	-	1,560	1,815
Balance on December 31st, 2017	**-**	**14,436**	**-**	**-**	**(113)**	**-**	**19,238**	**33,561**
Balance on January 1st, 2016	-	-	-	-	-	-	12,630	**12,630**
Impairment allowances	-	14,068	-	-	-	-	5,048	19,116
Balance on December 31st, 2016	**-**	**14,068**	**-**	**-**	**-**	**-**	**17,678**	**31,746**
CARRYING VALUE								
Balance on December 31st, 2017	**54,818**	**1,209,489**	**1,194,501**	**108,145**	**18,228**	**78,012**	**422,570**	**3,085,762**

Balance on December 31st, 2016	**54,877**	**1,264,127**	**1,240,519**	**111,990**	**18,501**	**91,179**	**473,152**	**3,254,345**

5. PROPERTY, PLANT AND EQUIPMENT (continued)

In 2017, the value of land plots recorded a decrease amounting to 59 by the re-update of the surfaces resulted from measurements and of authentic documentation to declare subdivision into flats, subject to the Protocol no, 8044/2002 of hand over-take over concluded with Teletrans Craiova agency, as follows:
- the ground surface of 1974,21 m^2 pertaining to the land plot situated on 5 Brestei street, Craiova, for which the Certificate authenticating the ownership rights was obtained with series M03/10283 of 07,08,2006, has been decreased with the surface of 39,46 m^2;
- the ground surface of 1325,67 m^2 pertaining to the land plot situated on 22 George Cosbuc street, Tg, Jiu, for which the Certificate authenticating the ownership rights was obtained with series M03/10195 of 08,11,2005, has been decreased with the surface of 15,5 m^2;
- the ground surface of 1849,72 m^2 pertaining to the land plot situated on 422 Tg, Jiului way, Dr, Tr, Severin, for which the Certificate authenticating the ownership rights was obtained with series M03/9762 of 14,12,2004, has been decreased with the surface of 9,6 m^2;

The total net value of tangible assets decreased on December 31st, 2017 compared to December 31st, 2016 due to the corresponding depreciation of 2017, which was registered against the background of increased amounts of tangible assets in progress,

In 2017, the value of tangible assets in progress increased represented mainly by investment works in the high voltage electricity substations and lines, as follows:

- Technical upgrade of the Bradu 400/220/110/20 kV substation – 43,722;
- 400 kV OHL interconnecting Resita (Romania) - Pancevo (Serbia) – 29,160;
- Replacing AT and TRAFO in electrical substations - Stage II – 25,618;
- Upgrading the 400/110/10 kV Cluj Est substation – 12,529;
- Upgrading the Suceava 110 kV and 20 kV substation – 9,985;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - stage I - Portile de fier - (Anina) – Resita 400 kV OHL s,c, – 8,710;
- Upgrading the command-control-protection system of the Sardanesti 220/110/20 kV substation – 5,812;
- Technical upgrade of the Campia Turzii 220/110/20 kV substation – 5,735;
- Integrated security system in electric substations, stage IV - 3,571;
- Urgent repair of the damage to the Iernut - Gadalin 400 kV OHL and the Iernut - Baia Mare 3 220kV OHL – 2,843;
- Upgrading the Tihau 220/110 kV substation - primary equipment – 2,706;
- Technical upgrade of the Tulcea Vest 400/110/20 kV substation - the construction part – 2,625;
- Motor vehicles_2017 – 2,616;
- Deploying an optical fiber line between the Bradu 400/220/110 KV substation and the Stuparei 220/110 KV substation – 1,799;
- Upgrading the SCADA system for the Constanta Nord substation – 1,439;
- Upgrading the hardware and software platforms of the SCADA system in the Slatina 400/220 substation – 1,398;
- Replacing the connectors from electrical substations – 1,149;
- Replacing the 110/20 kV TRAFO, 10 MVA in the Fantanele 220/110/20 kV substation – 1,078;
- Upgrading the 110/6 kV station from the Pestis 220/110/6 kV substation – 1,063;
- Technical upgrade of the Isaccea 400 kV substation - Stage I - replacing the compensation bobbins, the corresponding cells and the Stupina 400 kV cell – 1,005;
- Gutinas – Smardan 400 kV OHL d,c, – 928;
- Creating the coexistence conditions between the Iernut Ungheni 400(220) kV OHL in the 71-72 opening and the Brasov Targu Mures Cluj Oradea Ungheni Ogra highway, km 4+500 km 14+605 – 882;
- Suceava - Balti 400 kV OHL, for the part of the project on Romanian territory - 818;
- Regulating the coexistence between the Mintia-Sibiu 400 kV OHL, in the 6-8 opening, and the Lugoj-Deva highway, 4th lot, Ilia-Deva district, km 77+361 - km 99+500 – 744;
- Movement and protection of the high voltage electrical installations - 220 kV OHL on the route of the Sebes-Turda highway - 4th lot, the Cluj Floresti - Alba Iulia 220 kV OHL (178-179 crossing) – 618;

5. PROPERTY, PLANT AND EQUIPMENT (continued)

- Connecting the Isaccea - Varna 400 kV OHL and the Isaccea - Dobrudja 400 kV OHL in the Medgidia Sud 400 kV substation – 584;
- Upgrading the Dumbrava 220/110 kV substation – 559;
- Technical update of the Turnu Severin Est 220/110 kV substation - 543,

In 2017, the biggest transfers from tangible assets in progress to tangible assets are mainly represented by the startup of the investment objectives, as follows:

- Technical upgrade of the Bradu 400/220/110/20 kV substation – 84,925;
- Technical upgrade of the Campia Turzii 220/110/20 kV substation – 39,631;
- Replacing AT and TRAFO in electrical substations - Stage II – 19,806;
- Integrated security system in electric substations, stage IV: Rosiori 400/220 kV substation, the Oradea Sud 400/110/20 kV station, the Paroseni 220 kV substation, the Iernut 400/220/110/6 kV substation and the Gutinas 400/220/110 kV substation – 17,278;
- Urgent repair of the damage to the Iernut - Gadalin 400 kV OHL and the Iernut - Baia Mare 3 220kV OHL – 8,261;
- Upgrading the Suceava 110 kV and 20 kV substation – 6,584;
- Upgrading the Tihau 220/110 kV substation – primary equipment – 6,413;
- Deploying an optical fiber line between the Bradu 400/220/110 KV substation and the Stuparei 220/110 KV substation – 2,660;
- Motor vehicles_2017 – 2,616;
- Connecting the 147 MW Valea Dacilor WPP to the PTG – 2,401;
- Replacing the 110/20 kV TRAFO, 10MVA in the Fantanele 110/20 kV substation – 1,128;
- Upgrading the SCADA system for the Constanta Nord 400/110/10 kV substation – 986;
- Creating the coexistence conditions between the Iernut Ungheni 400/220 kV OHL in the 71-72 opening and the Brasov-Targu Mures-Cluj-Oradea-Ungheni-Ogra highway, km 4+500 km 14+605 – 882;

- Deposit power transformers for system reserves and isolated passages in the security stock of CNTEE "Transelectrica" - SA in the Sibiu Sud 400 kV substation – 846;
- Upgrading the control building from the Roman Nord 400/110/20 kV substation – 676;
- Special intervention beams, Universally Anchored Portal type for the 220-400 kV tension, including prefabricated foundations – 643;
- Movement and protection of the high voltage electrical installations - 220 kV OHL on the route of the Sebes-Turda highway - 4th lot, the Cluj Floresti - Alba Iulia 220 kV OHL (178-179 crossing) – 618;
- Replacing the connectors from electrical substations – 568,

The balance of tangible assets in progress on December 31st, 2017 is represented by the projects in progress, the most significant being listed below:

- 400 kV OHL interconnecting Resita (Romania) - Pancevo (Serbia) – 98,258;
- PTG connection of the Iveşti 300 MW WPP, Fălciu 1 88 MW WPP and Fălciu 2 18 MW WPP via the new Banca (400)/220/110 kV substation – 46,885;
- Technical upgrade of the Bradu 400/220/110/20 kV substation – 36,794;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - stage I - Portile de fier - (Anina) – Resita 400 kV OHL s,c, – 20,836;
- Extending the services providing business continuity and recovery after disasters – 14,414;
- Upgrading the 400/110/10 kV Cluj Est substation – 13,297;
- Replacing AT and TRAFO in electrical substations - Stage II – 11,640;
- Connecting the Isaccea - Varna 400 kV OHL and the Isaccea - Dobrudja 400 kV OHL in the Medgidia Sud 400 kV station – 10,753;
- Integrated security system in electric substations, stage IV - 10,308;

5. PROPERTY, PLANT AND EQUIPMENT (continued)

- Upgrading the Suceava 110 kV and 20 kV substation – 9,656;
- Cernavodă - Stâlpu 400 kV OHL d,c, and connection in Gura Ialomiţei – 8,363;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - stage I - Resita 400/220/110 kV station – 6,572;
- 400 kV HVDC Link (submarine cable Romania - Turkey) – 5,854;
- 400 kV OHL Gadalin - Suceava, including the NPS interconnection - 5,661;
- Upgrading the command-control-protection system of the Sardanesti 220/110/20 kV station – 5,660;
- Suceava - Balti 400 kV OHL, for the part of the project on Romanian territory - 4,431;
- Technical upgrade of the Hasdat 220/110 kV substation – 4,397;
- Reparation of the failure of the 110-120 terminals of the Bucharest Sud - Ghizdaru 220 kV OHL - 4,275;
- Gutinas – Smardan 400 kV OHL d,c, – 3,206;
- Extending the control system with new functions and IT registration of access in the objectives of CNTEE Transelectrica SA - 3,201;
- Converting of the Portile de fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV, stage II - Resita - Timisoara – Sacalaz 400 kV OHL d,c, (Timisoara 220/110 kV substation) - 3,198;
- Connecting the 136 MW wind power plant Platonesti, Ialomita county, to the Grid through constructing a 110 kV cell in the Gura Ialomitei 400/110 kV station – 2,889;
- Assembling the optic fiber and upgrading the system of distance protections on the Tantareni-Turceni 400 kV OHL d,c, and the Urechesti-Rovinari 400 kV OHL s,c, – 2,836;
- Upgrading the Arefu 220/110/20 kV station - 2,828;
- Integrated security system in electric substations, stage III - 2,798;
- Upgrading the Raureni 220/110/20 kV station - 2,754;
- Technical upgrade of the Tulcea Vest 400/110/20 kV substation - the construction part – 2,740;
- By-passing the Cetate 110 kV OHL 1 & 2 in the proximity of the Ostrovul Mare 110/20/6 kV substation - 2,578;
- PTG connection of Dumesti 99 MW WPP and Romanesti 30 MW WPP, Iasi county, through constructing a 110 kV line cell in the FAI 220/110 kV substation – 2,546;
- Security solution for implementing the security measures related to classified information – 2,012;
- Upgrading the 110/6 kV station from the Pestis 220/110/6 kV substation – 1,763;
- Executive - DCBPA/CPA: Consolidation, upgrading and extension of the CNTEE "Transelectrica" headquarters – 1,627;
- Upgrading the hardware and software platforms of the SCADA system in the Slatina 400/220 substation – 1,415;
- Technical upgrade of the Isaccea 400 kV substation - Stage I - replacing the compensation bobbins, the corresponding cells and the Stupina 400 kV cell – 1,243;
- Integrated security system at the new Banca 400/220/110 kV substation – 1,133;
- Deploying an optical fiber line between the Pitesti Sud substation and the remote control and installation supervision center of the Pitesti ST (SF) – 1,075;
- Upgrading the SCADA system for the Constanta Nord substation – 986;
- Upgrading the Dumbrava 220/110 kV substation – 927;
- Connecting the Stupina 400 kV substation to the PTG and connecting the Isaccea-Varna 400 kV OHL – 874;
- Replacing the connectors from electrical stations – 788;
- Ostrovu Mare 220 kV OHL double circuit - PTG – 755;
- Oradea – Beckescsaba 400 kV OHL – 741,

Drafted according to the provisions of Art, 46 of ANRE Order no. 59/2013 approving the Regulation on the consumers' connection to the public power grids, the receipt of the installations resulting from the works performed to build and commission the connection facilities is performed in accordance with the applicable legislation.
For the following projects included in outstanding tangible assets in progress, funded from the connection tariff, the technical conditions to prepare the Commissioning Minutes have not been met:

- Connection to the PTG of the Bogdanesti 56 MW WPP, Deleni 112,5 MW WPP, Viisoara Nord 1 20.8 MW WPP, Viisoara Nord 1 52.8 MW WPP, Viisoara Sud 47.5 MW WPP, in the area of certain localities in Vaslui county, via

5. PROPERTY, PLANT AND EQUIPMENT (continued)

the new Banca 400/220/110 kV electrical substation – the work is completed, there is minutes upon completion of works no, 34759/14,11,2013; the contract is in force until 31.12.2022; total value of ongoing investment – 48,018;

- Connection to the PTG of the Dumesti 99 MW WPP and Romanesti 30 MW WPP, in the area of Dumesti and Romanesti localities, Iasi county, through a 110 kV line cell in the 220/110 kV FAI substation, Iasi county, in amount of 2,546, minutes upon completion of works no, 14584/29,04,2014 is concluded in connection with the investment and the contract is in force until 31,12,2018;

Tangible assets were not revalued in 2017, The management concluded that:

- market prices did not change significantly as compared to 2016, when the Company performed the last revaluation, and
- there is no indication of impairment of the assets held by the Company both from internal and external sources.

Land plots have been revalued on December 31st, 2011, based on the market approach, Also, the "Other tangible assets" group was revalued on December 31st, 2011.

Buildings and special installations were revalued on December 31st, 2015 by SC JPA Audit & Consultanta SRL, independent evaluator authorized by the National Union of Authorized Evaluators in Romania,
The valuation was performed at fair value, assuming that the Company would further carry on its business by using the tangible assets in the existing structure. The following were not valued:

The assets from the State's public domain representing finished non-current assets self-funded by the Company will be included in the inventory of assets belonging to the State's public domain after recovering the self-funding sources, when the inventory of goods belonging to the State's public domain is approved by Government Decision.

Buildings and special installations include mainly transformation substations and high voltage electricity lines, Machinery and equipment mainly include transformers and cells relating corresponding to the NPS of 110 kV, 220 kV, 400 KV and 750 kV.

As of December 31st, 2017 and December 31st, 2016, the Group did not have any assets pledged or mortgaged.

Fair value of property, plant and equipment

The Company's property, plant and equipment other than property, plant and equipment in progress are disclosed in the financial statements at revaluated amount, which is the fair value as of the date of valuation less accumulated depreciation and impairment adjustments.

The fair value of the Group's land plots was determined using the direct comparison method.

This method is recommended for properties when there is sufficient and reliable data on sale transactions or similar offers involving properties in the area. Analysis of prices at which the transactions were made or of the prices asked or offered for comparable properties is followed by corrections to such prices in order to quantify the differences between the prices paid, asked or offered due to differences between specific characteristics of each property, called elements of comparison.

The fair value of buildings, equipment and measurement devices has been determined through the cost approach.

This method assumes that the maximum value of an asset for an informed buyer is the amount needed to buy or build a new asset of an equivalent utility. When the asset is not new, all forms of impairment that can be assigned for those assets up to the valuation date should be subtracted from the current gross cost.

Information on the hierarchy of fair value as of December 31st, 2017 and December 31st, 2016:

	Level 1	Level 2	Level 3	Fair value as at December 31, 2017
Land and land improvements	-	-	54,818	54,818
Buildings and special installations	-	-	1,209,489	1,209,489
Plant and machinery	-	-	1,194,501	1,194,501
Measurement and control devices	-	-	108,145	108,145
Vehicles	-	-	18,229	18,229

Other property, plant and equipment	-	-	78,011	78,011
Property, plant and equipment in progress			422,570	422,570

Fair value of property, plant and equipment (continued)

	Level 1	Level 2	Level 3	Fair value as at December 31, 2016
Land and land improvements	-	-	54,887	54,887
Buildings and special installations	-	-	1,264,127	1,264,127
Plant and machinery	-	-	1,240,519	1,240,519
Measurement and control devices	-	-	111,990	111,990
Vehicles	-	-	18,501	18,501
Other property, plant and equipment	-	-	91,179	91,179
Property, plant and equipment in progress			473,152	473,152

There were no transitions between the fair value levels in 2017 or in 2016.

The value at cost of property, plant and equipment as of December 31st, 2017 and December 31st, 2016, net of accumulated expenses with depreciation and impairment is presented below:

	Value at cost December 31st, 2017	Value at cost December 31, 2016
Land and land improvements	10,663	10,604
Buildings and special installations	832,374	792,683
Plant and machinery	1,278,189	1,265,368
Measurement and control devices	103,268	98,782
Vehicles	10,486	10,479
Other property, plant and equipment	96,473	100,019
TOTAL	**2,331,453**	**2,277,935**

6. INTANGIBLE ASSETS

	Other intangible assets	Licences and software	Intangible assets in progress	Total
COST				
Balance on January 1st, 2017	**4,104**	**70,297**	**8,277**	**82,678**
Additions	-	789	1,919	2,708
Transfers from intangible assets in progress	-	1,761	(1,761)	-
Transfers from tangible assets in progress	-	-	1,088	1,088
Disposals	-	(7,481)	(79)	(7,560)

6. INTANGIBLE ASSETS (continued)

Balance on December 31st, 2017	**4,104**	**65,366**	**9,444**	**78,914**
Balance on January 1st, 2016	**4,104**	**75,102**	**28,450**	**107,656**
Additions	-	441	5,049	5,490
Transfers from intangible assets in progress	-	2,271	(2,271)	-
Transfers from tangible assets in progress	-	-	-	-

Disposals	-	(7,517)	(22,951)	(30,468)
Balance on December 31st, 2016	**4,104**	**70,927**	**8,277**	**82,678**
ACCUMULATED DEPRECIATION				
Balance on January 1st, 2017	4,104	63,799	-	67,903
Depreciation expenses	-	2,915	-	2,915
Accumulated depreciation of disposals	-	(7,517)	-	(7,517)
Balance on December 31st, 2017	**4,104**	**58,847**	**-**	**62,951**
Balance as of 1 January 1st 2016	**4,104**	**68,401**	**-**	**72,505**
Depreciation expenses	-	2,915	-	2,915
Accumulated depreciation of disposals	-	(7,517)	-	(7,517)
Balance as at 31 December 2016	**4,104**	**63,799**	**-**	67,903
IMPAIRMENT ADJUSTMENTS				
Sold la 1 Ianuarie 2017	**-**	**-**	**-**	**-**
Expenses wit impairment adjustments	-	-	351	351
Balance on December 31st, 2017	**-**	**-**	**351**	**351**
BOOK VALUE				
Balance on December 31st, 2017	**-**	**6,519**	**9,093**	**15,612**
Balance on December 31st, 2016	**-**	**6,498**	**8,277**	**14,775**

The Net Asset Value of Intangible Assets in progress as of December 31st, 2016 decreased mainly due to:

- Contribution in kind of CNTEE Transelectrica SA to the share capital of SC OPCOM SA for the OPCOM Electricity Exchange" and the„OPCOM Regional Electricity Fund financed from IBRD funds, according to the Decision no. 6 of the Extraordinary General Shareholder Meeting / 15.06.2016 of SC OPCOM SA and Certificate of recording mentions from 11.07.2016 to 22,587;
- expenses incurred by the Group for the removal of the non-current real estate assets in the "OPCOM Regional Electricity Market", based on the Evaluation Report no. 786 / 15.03.2016 issued by JPA Audit & Consultanta SRL – 363.

Recording the memorandum of association amendments of SC OPCOM SA, based on the Extraordinary Shareholder Meeting Decision no, 6 / 15.06.2016, was performed at the ONRC according to the Certificate of Registration of Mentions dated 11.07.2016. As of 31.12.2016, the share capital is recorded in the financial statements submitted for approval to the General Shareholder Meeting by the OPCOM Branch SA are presented as subscribed and fully paid-up share capital.

6. INTANGIBLE ASSETS (continued)

In 2017, the biggest transfers from intangible assets in progress to intangible assets are mainly represented by the startup of the investment objectives, as follows:

- Upgrading the SCADA system for the Constanta Nord 400/110/10 kV substation with 8 types of licenses – 571,
- Licenses corresponding to the technical upgrade of the Campia Turzii 220/110/20 kV substation – 568;
- SCADA (software) programs in the Bradu 400/220/110/20 kV substation – 305;
- Software for the integrated security management system – 174;

For the intangible assets in progress, the largest entries in 2017 were:

- Replacement of EMS SCADA AREVA system components - software component, hardware component – 1,222;
- Upgrade of the existing antimalware solution – 45;

The balance of intangible assets in progress on December 31st, 2017 is mainly represented by:

- Implementing a system of Electronic Archiving and Document Management within CNTEE Transelectrica SA – 5,474;
- Replacement of EMS SCADA AREVA system components - software component, hardware component – 4,000;
- MIS extension – advanced reporting and budget planning solution – 3,048;
- Upgrading the SCADA system for the Constanta Nord substation – 571,

On December 31st, 2017, the tangible assets also included down payments amounting to 31,181 granted to the supplier ELCOMEX - IEA SA for performing the projects:

- Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja OHL to the Medgidia Sud 400 kV substation – down payment amounting to 9,949;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - Stage I - Resita 400/220/110 kV substation – down payment amounting to 21,232,

The down payments made to ELCOMEX - IEA SA have been secured with the insurance policies issued by Asito Kapital S.A.
On April 7th, 2017 the Court of Constanta, Section II Civil, by Hearing protocol no. 294/2017, upheld the application for a declaration of insolvency of the debtor Elcomex - IEA SA, naming Pricewaterhouse Coopers Business Recovery Services IPURL as insolvency administrator, Following the declaration of insolvency of Elcomex IEA SA, CNTEE Transelectrica SA entered on its statement of affairs for the amount of 31,189,487, representing the consideration of the down payment made to SC Elcomex IEA SA for the agreements no, C163/29,07,2015 and C255/18,11,2015 and other expenses, Starting with June 30th, 2017, the down payments amounting to 31,181 have been reclassified from "Tangible Assets" to "Receivables", where further details are available,

7. LONG-TERM RECEIVABLES

On December 31st, 2017 the Company no longer registers long-term receivables representing trade receivables with maturity of over 1 year that have been spread up for payment, associated to the bonus type support scheme for high efficiency cogeneration promotion, following the integral collection of the amount of 4,558 representing the overcompensation for the year of 2016, amount that should have been collected starting with the month of October 2018, according to the concluded agreements.

8. INVENTORIES

On December 31st, 2017 and December 31st, 2016, the inventories (at net value) were presented as follows:

	December 31, 2017	December 31, 2016
Spare parts	23,645	24,079
Consumables and other materials	7,353	6,849
Auxiliary materials	10,533	9,173
Other inventories	8,554	5,617

Total		
8. INVENTORIES (continued)		
	50,106	**45,475**

As of December 31st, 2017 and December 31st, 2016, the inventories impairment adjustments are presented as follows:

	December 31st, 2017	**December 31st, 2016**
Adjustments for impairment of consumables	8,263	4,289
Adjustments for impairment of other materials	1,839	4,323
Adjustments for impairment of packaging	157	35
Total	**10,259**	**8,647**

As of December 31st, 2017 and December 31st, 2016, the evolution of inventory impairment adjustments are presented as follows:

	December 31st, 2017	**December 31st, 2016**
Balance on the 1st of January	**8,647**	**6,372**
Inventories impairment adjustments	2,978	2,275
Reversal of inventories impairment adjustments	(1,366)	-
Balance at the end of the period	**10,259**	**8,647**

During 2017, the expenditures incurred with materials and spare parts consumption are presented as follows:

	December 31st, 2017	**December 31st, 2016**
Expenditures on spare parts	13,877	18,524
Expenditures on consumables	3,901	4,629
Expenditures on other materials	1,753	1,890
Expenditures on auxiliary materials	388	396
Expenditures on fuel	2,287	2,302
Total	**22,206**	**27,741**

9. TRADE AND OTHER RECEIVABLES

On December 31st, 2017 and December 31st, 2016, the trade receivables and other receivables are presented as follows:

	December 31st, 2017	**December 31st, 2016**
Trade Receivables	853,451	878,374
Other Receivables	121,398	134,009
Down payments to suppliers	11,102	19,171
VAT to be recovered	47,899	28,433
Adjustments for impairment of uncertain trade receivables	(124,988)	(103,381)
Adjustments for impairment of other uncertain receivables	(82,913)	(92,274)
Total	**825,949**	**864,332**

9. TRADE AND OTHER RECEIVABLES (continued)

The structure of trade receivables is as follows:

	December 31st, 2017	December 31st, 2016
Customers – energy market, of which:	**845,529**	**863,707**
- Clients - operational activity - energy	382,603	428,634
- Clients - balancing market	243,548	255,981
- Clients - bonus type support scheme to promote the high-efficiency cogeneration	219,379	179,093
Other clients	7,922	14,667
Total Trade Receivables	**853,451**	**878,374**

CNTEE Transelectrica SA operates based on the Operating License No, 161/2000 issued by ANRE, as updated by the Decision of ANRE Chairman no, 802/May 18th, 2016, for the transmission of electricity, the provision of the system service and for the management of the balancing market.

On December 31st, 2017, the current customers in the operational activity registered a decrease compared to December 31st, 2016, which was mainly determined by:
- fall in the electricity capacity provided to consumers in December 2016 compared to December 2017;
- decrease of the average tariff approved by ANRE for these services

The main current customers on the electricity market are represented by: CIGA Energy, RAAN, Electrocentrale Bucuresti, Societatea Energetica Electrica, Electrica Furnizare, Enel Energie Muntenia SA, Enel Energie SA, E,ON Energie Romania, Complexul energetic Oltenia, Petprod, The weight of the main customers on the electricity market is about 54% in the Total Gross Receivables.

CNTEE Transelectrica SA operates its activities related to the bonus type support scheme for promoting the high efficiency cogeneration, acting as the administrator of the support scheme according to the provisions of the Government Decision no, 1215/2009, as amended and supplemented, "the main tasks being to collect, on a monthly basis, the contribution for cogeneration and the monthly payment of bonuses".

On December 31st, 2017, the Company registered receivables to be cashed from the bonus type support scheme for promoting the high efficiency cogeneration in a proportion of approximately 26% (December 31st, 2016 : 22%) of the total trade receivables, in a slight increase determined mainly by the amounts corresponding to the ANRE decisions regarding the over-compensation of the cogeneration activity for the year 2016 in the amount of 139,914(over-compensation 2015 registered in 2016: 119,655) registered according to ANRE decisions for which invoices were issued in March 2017.

In the timeframe January 1st – December 31st, 2017, the amounts related to the bonus type support scheme have increased compared to December 31st, 2016, mainly due to the over-compensation decisions for 2016, issued in 2017. The overview of the cashing of receivables for the cogeneration scheme is as follows:

- the amount of 1,394 representing the overcompensation for the year of 2014, via bank transactions from Termoficare Oradea (for Electrocentrale Oradea, according to the staging Convention);
- the amount of 13,234 representing the overcompensation for the year of 2015, via bank transactions from Termoficare Oradea (for Electrocentrale Oradea, according to the staging Convention);
- the amount of 83,233 representing overcompensation for the year of 2016, on the grounds of reciprocal compensations made via the Management and Informatics Institute (on the grounds of DG no, 685/1999) (the amount of 29,866 with Enet SA, Modern Calor, Rulmenti Barlad, Soceram, Thermoenergy Group, Veolia Energie Iasi, Veolia Energie Prahova, CET Govora) and receipts in the bank account dedicated to the administration of the support scheme (the amount of 53,367 from CET Grivita, Electrocentrale Bucuresti, Termoficare Oradea, Thermoenergy Group, Veolia Energie Prahova)<
- the amount of 70, representing undue bonus for the year of 2016, on the grounds of compensations made via the Management and Informatics Institute (on the grounds of DG no, 685 / 1999) – CET Arad,

On December 31st, 2017, the Company registered receivables amounting to 168,850, represented by the issued invoices under the bonus type support scheme for high efficiency cogeneration, out of which:

- overcompensation for the timeframe 2011 - 2013 in the amount of 76,702, namely from RAAN - 63,467 and CET Govora SA - 13,235;
- undue bonus for 2014 in the amount of 3,915, namely from RAAN – 1,981, CET Govora – 1,934;
- undue bonus for 2015 in the amount of 564, namely from CET Govora - 534, Interagro - 30;
- overcompensation for 2015 in the amount of 9,775, from Electrocentrale Oradea (debt taken over by Termoficare Oradea);
- overcompensation for 2016 in the amount of 56,680 from Electrocentrale Bucuresti;

9. TRADE AND OTHER RECEIVABLES (continued)

- contribution for cogeneration not collected from the suppliers of electricity consumers, in the amount of 21,214, namely from: Transenergo Com – 5,882, PetProd - 4,391, Romenergy Industry – 2,681, RAAN- 2,386, Arelco Power – 2,379, UGM Energy – 1,814, CET Govora – 901, KDF Energy – 888 and others,

For discharging the receivables generated by the overcompensation and the undue bonus, the Company requested the reciprocal compensations from the qualified producers in the support scheme, For producers (RAAN, Electrocentrale Bucuresti, CET Govora) that have not agreed to this way of discharging the reciprocal receivables and debts, the Company has applied and continues to apply the provisions of Article 17 (5) of the Order of ANRE Chairman no, 116/2013 for approving the Regulation on determining the way to collect the contribution for high efficiency cogeneration and payment of the bonus for the electricity produced in high efficiency cogeneration: "if the manufacturer did not make the payment in full to the administrator of the support scheme for its obligations resulted in accordance with the provisions of this Regulation, the administrator of the support scheme pays to the producer the difference between the invoices issued by the producer and the payment obligations of the producer on the support scheme, with explicit mention on the payment document of the respective amounts", and detained from payment the amounts due related to the corresponding support scheme.

CNTEE Transelectrica SA has concluded an agreement with CET Govora on compensation and rescheduling of payments for the amounts representing the equivalent receivables from the counter value of the overcompensation for the timeframe 2011 - 2013 and of the undue bonus for 2014 (Agreement no, C 135/June 30th, 2015 and Addendum no, 1/August 4th, 2015). The period of the Agreement was 1 year (timeframe July 2015 - August 2016) and stipulated the Company's right to calculate and collect payment penalties over the installment period.

According to the Agreement, the Company's receivables to be collected from CET Govora SA were compensated with the debts to CET Govora SA, represented by the cogeneration bonus for the period May 2014 - October 2015 detained pursuant to the Art, 17 (5) from the Order of the ANRE Chairman no, 116/2013 and the provisions of the Agreement, in the amount of 40,507,669.

Following the suspension in court, by Civil sentence no, 3185/November 27th, 2015, the ANRE Decision no, 738/March 28th, 2014 on setting the overcompensation amount for the timeframe 2011 - 2013, CET Govora SA no longer respected the obligations undertaken according to the Agreement.

Starting with May 9th, 2016, the general insolvency proceedings were opened for CET Govora, To recover its liabilities recorded before the insolvency proceedings, the Company applied the specific procedures provided by the Law no, 85/2014 on Insolvency and requested admission of its liabilities, according to the law.

Given the aforementioned facts, starting with May 9th, 2016, the Company has terminated the enforcement of article 17 (5) from the Order of ANRE Chairman no. 116 / 2013 on approving the Regulation regarding the settlement of the collection procedure of the high efficiency cogeneration contribution and the payment of the bonus for the electricity produced via high efficiency cogeneration, and has paid the cogeneration bonus to CET Govora on a monthly basis.

Via Civil Decision no, 2430/October 5th, 2016, the High Court of Cassation and Justice admitted the appeal declared by ANRE against Civil Ruling no. 3185/November 27th, 2015, has partially cancelled the contested sentence and has rejected the suspension request lodged by CET Govora, the judgement being final, Thus, starting with 05.10.2016, the effects of the ANRE Decision no, 738/28.03.2014 were no longer suspended, being in full effect.

Under these circumstances, the Company enforces the provisions of article 17 (5) of the ANRE Order no. 116 / 2013 for the reciprocal debts and receivables occurred after the insolvency proceedings, retaining the bonus owed to CET Govora SA up to the amounts unpaid to the Company according to the support scheme.

In the month of September 2016, CNTEE Transelectrica SA has concluded an agreement with SC Termoficare Oradea, to take over the debt of SC Electrocentrale Oradea, representing the overcompensation for the year 2014 and 2015. The overtaken debt, in the amount of 29,259, has been spread over 24 monthly instalments (October 31st, 2016 - September 30th, 2018).Until the financial statements were prepared, the deadlines provided for in the rescheduling agreement were respected.

Taking into consideration the Government Decision 925/2016, as subsequently amended and supplemented, presented above in Note 1, the Company does not register provisions for the support scheme, the unrecovered value of these receivables being included in the cogeneration contribution.

9. TRADE AND OTHER RECEIVABLES (continued)

Other receivables

On December 31st, 2017, other receivables in the amount of 121,398 mainly included:

- late payment penalties calculated to late paying clients, amounting to 64,817 (out of which the amount of 26,021 represents penalties in relation to the support scheme), The largest penalties for late payment have been registered by the following customers: RAAN (16,901), SC CET Govora (9,607), SC Eco Energy SRL (8,910), SC Petprod SRL (8,895), Total Electric Oltenia (3,289), Arcelor Mittal Galati (2,952), Also Energ (2,121), For the penalty charges for late payment of the receivables from operational activities, depreciation adjustments were recorded.
- compensations owed by suppliers for not delivering electricity (Arelco Power 2,817 and Enol Grup 2,541), Impairment adjustments were recorded for the compensations owed by suppliers from operating activities,
- the down payments granted to the supplier ELCOMEX - IEA SA amounting to 31,181, to which penalties amounting to 687have been added, The down payments have been granted to the supplier ELCOMEX - IEA SA for performing the following projects:
  - Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja OHL to the Medgidia Sud 400 kV substation – down payment amounting to 9,949;
  - Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - Stage I - Resita 400/220/110 kV substation – down payment amounting to 21,232,

The down payments made by the Company to ELCOMEX - IEA SA were secured with the insurance policies issued by Asito Kapital S.A.

On April 7th, 2017 the Court of Constanta, Section II Civil, by Hearing protocol no, 294/2017, upheld the application for a declaration of insolvency of the debtor Elcomex - IEA SA, naming Pricewaterhouse Coopers Business Recovery Services IPURL as insolvency administrator.

On the day of insolvency, CNTEE Transelectrica SA held the following agreements concluded with SC Elcomex IEA SA: C163/29.07.2015: "Converting the Portile de Fier – Resita – Timisoara – Sacalaz – Arad to 400 kV / the 400/220/110 kV Resita substation" and C255/18.11.2015 "Connecting the OHL 400 kV Isaccea-Varna and OHL 400 kV Isaccea-Dobruja in the 400 kV Medgidia Sud station, stage I". Following the declaration of insolvency of SC Elcomex IEA SA, CNTEE Transelectrica SA entered on its statement of affairs for the amount of 31,189, representing the consideration of the down payment made to SC Elcomex IEA SA for the agreements no. C163/29,07,2015 and C255/18.11.2015 and other expenses.

Pricewaterhouse Coopers Business Recovery Services IPURL notifies Transelectrica on August 7th, 2017, regarding the cancellation of the agreement C 163/29,07,2015 "Converting the Portile de Fier – Resita – Timisoara – Sacalaz – Arad to 400 kV / the 400/220/110 kV Resita substation".

On August 8th, 2017, the judiciary administrator Pricewaterhouse Coopers Business Recovery Services IPURL considers itself bound to note the cancellation by CNTEE Transelectrica SA of the agreement no. C255 from November 18th, 2015, regarding "Connection of the Isaccea-Varna 400 kV OHL and Isaccea-Dobruja 400 kV OHL in the Medgidia Sud 400 kV OHL, Stage I", notified by the Company with letter no, 24597 from July 5th, 2017, and at the same time the termination of the agreement on the initiative of CNTEE Transelectrica SA.

On July 1st, 2017, the Company submitted an application for summons regarding the issuance of a payment order, an action subject to the case file no, 24552/3/2017 on the docket of the Bucharest Court, Section VI Civil, requesting the Court to rule a decision obliging the debtor ASITO KAPITAL SA to pay the amount of 7,058,773,36 Euro *(the equivalent of 31,180,858 lei),* representing guarantee policies for the down payments no. BR – 1500544/November 18th, 2015, and no, BR – 1500520/July 29th, 2015.

At the hearing from November 7th, 2017, after deliberation, the Bucharest Court ruled the following solution, in short:

- Admits the request.
- Orders the debtor to pay, within 20 days from notification of this decision, the amount of 2,237,750.83 euro (the equivalent of 9,949 at the exchange rate of 4,4458 euro), representing the down payment which was not reimbursed but guaranteed via letter of guarantee no, BR-1500544/18.11.2015;
- Orders the debtor to pay, within 20 days from notification of this decision, the amount of 4,821,022,53 euro (the equivalent of 21,233 at the exchange rate of 4,4041 euro), representing the down payment which was not reimbursed but guaranteed via letter of guarantee no, BR-1500520/29.07.2015;
- Orders the debtor to pay, within 20 days from notification of this decision, the amount of 200 lei representing legal expenses, With right of request in annulment within 10 days from notification, Document: Decision 4067/2017 – 07.11.2017,

By the date of drafting these financial statements, Decision 4067/2017 – 07.11.2017 has not been drafted and communicated in order to be enforced,

Considering that until the date of the present financial statements, the amounts insured by ASITO KAPITAL SA for the advance payment were not recovered, the Company recorded on 31 December 2017 impairment adjustments in the amount of 31,181.

- receivables from OPCOM representing VAT for the contribution in kind to the subsidiary's equity, amounting to

4,517;

9. TRADE AND OTHER RECEIVABLES (continued)

- deferred expenses amounting to 4,807 mainly represented by the advances on contracts concluded with the suppliers of electricity needed for covering the own technological consumption for future periods (3,321,562), a guarantee fee for the BEI 25710 loan (83) and commission of ING credit granting (354), maintenance and technical assistance (97), rents (600);
- other long-term receivables amounting to 4,517 , out of which 4,200 represent guarantees for temporary occupation of the land calculated and retained in accordance with Article 39 (1), (2) and (5) of the Law no, 46 / 2008 on the Forestry Code, in order to achieve the investment objective Resita – Pancevo (Serbia) 400 kV OHL.

Down payments to suppliers

On December 31st, 2017, the down payments to suppliers are represented by the suppliers who are debtors for services amounted to 11,102,342, out of which 11,083 represent amounts from transactions related to the price coupling mechanism. Application of the mechanism coupling through the price began on November 19th, 2014, the date at which the project "4 Market Market Coupling" which provides the unification of the electricity markets DAM Square (Next Day Market) from Romania, Hungary, Czech Republic and Slovakia entered in the operating phase. Within the price coupling mechanism for the day-ahead markets, the electricity exchanges correlate the day-ahead electricity transactions based on bids, taking into account the interconnection capacity provided by the TSOs, by which it is implicitly allocated CNTEE Transelectrica SA, acting as TSO, transfers the electricity both in physical and commercial terms to the neighboring TSOs (MAVIR-Hungary) and manages the congestion revenues along the respective interconnection (Article 139 from ANRE Order no, 82/2014), while in relation to SC OPCOM SA it acts as Implicit Participant on the Day-Ahead Market.
As a Shipping Agent and Implicit Participant, CNTEE Transelectrica SA has the commercial task to settle the power traded between SC OPCOM SA and MAVIR.

Adjustments for depreciation of trade receivables, of uncertain trade receivables and of other uncertain receivables

The Groups's policy is to register impairments amounting to 100% for clients in litigation, under insolvency and bankruptcy, and 100% from trade receivables and other receivables not collected for more than 180 days, except for outstanding receivables generated by the support scheme, The Company also makes a case by case analysis of uncollected trade and other receivables.

On December 31st, 2017, the highest adjustments of depreciation, calculated for the trade receivables and related penalties, have been recorded for SC Eco Energy SRL (24,736), SC Petprod SRL (23,540), Arelco Power (17,359), SC Total Electric Oltenia SA (14,186), Romenergy Industry (13,513), Elsaco Energy (9,294), RAAN (8,517), Also Energ (7,177), CET Brasov (4,665), OPCOM (4,517), The Company took the following measures in order to recover the impaired receivables: court proceedings, entering on the statement of affairs, requesting clarifications from ANAF (regarding the VAT collected from Opcom) and so on.

The Company's exposure to the collection risk, as well as the value adjustments for trade receivables, are presented in Note 30.

10. OTHER FINANCIAL ASSETS

On December 31st, 2017 and December 31st, 2016, the other financial assets were presented as follows:

	December 31st, 2017	December 31st, 2016
Bank deposits with maturity larger than 90 days	-	135,090
Total	**-**	**135,090**

On December 31st, 2017, the Company has no bank deposits with maturity larger than 90 days,

11. CASH AND CASH EQUIVALENTS

On December 31st, 2017 and December 31st, 2016, the cash and cash equivalents were presented as follows:

	December 31, 2017	December 31, 2016
Current bank accounts and deposits with original maturities of less than 90 days, out of which:	553,787	960,400
-Cash from high efficiency cogeneration	19,173	107,812
-Cash from revenues related to the allocation of interconnection capacities used for investments in the grid	84,247	77,027
-cash from the connection fee	31,153	22,533
-Petty cash	88	89
Other cash equivalents	-	-
Total	**553,875**	**960,489**

The bank deposits with initial maturity smaller than 90 days, constituted with cash available in current accounts (including cogeneration deposits) amounted to 251,047 at December 31st, 2017 and to 688,115 at December 31st, 2016.

12. SHAREHOLDERS' EQUITY

Share capital

According to GEO 86/2014 on the establishment of reorganization measures at central public administration level and for modifying and completion of some normative acts, on February 20th, 2015 was recorded in the Company's shareholder Register the transfer of 43,020,309 shares from the account of the Romanian State from the administration of the General Secretariat of Government, in the account of the Romanian State in the management of the Ministry of Economy, Trade and Tourism.

Under the provisions of Article 2 of Government Emergency Ordinance no. 55/November 19th, 2015 on the establishment of reorganization measures at the central government level and to supplement several acts, the Ministry of Economy, Trade and Business Environment Relationship (MECRMA) was incorporated by reorganizing and taking over the activities of the Ministry of Economy, Trade and Tourism, which was dissolved, and by merging and structures in the field of small and medium businesses of the Ministry of Energy, Small and Medium Enterprises and Business Environment.

According to the provisions of GD no. 27/January 12th, 2017 on the organization and functioning of the Ministry of Economy, the Company functions under the authority of the Ministry of Economy.

On March 3rd, 2017 the transfer in the amount of 43,020,309 shares was registered in the Company's Shareholder Register, from the account of the Romanian State from the administration of the Ministry of Economy, Trade and Tourism, in the account of the Romanian State in the administration of the Ministry of Economy.

12. SHAREHOLDERS' EQUITY (continued)

At the end of each reporting period, the subscribed and paid share capital of the Company amounted to 733,031,420 is divided into 73,303,142 ordinary shares with a nominal value of 10 lei/share and corresponds to the one registered in the Trade Register.

Share capital (continued)

The shareholder structure on December 31st, 2017 and on December 31st, 2016 was as follows:

	December 31st, 2017		December 31st, 2016	
Shareholder	**Number of shares**	**% of the share capital**	**Number of shares**	**% of the share capital**
Romanian State through MECRMA	43,020,309	58,69%	43,020,309	58,69%
Other legal person shareholders	20,689,339	28,22%	25,797,725	35,19%
DEDEMAN SRL	4,192,363	5,72%	-	-
Other natural person shareholders	5,401,131	7,37%	4,485,108	6,12%
Total	**73,303,142**	**100,00%**	**73,303,142**	**100,00%**

The Company recognizes changes in the share capital in accordance with the legislation in force and only after their approval in the Extraordinary General Assembly of Shareholders and their registration with the Trade Registry.

As of December 31st, 2017 and December 31st, 2016, the share capital is as follows:

	December 31st, 2017	December 31st, 2016
Share capital (nominal value)	733,031	733,031
Share capital balance	**733,031**	**733,031**

The shareholders are entitled to receive dividends and are entitled to one vote per share at the meetings of the Company. The value of shareholders' dividends distributed from the profit of 2016 according to the General Assembly Decision no, 4/April 27th, 2017 amounts to 165,445, and their payment is done through the Central Depository starting with June 28th, 2017. The amount of unpaid dividends as of December 31st, 2017 is 2,414 (December 31st, 2016: 1,313).

Share premium

All new shares issued within the capital increase by the primary initial public offering from 2006 were subscribed and fully paid in against the issue price, The share premium amounting to 49,843, being the difference between the share issue price and the share nominal value, was recorded in the Company's reserve account.

Legal reserves

Legal reserves in the amount of 119,153 as of December 31st, 2017 and 116,522 as of December 31st, 2016 represent legal reserves constituted according to the statutory legislation and cannot be distributed, The Company transfers to this reserve at least 5% of its annual accounting profits (GEO no, 64/2001, Law no, 227/2015) until the cumulative balance reaches 20% of its paid in share capital.

Revaluation reserves

The revaluation reserve amounts to 408,899 as of December 31st, 2017 and 458,184 as of December 31st, 2016, The latest revaluation of buildings and special installations was made on December 31st, 2015 by SC JPA Audit & Consultanta SRL, independent evaluator authorized by the National Union of Authorized Evaluators in Romania ("ANEVAR").

12. SHAREHOLDERS' EQUITY (continued)

Other reserves

As of December 31st, 2017, other reserves amount to 57,627 (57,627 as of December 31st, 2016), of which 20,952 represents the value of structural funds received from the Managing Authority for Sectoral Operational Program "Increase of Economic Competitiveness" and 32,718 represents the value of subsidies from connection tariffs, which were used to finance received investment works in assets that are part of the State's public domain, and 3,283 represents the value of the land for which certificates authenticating the ownership rights were obtained, As described in Note 26, the land for which the certificates authenticating the ownership rights are obtained is first recognized at fair value in reserve and followed by an increase in share capital after it is recorded with the Trade Registry Office.

Retained earnings

Retained earnings amount to 1,366,936 as of December 31st, 2017 and 1,714,462 as of December 31st, 2016.

As of December 31st, 2017, he Company recorded a positive retained earnings over the surplus realized from revaluation reserves in the amount of 834,511, out of which 189,989 surplus from non-taxable revaluation reserves upon change of destination and 644,521 surplus from reserves from taxable revaluation to destination change.

As of December 31st, 2017, the actuarial loss recorded in the retained earnings is in the amount of 16,634. This amount resulted from the application of IAS 19 Employee Benefits (Note 15) and represents the actuarial loss from the previous periods.

Retained earnings issued from the correction of the modified accounting errors differed from the loss recording, resulting from the additional payment obligations recorded in the NAFA tax inspection report amounting to 75,727. Thus, according to Address No. 1649 of 16.04.2018 in 2017, the retained earnings were adjusted by the amount of 75,727 representing additional payment obligations calculated up to 31.12.2016 out of the amount of 99,013 established by NAFA through the Tax Inspection Report.

From the profit realized on December 31st , 2017 (28,267) , the amount of 25,666 was allocated to "Other reserves", out of which:

- the amount of 13,125 represents the partial allocation of the net revenues from the allocation of interconnection capacities made in 2017, up to the net profit realized on December 31st , 2017. According to Regulation (EC) No 714/2009 and ANRE Order no. 53/2013 the revenues from the allocation of the interconnection capacities are used to make investments in the electricity transmission network for maintaining or increasing the interconnection capacities. Under these conditions, the revenues realized in 2017 from the allocation of the interconnection capacity (net of profit tax and legal reserve) were partially allocated to the destination provided in art. 1 letter d) of GO no. 64/2001 "Other distributions provided by law "up to the net profit realized on December 31st 2017.

In 2017 revenues from the allocation of the interconnection capacity were made in the amount of 75,727. On allocation of revenues from the allocation of the interconnection capacity made in 2017 on the destination "other assignments provided by the law", the negative correction in the amount of 16,747 of the regulated income has been considered as a correction element from the tariff period 1 July 2015 - June 30, 2016 (positive correction in the amount of 2,601) and from the tariff period 1 July 2016 to 30 June 2017 (negative correction in the amount of 19,348), applied by ANRE to determine the average electricity tariff for the tariff period July 1, 2017 - June 30, 2018. Thus, the amount of 16,747 does not become the source of financing the investments in maintaining and / or increasing the cross-border interconnection capacity of the Romanian transport network, this amount being used in the calculation of the transport tariff as a source complementary to the revenue obtained from the transport tariff to cover the regulated costs for the tariff period is July 1, 2016 - June 30, 2017. In these circumstances, the revenues realized in 2017 from the allocation of the interconnection capacity (net profit and legal reserve), to be allocated for the creation of reserves, in order to realize investments in the network for maintaining or increasing interconnection capacities, in accordance with Regulation (EC) No 714/2009 and ANRE Order no. 53/2013, amounted to 47,066.

- the amount of 12,541 represents the distribution in reserve of the amount of the profit for which the profit tax exemption was granted, except the part related to the legal reserve, starting with July 1, 2014, according to the provisions of art. 22 of Law no. 227/2015 regarding the Fiscal Code, with subsequent amendments and completions.

12. SHAREHOLDERS' EQUITY (continued)

The distribution of net profit as at December 31st, 2017

The distribution of accounting profit on legal destinations after the deduction of the profit tax as of December 31st 2017, is the following:

Destination	Amount (lei)
Accounting profit after deducting the income tax on December 31st, 2017	28,267
Distribution of accounting profit on the following destinations:	
Legal reserve (5%)	2,601
Other law provided distributions – tax exemption for reinvested profit	12,541
Other law provided distributions - revenues achieved in 2017 from the allocation of the interconnection capacity (net of income tax and legal reserve) - partially, within the net profit margin	13,125
Retained earnings	-

The calculation of the distribution for the profit after the deduction of the profit tax on 31 December 2017 was made in accordance with the provisions of the legislation in force, namely:

- GO no. 64/2001 - on the distribution of profits to the national companies, the national companies and the companies with full or majority state capital, as well as the autonomous regies, approved with amendments by the Law no. 769/2001, as subsequently amended and supplemented;

- Law no. 227/2015 regarding the Fiscal Code, as subsequently amended and supplemented;

- Council Regulation (EC) (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) 1228/2003;

- ANRE Order no. 53/2013, with the subsequent modifications and completions regarding the approval of the Tariff Pricing Methodology for the electricity transmission service;

- The approval tariff for the average tariff for the transport service sent by ANRE with the address no. 48430 / 14.07.2017 on the data taken into consideration by ANRE in setting tariffs for the tariff period 1 July 2017 - 30 June 2018 (including the correction for revenues from the allocation of interconnection capacity).

The 2017 accounting profit after deducting the profit tax is allocated to the following destinations:

a) - the legal reserve amounting to 2,601, determined in the 5% quota according to the provisions of art. 26 par. (1) lit. a) of Law no. 227/2015 regarding the Fiscal Code, as subsequently amended and supplemented;

b) - other assignments provided by law in the amount of 12,541, represented by the exemption from the payment of the reinvested profit tax, according to the provisions of art. 22 of Law no. 227/2015 regarding the Fiscal Code, as subsequently amended and supplemented;

c) - other assignments provided by law in the amount of 13,125, represented by the revenues realized in 2017 from the allocation of the interconnection capacity (net profit and legal reserve), allocated according to the provisions of art. 1 lit. d) from GO no. 64/2001 on the distribution of profits to national companies, national companies and companies with full or majority state capital, as well as to the autonomous regies, as subsequently amended and supplemented, corroborated with the provisions of Regulation (EC) no. 714/2009 and the ANRE Order no. 53/2013 which provides for the use of revenues from the allocation of interconnection capacities for network investment to maintain or increase interconnection capacities.

In distributing the revenues from the allocation of the interconnection capacity made in 2017 on the destination "other assignments provided by the law", the negative correction in the amount of 16,747 of the regulated income was taken as a correction element from the tariff period 1 July 2015 - June 30, 2016 (positive correction in the amount of 2,601) and from the tariff period 1 July 2016 to 30 June 2017 (negative correction in the amount of 19,348), applied by ANRE to determine the average electricity tariff for the tariff period July 1, 2017 - June 30, 2018. Thus, the amount of 16,747 does not become the source of financing the investments in maintaining and / or increasing the cross-border interconnection capacity of the Romanian transport network, this amount being used in the calculation of the transport tariff as a source complementary to the revenue obtained from the transport tariff to cover the regulated costs for the tariff period July 1, 2016 - June 30, 2017.

Under these conditions, the revenues realized in 2017 from the allocation of the interconnection capacity (net profit and legal reserve), to be allocated for the creation of reserves, in order to realize investments in the network to maintain or

12. SHAREHOLDERS' EQUITY (continued)

increase the interconnection capacities, according to the Regulation (EC) No 714/2009 and ANRE Order no. 53/2013, amounted to 47.066.
The 2017 accounting profit after the deduction of the profit tax allowed the distribution on the "Other reserves" destination for the realization of investments in the network to maintain or increase the interconnection capacities only of the amount of 13,125, within the limit of the net profit realized. Thus, for the amounts related to the remaining revenues not covered by the profit of 2017, it is necessary to set up the reserves in the amount of 33,941 of the surplus from the revaluation reserves not taxable at the change of the destination.

13. DEFERRED REVENUES

Deferred income include mainly connection tariff, other investment subsidies, non-refundable European funds from the Ministry of European Funds, as well as revenues from the allocation of interconnection capacities

On December 31st, 2017, the deferred revenues were as follows:

	December 31st, 2017	**Out of which short term portion as at 31,12,2017**	**December 31st, 2016**	**Out of which short term portion as at 31,12,2016**
Deferred revenues – allocation of interconnection capacity	5,797	5,797	6,579	6,579
Deferred income – European funds	2,558	2,558	1,320	1,320
Funds from connection fee	311,396	23,558	319,026	21,082
European funds	101,625	7,415	109,441	7,473
Other subsidies	32,371	1,553	35,351	1,571
Total	**453,747**	**40,881**	**471,717**	**38,025**

13. DEFERRED REVENUES (continued)

Evolution in advance short-term revenues during the 2017 is presented as follows:

	December 31st, 2017	December 31st, 2016
Opening balance	38,025	33,408
Cash in advance related to interconnection capacity	75,479	38,685
Collections from European funds	1,327	1,213
Connection fee transferred from long-term deferred income (connection tariff)	2,300	(413)
Revenues from using the interconnection capacity	(76,261)	(34,868)
Revenues from European funds	(89)	-
Total	**40,881**	**38,025**

The evolution in advance long-term revenues during the 2017 is presented as follows:

	December 31st, 2017	December 31st, 2016
Opening balance	434,891	467,949
Connection subsidies	14,228	(2,951)
Reclassification of connection subsidies to public patrimony	-	-
Non-refundable funds	174	33
Non-refundable funds to be repaid	-	(137)
Transfer to short-term deferred income	(2,300)	413
Release of deferred income	(34,127)	(31,615)
Total	**412,866**	**434,891**

In 2017, CNTEE Transelectrica SA collected from the Ministry of Economy the amount of 164 lei in order to start the expropriation procedures for the privately owned immovable properties constituting the expropriation corridor for the following works of national interest:

- Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja 400 kV OHL in the Medgidia Sud 400 kV substation - Stage II - Connections in the Medgidia Sud 400 kV OHL d,c, substation;
- Converting the Portile de Fier – Resita – Timisoara – Sacalaz – Arad axis/Portile de Fier – (Anina) – Resita 400 kV OHL to 400 kV;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV / stage I: Extension of the Portile de Fier 400 kV substation, Portile de Fier - Anina - Resita 400 kV OHL, Resita 400/220/110 kV Resita substation;
- Resita-Pancevo 400 kV OHL interconnection;
- Ostrovu Mare 220 kV OHL double circuit – PTG;
- Gutinas – Smardan 400 kV OHL d,c, and
- Cernavoda-Stalpu 400 kV OHL d,c, and connection in the Gura Ialomitei substation.

14. LOANS

Long-term loans

On December 31st, 2017 and December 31st, 2016, the amounts owed to credit institutions for a period of over one year are the following:

Description	December 31st, 2017	December 31st, 2016
NIB PIL No 02/18 (a)	3,417	11,337
IBRD 7181 (b)	43,603	74,348
NIB PIL No 03/5 (c)	10,717	20,889
NIB PIL No 02/37 (d)	5,737	11,182
KfW 10431 (e)	-	9,522
KfW 11300 (f)	-	9,611
EIB 25709 (i)	89,742	98,391
EIB 25710 (i)	97,425	105,910
BRD-ING (j)	58,712	95,363
Unsecured bonds (k)	200,000	200,000

Description	December 31st, 2017	December 31st, 2016
Total long-term loans from credit institutions, out of which:	**509,355**	**636,554,**
Less: Current portion of long-term loans	**(314,169)**	**(134,624)**
Total long-term loans net of current installments	**195,186**	**501,930**

Overview of the long-term loans as on December 31st, 2017

Loan name	Loan date	Value of loan (currency)	Balance as at December 31, 2017 (foreign currency)	Balance as at December 31, 2017 (RON)	Interest rate	Maturity date as per loan
NIB PI 02/18	19,02,2003	18,442 USD	878 USD	3,417	LIBOR 6M+0,9%	16,04,2018
BIRD 7181	15,07,2003	71,623 EUR	9,357 EUR	43,603	last transmitted 0%	15,01,2020
NIB PI 03/5	12,11,2004	23,000 EUR	2,300 EUR	10,717	EURIBOR 6M+0,85%	17,09,2018
NIB PI 02/37	25,02,2004	12,928 EUR	1,231 EUR	5,737	EURIBOR 6M+0,9%	17,09,2018
BEI 25709	12,08,2004	32,500 EUR	19,259 EUR	89,742	3,596%	10,09,2025
BEI 25710	12,08,2004	32,500 EUR	20,908EUR	97,425	3,856% and 2,847%	11,04,2028
ING+BRD	26,07,2012	42,000 EUR	12,600 EUR	58,712	EURIBOR 6M+2,75%	13,02,2019
Unsecured bonds	19,12,2013	200,000 RON	200,000 RON	200,000	6,1%	19,12,2018
TOTAL				**509,355**		

Long-term loans are detailed as follows:

a) Loan no, 02/18 from NIB PIL

The loan from NIB was granted on February 19th, 2003, The total amount due as of December 31st, 2017 amounts to USD 878,175, The loan was granted to finance the rehabilitation of the Slatina 400/220 kV electrical substation, The loan bears a variable interest rate of six months LIBOR plus a 0,9% margin. Repayment is scheduled over 10 years in 20 instalments, from 2008 to 2018.

b) Loan no, 7181 from IBRD

The loan from IBRD was granted on July 15th, 2003 for the objective "Electricity Market", The total amount outstanding as of December 31st, 2017 is EUR 9,357,495. The loan bears a variable interest rate communicated by IBRD depending on the financing cost, The interest rate for the last instalment was 0%, The repayment is performed biannually (on January 15th and July 15th of each year), starting July 15th, 2008, with the last instalment being scheduled on January 15th, 2020,
The loan agreement includes certain financial provisions: (i) a debt service cover ratio of not less than 1,3 and (ii) a ratio of current assets to current liabilities of not less than 1.2.

c) Loan no, 03/5 from NIB PIL

The loan from NIB was granted on November 12th, 2004 for the objective "Rehabilitation of the Gutinas 400/220/110 kV electrical substation".The total amount outstanding as of December 31st, 2017 is EUR 2,300,000, The interest rate is 6 month EURIBOR plus 0,85%, repayment is performed biannually, in equal instalments starting March 15th, 2009, with the last instalment being scheduled on September 17th, 2018.

d) Loan no, 02/37 from NIB PIL

The loan was granted by NIB on February 25th, 2004 for the objective "Rehabilitation of the Rosiori 400/220 kV electrical substation". The total amount outstanding as of December 31st, 2017 is EUR 1,231,233. The interest rate is 6 month

EURIBOR plus 0,90%, repayment is performed biannually, in equal instalments starting September 15th, 2008, with the last instalment being scheduled on September 17th, 2018.

14. LOANS (continued)

e) Loan no, 10431 from KfW
The loan has been granted by KfW on August 12th, 2004 for the objective "Rehabilitation of the Sibiu Sud 400/220/110 kV electrical substation", As of December 31st, 2017, the loan was repaid in full, The interest rate is 6 months EURIBOR plus 0,60%, the repayment being performed biannually, in equal instalments starting January 31st, 2008, with the last instalment being scheduled on July 31st, 2017.

f) Loan no, 11300 from KfW

The loan has been granted by KfW on August 12th, 2004 for the "Rehabilitation and modernization of the Bucuresti Sud 400/220/100 kV electrical substation", As of December 31st, 2017, the loan was repaid in full, The interest rate is 6 months EURIBOR plus 0,60%, the repayment being performed biannually, in equal instalments starting January 31st, 2008, with the last instalment being scheduled on July 31st, 2017.

g) Loan no, 25709 and no, 25710 from EIB

The loans were granted by EIB on August 5th, 2010 for financing the modernization and rehabilitation of the Romanian Power Transmission Grid, Each loan amounts to EUR 32,500,000, EIB loan no, 25709 is not guaranteed, while EIB loan no, 25710 is guaranteed by CitiBank Europe PLC, Dublin – Romania branch, The repayment period is of 15 years, with a grace period of 2 years, The repayment is scheduled from 2012 to 2025 for EIB loan no, 25709 (on March 10th and September 10th of each year) and from 2013 to 2028 for EIB loan no, 25710 (on April 11th and October 11th of each year). The interest rates are 3,596% for EIB loan no, 25709 and 3,856% and 2,847% for EIB loan no, 25710.

The amount outstanding as of December 31st, 2017 for the EIB loan no, 25709 is EUR 19,259,259 and for EIB loan no, 25710 EUR 20,908,120.

The EIB loan agreement no, 25709 includes certain financial provisions: (i) a ratio of EBITDA to interest payments for long-term loans during the year of not less than 4,2; (ii) a ratio of debt to equity of not more than 0,95; (iii) a ratio of total net debt and EBITDA of no more than 3,5.
Loan no, 25710 from EIB is guaranteed by CitiBank Europe PLC, Dublin – Romania branch, The contract bears a guarantee commission of 0,46% per annum, computed at 115% of the value of the balance. The guarantee agreement concluded on January 26th, 2011 includes certain financial provisions: (i) a ratio of consolidated EBITDA to consolidated net financial expenses of not less than 4,2; (ii) a ratio of total net debt to equity of not more than 0,95.

h) Loan from ING Bank N,V,, Amsterdam (Bucharest branch) and BRD – Groupe Société Générale SA

The loan was granted on July 26th, 2012 by the consortium made up of ING Bank N,V,, Amsterdam (Bucharest branch) and BRD – Groupe Société Générale SA. The loan is meant to finance the following investments: refurbishment of the Lacu Sarat 400/200/110/20 kV substation, refurbishment of the Mintia 220/110 kV substation, integrated security systems in substations and replacement of autotransformers and transformers in electrical substations. The repayment period is of 84 months with a grace period of 24 months, with equal instalments payable every semester starting from August 2014, The loan bears a variable rate of 6 month EURIBOR, plus a margin of 2,75%,The loan is 100% guaranteed through assignment of receivables, The total amount outstanding as of December 31st, 2017 is EUR 12,600,000.

The loan agreement includes certain financial provisions: (i) a ratio of EBITDA to financial expenses of no less than 4,2; (ii) a ratio of total net debt to EBITDA of no more than 3,5.

i) Bonds issue

The Extraordinary General Assembly of Shareholders of CNTEE Transelectrica SA approved, through Decision no, 7 of 30,09,2013, a limit of RON 900 million for the issue of corporate bonds during 2013 – 2017, from which RON 200,000,000 were issued during December 11th, 2013 – December 18th, 2013 through an initial public offering on the internal capital market, The bonds are unsecured and are not convertible into shares, The interest rate of the bonds issued is of 6,1% per annum, the interest being paid on an annual basis in December 2014, December 2015, December 2016, December 2017 and December 2018, The bonds are due on December 19th, 2018.

Following the consent given by the Council of the Bucharest Stock Exchange on January 14th, 2014, starting with January 16th, 2014, the corporate bonds of the Company are being traded on the Bucharest Stock Exchange, within the sector Securities – third category Corporate bonds under the symbol TEL 18.

14. LOANS (continued)

During the entire period in which the bonds are not redeemed in full, the Company undertakes to comply with certain financial indicators: (i) Interest Cover Ratio to be at least equal to 4,2; (ii) the Debt/Equity Ratio to be equal or less than 0,9.

As of December 31st, 2017, the financial indicators corresponding to loan agreements and bonds issue, were met.

The long-term portion of loans will be repaid as follows:

	December 31st, 2017	December 31st, 2016
Between 1 and 2 years	51,449	311,712
Between 2 and 5 years	68,913	95,402
Over 5 years	74,824	94,816
Total	**195,186**	**501,930**

The Group did not perform activities related to hedging its foreign currency obligations or to exposure to interest rate risks.

All the long-term loans, except for the agreements EIB 25709 and EIB 25710 and Bonds, bear a variable interest rate and consequently, the fair value of the long-term loans is similar to their book value.

As of December 31st, 2017, the long-term loans guaranteed by the Romanian Government through the Ministry of Public Finances are: BIRD 7181, NIB PIL 03/5, NIB PIL 02/18 and NIB PIL 02/37.
The loan from ING and BRD was initially guaranteed by assignment of receivables from SC E,On Energie Romania SA, SC E-Distributie Muntenia SA, SC Alpiq Romindustries SRL, SC Electromagnetica SA, SC Met Romania Energy Marketing SRL and through the real movable security over the investment accounts opened with ING and one investment account opened with BRD SMCC.
From November 2016, the loan is secured by the assignment of the receivables that the Company has to collect only from SC EON Energie Romania SA and SC Enel Distributie Muntenia SA and by the real movable security over the investment accounts opened with ING and an investment account opened with BRD SMCC.

The guarantee agreement concluded with CitiBank Europe PLC is secured by assignment of receivables that the Company has to collect from SC Enel Energie Muntenia SA.
Short-term loans

On December 31st,2017 and December 31st,2016 the short-term Loans are detailed as follows:

	December 31st, 2017	December 31st, 2016
Current share of long-term loans	314,169	134,624
SMART revolving	21,119	17,343
Interest on long and short-term loans	2,460	3,140
Interest of bonds	435	441
Total short-term loans	**338,183**	**155,548**

Loans contracted for the current activity

Transelectrica has contracted a credit line in February 2017 from BRD GROUP SOCIETE GENERALE SA, the Large Corporates Branch, for a period of 12 months for financing the bonus type support scheme for high efficiency

cogeneration, in the form of overdraft amounting to 150 with an interest calculated according to the ROBOR 1M reference rate, plus a negative margin of 0,10%, In the event that the value of the ROBOR 1M reference rate is smaller than 0,10%, the interest rate applied shall be of 0%,

This was guaranteed by:

- movable mortgage on the account opened at the bank;

14. LOANS (continued)

- movable mortgage on receivables resulted from contracts regarding the contribution for high efficiency cogeneration, concluded with Cez Vanzare S,A,, E,ON Energie Romania S,A,, Tinmar Energy S,A,

On December 31st, 2017, the credit line is not used,

The subsidiary Smart SA contracted a credit line from ING Bank NV Amsterdam, with variable interest rate, As of 31,12,2017 the structure of the credit line is presented as follows:

- Working capital for supporting and financing othe current activity in the amount of 24,000, valid for 1 year
- Commitments in the form of a bank guarantee letter for repayment of the advance amounting to 5,792, valid on September 6, 2019. The bank letter guarantees the advance of 30% of the value of the products and works received by the company under the execution contract no, C99 / 06,06,2016, having as object the execution of the work "Modernization of 220/110 kV Dumbrava station" concluded with CNTEE Transelectrica SA.

On December 31, 2017, the group had used 21,000.

15. EMPLOYEE BENEFITS OBLIGATIONS

According to Government Decisions no, 1041/2003 and no, 1461/2003, the Company provides in-kind benefits in the form of free electricity to the employees who retired from the Predecessor Entity.

Also, according to the collective labor agreement, the Company provides long-term benefits to both employees – depending on the length of service and seniority within the Company – and to former employees after retirement. The benefits awarded to management personnel are included in Note 28, under *Remuneration of the Company's management*,
The long-term benefits provided by the Company include the following:

retiree premiums ranging from 1 to 5 gross monthly base salaries, depending on the number of years of seniority within the Company on the date of retirement;

anniversary premiums between 1 and 5 gross monthly base salaries, depending on the number of years of seniority within the Company;

free electricity paid after retirement of 1,800 kWh/year, paid according to the collective labor agreement.

The actuarial calculations referring to the post-employment benefits and other long-term benefits were made by an authorized actuary, based on the service agreement concluded with Mr, Daniel Ghervase,

15. EMPLOYEE BENEFITS OBLIGATIONS (continued)

	December 31st, 2016	Interest cost	Cost of current service	Payments from provisions	Actuarial loss for the period	December 31st, 2017
Benefits pertaining to anniversary premiums to be granted to current employees	26,718	340	837	1,850	1,070	27,114
Benefits pertaining to maternity premiums to be granted to current employees	74	-	-	-	(74)	-
Benefits pertaining to retiree premiums of current employees	15,512	149	525	1,505	(952)	13,751
Benefits pertaining to premiums granted for the labor agreement termination	101	-	-	-	(101)	-
Benefits pertaining to the counter value of electricity to be paid to current employees after retirement	8,640	136	462	-	1,067	10,306
Benefits pertaining to the counter value of electricity paid to current retirees	7,006	144	-	880	5,094	11,343
	58,050	**769**	**1,824**	**4,235**	**6,105**	**62,513**

The main assumptions considered in the actuarial calculation :

	December 31st, 2017	December 31st, 2016
Discount rate	Values in the range 3,5% - 4,6% set	
For the first 5 years	ve in lei, without adjustments, supplied by ,975%; 1,393%; 1,799%; 2,197%; 2,565% secondary market and correlated with the development of the inflation target level set by NBR for the following years, A long-term inflation of 2% per annum and a real return of 1,86%	the interest curve in lei, without adjustments, supplied by EIOPA for December 2016, with a peak of 4,587% for 25 years and dropping to 4,358% for 85 years
For more than 5 years		4% in the first 3 years, 3% in the 4th year and 2% in the remaining years
Salary increase	The wages follow the inflation rate development,	

16. TRADE AND OTHER PAYABLES

On December 31st, 2017 and December 31st, 2016, trade payables and other payables are presented as follows:

	December 31st, 2017	December 31st, 2016
Providers - electricity market	538,923	591,679
Asset providers	46,283	77,668
Providers of other activities	18,634	22,286
Amounts due to the employees	7,537	6,170
Other liabilities	81,972	179,255
Total	**693,349**	**877,058**

On December 31st, 2017 and December 31st, 2016, outstanding debts on the energy market amounted to 591,679 and 514,808 respectively, and presented the following structure:

	December 31st, 2017	December 31st, 2016
Suppliers on the electricity market, of which:		
- suppliers – operations – energy	110,801	122,864
- suppliers - balancing market	204,920	286,775
- suppliers in the bonus support scheme for the promotion of high-efficiency cogeneration	223,202	182,040
Total	**538,923**	**591,679**

The decrease of liabilities to suppliers from the operational activity – energy came as a result of the payment of outstanding obligations on the electricity market as of December 31st, 2016.

The decrease of liabilities to suppliers on the balancing market was due to the decrease of the amount of transactions on the balancing market in December 2017 compared to December 2016, causing an increase of liabilities to suppliers on this market, outstanding as of December 31st, 2017 compared to December 31st, 2016.

The providers on the electricity market are represented mainly by: SC Hidroelectrica SA, Electrocentrale Bucuresti, RAAN, Complex Energetic Oltenia, Mavir, Complex Energetic Hunedoara, Romgaz SA, OMV Petrom, On December 31st, 2017, their share was ca, 88% in the total number of energy suppliers.

The increase in debts related to the support scheme towards the suppliers (producers) was determined by withholding from payment the cogeneration bonus and the ante-overcompensation owed to producers in the account of the Company's receivables not collected from the same producers in the support scheme, represented by the overcompensation of the period 2011-2013, 2015 and 2016 by applying the provisions of Art. 17 (5) of Order no. 116/2013 of the ANRE Chairman.

On December 31st, 2017, payment obligations were registered towards suppliers (producers) in the amount of 111,233 (Electrocentrale Bucuresti – 56,680, RAAN – 51,184, CET Govora SA – 3,369), representing the cogeneration bonus and ante-overcompensation for the years 2014 and 2015, as well as the bonus not granted for the years 2015 and 2016, The amounts representing the debts of the Company regarding the support scheme towards Electrocentrale Bucuresti, RAAN and CET Govora have been retained from payment on the grounds of Article 17 (5) of the Order of the ANRE Chairman no, 116 / 2013, because the suppliers (producers) registered payment obligations towards the Company regarding the bonus type support scheme.

The Company requested the agreement of the producers (suppliers of the Company) who did not pay for the overcompensation invoices and the undue bonus, to compensate the reciprocal debts at their minimum level via the Management and Informatics Institute (IMI), entity that unitedly manages all information received from tax-payers, according to the provisions of GD no. 685/1999.
RAAN and Electrocentrale Bucuresti have not agreed to this method of discharging the reciprocal receivables and debts, and therefore the Company has applied and continues to apply the provisions of Article 17 (5) of the Order of ANRE Chairman no. 116/2013 for approving the Regulation on determining the way to collect the contribution for high efficiency cogeneration and payment of bonus for electricity produced in high efficiency cogeneration: "if the manufacturer did not make the payment in full to the administrator of the support scheme for its obligations resulted in

16. TRADE AND OTHER PAYABLES (continued)

accordance with the provisions of this Regulation, the administrator of the support scheme pays to the producer the difference between the invoices issued by the producer and the payment obligations of the producer on the support scheme with explicit mention on the payment document of the respective amounts" and detained from payment the amounts due related to the corresponding support scheme.

CNTEE Transelectrica SA has concluded an agreement with CET Govora on compensation and rescheduling of payments for the amounts representing the equivalent receivables from the counter value of the overcompensation for the timeframe 2011-2013 and of the undue bonus for 2014 (Agreement no, C 135/June 30th, 2015 and Addendum no, 1/August 4th, 2015), The period of the Agreement was 1 year (timeframe July 2015 - August 2016) and stipulated the Company's right to calculate and collect payment penalties over the installment period.

According to the Agreement, the Company's receivables to be collected from CET Govora SA were compensated with the debts to CET Govora SA, represented by the cogeneration bonus for the period May 2014 - October 2015 detained pursuant to the Art, 17 (5) from the Order of the ANRE Chairman no, 116/2013 and the provisions of the Agreement, in the amount of 40,508.

Following the suspension in court, by Civil sentence no, 3185/November 27th, 2015, the ANRE Decision no, 738/March 28th, 2014 on setting the overcompensation amount for the timeframe 2011 - 2013, CET Govora SA no longer respected the obligations undertaken according to the Agreement.

Starting with May 9th, 2016, the general insolvency proceedings were opened for CET Govora, To recover its liabilities recorded before the insolvency proceedings, the Company applied the specific procedures provided by the Law no, 85/2014 on Insolvency and requested admission of its liabilities, according to the law.

Given the aforementioned facts, starting with May 9th, 2016, the Company has terminated the enforcement of article 17 (5) from the Order of ANRE Chairman no, 116 / 2013 on approving the Regulation regarding the settlement of the collection procedure of the high efficiency cogeneration contribution and the payment of the bonus for the electricity produced via high efficiency cogeneration, and has paid the cogeneration bonus to CET Govora on a monthly basis.

Via Civil Decision no, 2430/October 5th, 2016, the High Court of Cassation and Justice admitted the appeal declared by ANRE against Civil Ruling no, 3185/November 27th, 2015, has partially cancelled the contested sentence and has rejected the suspension request lodged by CET Govora, the judgement being final, Thus, starting with 05,10,2016, the effects of the ANDRE Decision no, 738/28,03,2014 are no longer suspended, being in full effect.

Under these circumstances, the Company enforces the provisions of article 17 (5) of the ANRE Order no, 116 / 2013 for the reciprocal debts and receivables occurred after the insolvency proceedings, retaining the bonus owed to CET Govora SA up to the amounts unpaid to the Company according to the support scheme.

The decrease of the balance of asset suppliers on December 31st, 2017 compared to December 31st, 2016 is due to the payment towards the equipment, works and services providers for the investment projects.

The debts towards suppliers of other activities are mainly represented by the not due debts related to the services provided by third parties, debts which have registered an insignificant decrease compared to December 31st, 2016.

The debts' structure recorded as "other liabilities" is presented as follows:

	December 31st, 2017	December 31st, 2016
Different Creditors	32,010	134,136
Clients – creditors	37,486	33,620
Dividends to be paid	2,414	1,313
Other liabilities	10,064	10,186
Total	**81,973**	**179,255**

On December 31st, 2017, the position "different creditors" in the amount of 32,010 mainly represents the net position of the support scheme for high-efficiency cogeneration, which on December 31st, 2017 registers a debt position amounting to 30,452 (December 31st, 2016: 128,273), down from December 31st, 2016 as a result of the decrease in value of the high-efficiency cogeneration contribution.

The net position of the support scheme is the difference between:

- the amount of contributions to be collected from the electricity suppliers, the amount of the overcompensation of the activity of electricity and heat production in high-efficiency cogeneration for 2011-2013, for the years of 2014, 2015

and 2016, the undue bonus for the years of 2014, 2015 and 2016 – to be collected from the producers, according to

16. TRADE AND OTHER PAYABLES (continued)

the ANRE decisions, on the one hand, and
- the cogeneration bonus amount withheld under Article 17 (5) of the Order of ANRE Chairman no, 116/2013, the ante-overcompensation for the years 2014, 2015 and 2016 and the bonus not granted for the years 2014, 2015 and 2016 - to be paid to the high-efficiency cogeneration energy producers, the beneficiaries of the support scheme, on the other hand.

"Clients creditors" on December 31st, 2017 amounted to 37,486, out of which 10,276 represent amounts collected in advance from MAVIR and 10,408 represent amounts collected in advance from OPCOM within the transactions related to the price coupling mechanism.
On December 31st, 2017, the dividends owed and unpaid to the Company's shareholders amount to 2,414, out of which the amount of 659 is related to dividends distributed from the profit of the year 2016 and the amount of 998 is related to dividends distributed from the profit unallocated, highlighted in the account balance "Other Revenues – Own sources of funding from profits" based on the Decision no, 11/16,10,2017 of the General Assemnly of Shareholders.
These amounts are available to the shareholders through the payment agent.
Other debts amounting to 10,064 are mainly represented by guarantees for the proper execution of service contracts on the electricity market concluded by CNTEE Transelectrica SA, amounting to 8,400.

17. PROVISIONS

As of December 31st, 2017 and December 31st, 2016, the provisions are as follows:

	December 31st, 2017	December 31st, 2016
Litigation	3,502	4,411
Provisions for mandate contracts	38,498	42,355
Fund for employees' profit sharing	45	7,968
Other provisions	876	540
TOTAL	**42,921**	**55,274**

Outstanding provisions on December 31, 2017 are as follows:

	Provisions for litigation	Provisions for share based payments	Provision for employees' profit sharing	Other provisions
Opening balance as at January 1, 2017	**4,411**	**42,355**	**7,968**	**76,499**
Additions in provisions (through profit and loss)	6	-	-	9
Reversal of provisions (through profit and loss)	(915)	(3,857)	(7,923)	327
Additions in provisions (through OCI)	-	-	-	-
Reversal of provisions (through OCI)	-	-	-	-
Closing balance as at December 31, 2016	**3,502**	**38,498**	**45**	**876**

Provisions for litigations outstanding as of December 31st, 2017 amounting to 2,992 consist of provisions created for the litigation with the OPCOM subsidiary amounting to 2,670 regarding the fine imposed following the EU investigation.

On November 24th, 2014, the SC OPCOM SA subsidiary summoned CNTEE Transelectrica SA in order to force it to pay the amount of 582,086,31 euro (2,585,161 lei at the NBR exchange rate from November 24th, 2014), representing the amount paid by her as fine, from the total of the fine amounting to 1,031,000 euro applied to the subsidiary OPCOM S.A. by the European Commission, in the context in which the SC OPCOM SA subsidiary paid the entire fine established by the European Commission.
Also, the SC OPCOM SA subsidiary requested the court to order the Company to pay the amount of 85 as lawful interest related to the period between June 11th, 2014 - November 24th, 2014, plus legal expenses amounting to 37,828 (see Note 26 *iii*).

Other provisions in the amount of 10 are represented by are accrued provisions for unpaid leave

17. PROVISIONS (continued)

As of December 31st, 2017, the Company registered a provision of 38,498 (42,355 as of December 31st, 2016) for the annual variable component owed to the Directorate and Board of Supervisors members (see Note 28).

The provision amounting to 45 is mainly represented by the provision created for the employees' profit participation for the financial years 2013, 2015 and 2016, amounts not granted until December 31st, 2017.

18. INCOME TAX

The income tax for the years 2017 and 2016 is presented as follows:

	2017	2016
Current income tax expense	(24,389)	67,346
(Income from) / Expense with deferred income tax	5,294	(4,468)
Total	**(19,096)**	**(62,878)**

The tax on the current and deferred income of the Company for 2017 and 2016 is determined at a statutory rate of 16% and is applicable for 2017 and 2016,

Reconciliation of the effective tax rate:

	2017	2016
Profit before income tax	**(40,520)**	**321,872**
Income tax at statutory rate of 16%	7,307	51,500
Effect of non-deductible expenses	38,444	21,350
Effect of non-taxable income	(22,984)	(5,261)
Taxable revaluation reserve	3,735	4,906
Legal reserve	(416)	(2,712)
Income tax exempted	(2,112)	(4,625)
Other effects	(4,878)	(2,460)
Income tax	**(19,096)**	**62,878**

18. INCOME TAX (continued)

The movement pertaining to deferred taxes during 2017 and 2016 is as follows:

Elements	Balance as of January 1, 2016	Recognized in profit or loss	Tax recognized directly in OCI	Balance as at December 31, 2016	Recognized in profit or loss	Tax recognized directly in OCI	Balance as of December 31, 2017
Property, plant and equipment – useful life	3,036	1,284	-	4,320	487	-	4,807
Property, plant and equipment – revaluation reserves	45,393	(4,521)	-	40,872	(4,685)	-	36,187
Property, plant and equipment financed by subsidies	(1,136)	(563)	-	(1,699)	(509)	-	(1,190)
Employee benefits	(4,688)	1,019	-	(3,699)	(1,013)	-	(4,712)
Interconnection estimate	(469)	(13)	-	(482)	(507)	-	(989)
Provisions	(4,207)	(2,570)	-	(6,777)	-	-	(6,777)
Other elements	-	-	-	-	925		925
Tax (assets)/liabilities	**37,929**	**(5,364)**	**-**	**32,565**	**(5,302)**	**-**	**27,263**

Deferred tax consists of:

	Asset		Liability		Net	
	31-dec-17	31-dec-16	31-dec-17	31-dec-16	31-dec-17	31-dec-16
Property, plant and equipment – life	(1,245)	(854)	6,062	5,174	4,807	4,320
Property, plant and equipment – revaluation reserves	(3,606)	(4,520)	39,793	45,392	36,187	40,872
Property, plant and equipment financed by subsidies	(1,190)	(1,699)	-	-	(1,190)	(1,699)
Employee benefits	(4,712)	(3,699)	-	-	(4,712)	(3,699)
Interconnection estimate	(989)	(482)	-	-	(989)	(482)
Provisions	(6,777)	(6,777)	-	-	(6,777)	(6,777)
Other elements	-	-	925	-	925	-
Net tax (assets)/liabilities	**(18,519)**	**(18,031)**	**46,780**	**50,566**	**27,263**	**32,565**

19. EARNINGS PER SHARE

As of December 31st, 2017 and December 31st, 2016, the earnings per share is as follows:

	2017	2016
Consolidated profit for the period	**21,424**	**258,994**
Number of ordinary shares at the beginning and at the end of the period	73,303,142	73,303,142
Basic and diluted earnings per share (RON/share)	**0,29**	**3,53**

20. OTHER TAX AND SOCIAL SECURITY LIABILITIES

As at December 31, 2017 and December 31, 2016 the other tax and social security liabilities are as follows:

	December 31, 2017	December 31, 2016
Contribution to social security funds	6,364	6,325
VAT payable	745	2,126
Tax on salaries	2,489	2,487
Other tax payable	1,627	1,353
Total	**11,225**	**12,291**

On December 31st, 2017, the Company registered payment obligations for contributions to social insurance funds, payroll tax and other taxes that were paid in the month of January 2018.
Furthermore, on December 31st, 2017, the Company also registered taxes on dividends amounting to 90,586, taxes due in January 2018.

21. OPERATING REVENUES

The operating revenues include revenues from electricity transmission service and system services, allocation of the interconnection capacity, balancing market operation and other revenues.

The average tariffs approved by ANRE for the services provided on the electricity market are as follows:

	Average Price for the transmission service	Average Tariff for technological system services	Average Price for the functional system services
Order no, 48/2017 for the period July 1st – December 31st, 2017	16,86	9,39	1,11
Order no, 27/2016 for the period July 1st 2016 - June 30th, 2017	18,70	11,58	1,30
Order no, 93/2015 for the period July 1st - June 30th, 2016	20,97	12,58	1,17

The average tariff for the electricity transmission has two components: the tariff for the electricity injected into the transmission grid (T_G) and the tariff for the electricity drawn off the transmission grid (T_L).

The zonal tariffs regarding the transmission service for the injection of electricity into the transmission grid (T_G) and for drawing electricity off the transmission grid (T_L) have been approved by ANRE Order no, 48/2017, starting with July 1st, 2017.

21. OPERATING REVENUES (continued)

The amount of electricity delivered to consumers to whom the prices for services provided on the electricity market were applied, is presented as follows:

	2017	2016
Quantity of electricity (MWh)	54,753,325	53,523,021

The revenues obtained in 2017 and 2016 are as follows:

	2017	2016
Revenues from electricity transmission	970,694	1,056,520
Revenues from the allocation of the interconnection capacity	75,727	82,233
Revenues from reactive energy	6,317	6,954
Revenues from transactions with own technological consumption	1,106	254
Inter TSO Compensation (ITC) revenues	786	296
Total revenues from electricity transmission	**1,054,629**	**1,146,257**
Revenues from functional system services	65,980	66,139
Revenues from technological system services	582,330	648,802
Revenues from unplanned exchanges on DAM	2,437	1,399
Total revenues from system services	**650,747**	**716,340**
Balancing market	1,304,613	814,080
Other revenues	58,015	61,411
Total revenues	**3,068,004**	**2,738,088**

Transmission revenues

Given the rise in the amount of electricity delivered to consumers in 2017 compared to 2016, namely of 2,3% or 1,230,304 MWh, the income from the transmission service has registered a decrease in the amount of 85,827, determined by the decrease of the average tariffs approved by ANRE (according to the table on the average tariffs approved by ANRE for the analyzed timeframes, presented above),taking in consideration the increase of used quantity by Authority for new tariffs (from 52 TWh to 54 TWh) accordingly with transport methodology,In this condition the calculation of the tariffs using average tariffs for 2017- 17,78 lei decreased with 10,34% compared with average tariffs for 2016-19,83 lei.

Functional system service revenues

In 2017, the revenues from functional system services registered a decrease with the amount of 159 compared to 2016, determined by the decrease of the average tariff approved by ANRE for these services (according to the table on the average tariffs approved by ANRE for the analyzed periods, presented above).

Revenues from the allocation of interconnection capacity

In 2017, the income from the interconnection capacity allocation has registered a decrease compared to 2016, in the amount of 6,506, corresponding to the level of usage of the available interconnection capacity by traders on the electricity market.

The mechanism for the allocation of interconnection capacity consists in organizing annual, monthly, daily and intra-daily auctions, The annual, monthly and intra-daily are explicit - only the transmission capacity is bid on, and the daily ones with Hungary are implicit - are allocated simultaneously with the energy and capacity via the coupling mechanism.

The incorporation of the regional energy exchange by Romania, Hungary, the Czech Republic and Slovakia on November 19th, 2014 requires that these four countries have a unique price of electricity traded on the spot markets. The capacity

21. OPERATING REVENUES (continued)

allocation between Romania and Hungary, the only country of the 3 with which Romania has a border, is made by the carriers: Transelectrica and MAVIR, through the common mechanism, based on a bilateral agreement.

Starting with 2016, the UIOSI principle has been implemented at the border with Bulgaria, and starting with 2017 at the border with Serbia as well, According to this principle the participants not using the capacity won at the annual and monthly auctions, are compensated (by Transelectrica) for that capacity. The spare capacity is subsequently sold in the daily auctions. On the Hungarian border the direction is reversed, meaning that MAVIR compensates the participants for the unused capacities.

The market for interconnection capacity allocation is fluctuating, the prices evolve depending on demand and the need of the participants on the energy market to purchase interconnection capacity.

Using the net incomes from the interconnection capacity allocation is achieved in accordance with Article 22 (4) of the ANRE Order no, 53 / 2013 and Article 16 (6) of the Regulation (EC) no, 714 / 2009, as a source of financing for upgrading and development of the interconnection capacity with the neighboring systems.

Revenues from technological system services

The revenues from technological system services have registered a decrease in 2017 compared to 2016 in the amount of 66,472, mainly determined by the decrease of the average tariff approved by ANRE for these services (according to the table on the average tariffs approved by ANRE for the analyzed periods, presented above), given that the amount of electricity delivered registered an increase of 2,3%.

In 2017, the revenues from the technological system services decreased with the amount of 78,993 compared to the expennses for the acquisition of technological system services, while in 2016, the revenues from the technological system services were higher with the amount of 87,775 ,.The loss was caused by the unfavorable conditions on the energy market resulting in higher average unit prices at auctions compared to the predicted unit prices that were at the basis of the calculation of the tariff for the technological system services, as well as the partial recovery of the profit realized in the year previously and the profit recorded in earlier periods, on a zero profit segment.
This amount lowers the gross profit of the Company reported on December 31st, 2017.

Revenues on the balancing market

- The income from the balancing market have registered an increase in 2017 compared to 2016, with the amount of 490,533, determined by:
- the high degree of unpredictability and volatility of production from renewable sources (especially wind),
- over-contracting / subcontracting on the markets prior to the balancing market (given that PRE s did not have significant notification imbalance values) and reduced participation / trading on the intra-day electricity market, The increasing of the negative imbalance registered at the level of the suppliers of electricity on the balancing market, ie increasing the imbalance between the notified net contractual position and the actually supplied energy;
- the very low temperatures recorded in the first quarter of 2017, which generated the recording of higher values of the electricity consumption in the operation of the NES;
- the increase in electricity consumption amid the severe weather phenomena recorded in July and August 2017 (heat in late July and early August, strong wind with storm in July, so the production in wind power plants varied a lot during the day and with large production variations from one hour to the next);
- Hydraulic evolution (low hidraulicity).

Balancing market is an activity with zero profit to the Company.

Other revenues

"Other revenues" earned in 2017, have been higher than the ones earned in 2016, This development was mainly determined by the collection of fines and penalty payments in 2017, amounting to 6,021 (Arelco Power SRL with the amount of 3,215 and Enol Grup SA with the amount of 2,541 etc), compared to the collection of fines and penalty payments in 2016, amounting to 31.

22. SYSTEM OPERATING EXPENSES AND BALANCING MARKET EXPENSES

The system operating and balancing market expenses are as follows in 2017 and 2016:

	2017	2016
Expenses on own technological consumption	206,992	182,981
Congestion costs	241	2,931
Electricity consumption in ETG stations	14,411	15,383
Expenses with functional system services	16,336	12,687
ITC expenses (Inter TSO Compensation)	19,937	16,775
Total Operational Expenses	**257,917**	**230,757**
Expenses with technological system services	661,323	561,027
Balancing market expenses	1,304,613	814,080
Total	**2,223,853**	**1,605,864**

Expenses on own technological consumption

These represent the acquisition expenses of electricity in the free market of energy for covering its own technological consumption (CPT) in RET.

In 2017, these expenses have increased with the amount of 24,011 compared to the ones registered in 2016, given the reduction of the electricity quantity necessary to cover the OTC in PTG with ca, 4,6% (from 1,014,566 MWh in 2016, down to 968,042 MWh in 2017).

The energy crisis registered in the first quarter of 2017, determined by the very low temperatures, compared to the similar period of the year 2016, in conjunction with the extension of the unavailability of the main power production plants, have determined the sudden increase of prices on the Day-Ahead Market (DAM), Intra-Day Market (IDM) and on the Balancing Market (BM), regarding the purchase of electricity for the own technological consumption.

Thus, in 2017, the electricity for covering the OTC has been purchased on the free energy market, namely on the Centralized Market for Electricity Bilateral Contracts (CMBC), the Day–Ahead Market (DAM), the Balancing Market (BM) and the Intra–Day Market (IDM) at the average purchase price of 213,7 lei/MWh, compared to the average purchase price of 180,3 lei/MWh in 2016.

Expenses on congestions

Congestions (network restrictions) are requests for electricity transmission beyond the technical capacity of the network, requiring corrective actions from the transmission and system operator and occur in the situation in which, in the programming of the operation or the operation in real time, the power flow between two nodes or system areas leads to the non-accomplishment of the safety parameters in the operation of a power system. In 2017, the expenses on congestions have been registered in the amount of 241,042, being lower than the ones registered in 2016, the latter amounting to 2,931,

The registered congestion expenses in 2016 amounted to 2,931 resulted to a great extent from accidental disconnections as a consequence of bad meteorological conditions recorded in the first part of 2016 (Tariverde – Tulcea Vest 400 kV OHL, in the month of January 2016, Iernut – Gadalin 400 kV OHL, Iernut – Baia Mare III 220 kV OHL, in the month of June 2016).

In order to comply with the safety criterion in the Dobrogea region, the balancing market reduced the values notified by the Dobrogea WPP, which inputs into the 110 kV electricity grid from Dobrogea (except for the Pantelimon WPP and the Cerna WPP) and into the Tariverde 400 kV OHL substation.

22. SYSTEM OPERATING EXPENSES AND BALANCING MARKET EXPENSES (continued)

Expenses with functional system services

The expenses on the functional system services represent the non-contracted international exchanges of electricity with the neighboring countries and the expenses on unplanned exchanges on the Day-Ahead Market.
These expenditures have registered an increase amounted to 3,649 in 2017 compared to 2016, mainly determined by the increase in the expenditures on the balancing market and the day-ahead market regarding the unplanned electricity exchanges (exports) with the neighbouring countries connected to the NPS, due to the rise in prices on the centralized electricity markets.

ITC (Inter TSO Compensation) expenses

ITC expenses, amounting to 19,937, represent the monthly payment obligations/rights of collection for each transmission system operator (TSO), They are established within the compensation / settlement mechanism for the effects of using the electricity transmission grid (RET) for transits of electricity between TSO operators from 35 countries that acceded to this mechanism of the ENTSO-E, In year 2017, these expenditures have increased by 3,161 compared to 2016.

Expenses with the technological system services

The technological system services are purchased by the Company from producers in order to comply with the operational security limits of the NPS and of the quality of the electricity transmitted at the parameters required by the technical norms in force, The contracting of these services is performed:

- in a regulatory manner, based on Government Decisions and Decisions of the National Energy Regulatory Authority (ANRE);
- through competitive mechanisms,

According to GD no. 138/April 8th, 2013 on the adoption of measures regarding the electricity supply security, in the period April 15th, 2013 - July 1st, 2015, the Company purchased technological system services according to the terms of the regulations issued by ANRE, from SC Complexul Energetic Hunedoara SA, at an electrical power value of at least 400 MW and from SC Complexul Energetic Oltenia SA at an electrical power value of at least 600 MW, According to the provisions of GD no. 941/October 29th, 2014, the enforcement deadline for the provisions of Government Decision no, 138/2013, for SC Complexul Energetic Hunedoara SA, was extended until December 31st, 2017.

For the period January 1st - March 31st, 2017, the purchase of technological system services was conducted in the regulatory regime (slow tertiary reserve) according to GD no, 844/November 9th, 2016, as subsequently amended and supplemented, by which the "Winter Program in the Energy Sector for Assuring the safety and stability of the NES" was approved.

In the timeframe January 1st - June 30th, 2017, the purchase of the technological system services has been conducted under regulated regime from SC Hidroelectrica SA (ANRE Decision no, 1035/June 22th, 2016) and from SC Complexul Energetic Hunedoara SA (ANRE Decision no. 1034/June 22th, 2016).

In the period July 1st - December 31st, 2017, the purchase of technological system services has been conducted under regulated regime from SC Hidroelectrica SA (ANRE Decision no, 906/June 22th, 2017) and from SC Complexul Energetic Hunedoara SA (ANRE Decision no. 907/June 22th, 2017).

In 2017 the technological system services expenses registered an increase compared to 2016 amounting to 100,296, generated by the purchase prices for technological system services on the competitive market which were higher than the regulated prices.
A significant influence in the rise of prices for purchasing technological system services on the competitive market was generated by the increase in prices registered on the electricity market in 2017.
An important influence in the increase of the purchasing cost of TSS on the competitive market was also the extremely high level of concentration of the technological system services market by service type (secondary reserve, fast tertiary reserve, slow tertiary reserve), This extreme concentration of the market has created favorable conditions for the manifestation and exercise of power on the market, granted to certain participants by their dominant positions held (Hidroelectrica SA for SR and FTR, Romgaz for STR).

CNTEE Transelectrica SA re-invoices the value of the technological system services purchased from producers, to the electricity suppliers licensed by ANRE, entities who ultimately benefit from these services.

22. SYSTEM OPERATING EXPENSES AND BALANCING MARKET EXPENSES (continued)

Balancing Market Expenses

The expenses from 2017 related to the balancing market amounted to 1,304,613 following the evolution presented in the chapter

Revenues on the balancing market,

These expenses result from the notifications/achievements of the participants on this market, and are fully covered by the income from the balancing market.

23. OTHER OPERATING EXPENSES

	2017		2016
Other third party services	**22,694**		**72,954**
Postage and telecommunications	**1,592**		**1,748**
Rent	**11,062**		**10,840**
Net operating expense for impairment adjustments of trade receivables	**22,179**		**21,874**
Net operating expenses for impairment adjustments of other receivables	**(9,467)**		**-**
Value adjustments for fixed assets	**-**		***16,830***
Losses on receivables	***45,081***		**-**
Net operating expense for adjustments related to inventory impairment	***1,612***		**-**
Expenses with late payment increases due to the state budget	**24,200**		
Other operating expenses	**28,173**		**6,237**
Total	**147,127**		**130,483**

Out of the amount of the late payment increases due to the state budget the amounts due in the amount of 24,200 (the amount obtained after the change by recording the loss resulting from the additional payment obligations recorded in the NAFA tax inspection report in the amount of 75,727, as the result of the correction of accounting errors, according to the Address no. 1649 of 16.04.2018), the amount of 24,163 refers to the NAFA findings for the period 2005-2010, there are both additional debits and corresponding accessories unprocessed technological services provided in the framework contracts approved by ANRE, for which Transelectrica records revenues from penalties. At the same time, NAFA retained additional debits and accessories corresponding to the findings of the Court of Accounts regarding the expenditures that were not aimed at the continuous training of the employees and which are not vocational training and for which the RCC Decision no. 14/2011.

In 2017, the Company challenged the NAFA Taxation Decision and, given that until March 13, 2018, the NAFA had failed to resolve the appeal, it requested the annulment of the Decision by the Court of Appeal of Bucharest file No 1802/2/2018.

The Company has considered that the tax base was not reasonably determined by NAFA, depending on the fully regulated nature of the activity on the electricity market, this being determined in proportion to the number and value of the invoices issued in the period under review. Transelectrica has been entitled to bring an action in court because it believes that NAFA did not consider all data and documents relevant to the estimate as required by the Fiscal Procedure Code applicable at that time. Thus, the Company sued NAFA at the Bucharest Court of Appeal in August 2012 for the recovery of the sum and requested in the probationary case to be admitted the proof sample and the evidence with the judicial expertise.

On September 18th, 2013, the expert report was submitted, which was filed with the case file on September 20th, 2013. On October 18th, 2013, the parties filed objections regarding the report of judicial expertise that were approved by the Court of the Call on the deadline of November 15th, 2013, and which were communicated to the appointed expert. On March 7 th, 2014, the expert presented the response to the objections formulated by the Company. In relation to the revenues envisaged by NAFA, in relation to which NAFA estimated the value added tax collected in the sum of 16,303, the report of the judicial accounting expertise found the existence of unjustified incomes amounting to 551, the amount at which the VAT and its accessories should have been calculated. The hearing was postponed to take note of the content of the response to the objection to the expert report.

At the deadline of 30.04.2014, the solution pronounced by the substantive court - Bucharest Court of Appeal, Section VIII of the Administrative and Fiscal Contentious Division (Decision No. 1356/2014) in File no. 6657/2/2012 was as follows: "Rejects the request of the applicant CNTEE Transelectrica SA (Appeal against the ANAF fiscal act)". The company filed an appeal by formulating the application filed in the file, filed in this file, with a court term set on 07.04.2016, the hearing held at the High Court of Cassation and Justice, the Administrative and Fiscal Litigation Division. On 07.04.2016, due to the lack of procedure, a new deadline was set for 02.06.2016, the term in which the court stayed in pronouncement, postponing the pronouncement for 16.06.2016.

At this time, the High Court of Cassation and Justice - the Administrative and Fiscal Contentious Division issued the decision no. 1945 / 16.06.2016, ordering the following: "Accepts the request and puts the appellant-plaintiff within the time limit for declaring the appeal. Dismisses the appeal filed by the National Power Grid Company "Transelectrica" against the Sentinfo no.1365 of 30 April 2014 of the Bucharest Court of Appeal - the 8th Administrative and Tax Appeals Division as unfounded. Irrevocable. Pronounced in public session, today, June 16, 2016. "Decision No. 1945 / 16.06.2016 pronounced by the High Court of Cassation and Justice was communicated to the Company by photocopying it.

Against the decision No. 1945 / 16.06.2016 was filed an appeal for annulment filed with the High Court of Cassation and Justice. On March 1, 2017, the High Court of Cassation and Justice ordered by decision no. 779 the following: "rejects the exception of the inadmissibility of the contestation in annulment formulated by the contestant Transelectrica SA, invoked by the intimation of the General Directorate for Administration of Large Contributors. Dismisses the appeal in annulment formulated by the contestant Transelectrica SA against civil decision no. 1945 of 16 June 2016 of the High Court of Cassation and Justice - Administrative and Tax Appeals Division, pronounced in file no. 6657/2/2012, as unfounded. Irrevocable ". Until the date of preparation of these financial statements, the Company was not informed of the drafting of the Decision no. 779 / 01.03.2017.

The additional payment obligations established by NAFA through the Taxation Decision no. 62/2011 has been recorded in the *Other operating expenses* chapter, together with the resumption of the provision made in the financial years 2012 and 2014.

In "operating expenses related to impairment adjustments for current assets" are included adjustments for impairment of receivables for:
- Elcomex IEA SA in the amount of 31,868;
- Arelco Power SRL in the amount of 18,782;
- Other unscheduled clients and debtors in the amount of 7,601 (Elsaco Energy SRL, Eva Energy, Enol Group SA, CET Govora SA, PetProd SRL, etc.

23. NET FINANCIAL RESULT

	2017	2016
Interest revenues	5,664	5,844
Foreign exchange gains	11,501	21,470
Other financial income	64	1,322
Total financial income	**17,229**	**28,676**
Interest expenses	(19,231)	24,382
Foreign exchange losses	(21,623)	22,727
Other financial expenses		1,411
Total financial expenses	**40,854**	**48,520**
Net financial result	**(23,625)**	**(19,844)**

The decrease of the net financial in 2017 compared to 2016, in the amount of 4,092, was negatively influenced by the evolution of the exchange rate of the national currency in relation to foreign currencies in which the Company has contracted bank loans for financing the investment programs (Euros, Dollars), which led to the decrease in exchange-rate income to be only partly offset by exchange and interest rate fluctuations, amid a 30% decrease in the Other Financial Income position.

The average exchange rate of the national currency registered on December 31st, 2017, compared to the one registered on December 31st, 2016 is as follows:

Currency	31,12,2017	31,12,2016
Lei / Euro	4,6597	4,5411
Lei / USD	3,8915	4,3033
Lei / 100 Japanes yen	3,4574	3,6834

24. THE LEGISLATIVE AND FISCAL FRAMEWORK

The legal and fiscal environment in Romania and its implementation into practice changes regularly and is subject to different interpretations by various Ministries of the Government, Income tax returns are subject to review and correction by the tax authorities for a period generally of five years subsequent to their filing, Management believes that it has adequately provided for tax liabilities in the accompanying financial statements; however, the risk remains that tax authorities could take differing positions with regards to the interpretation of these issues, Their impact cannot be estimated at this time.

25. COMMITMENTS AND CONTINGENCIES

i) Commitments

As of December 31st, 2017 and December 31st, 2016, the Company had commitments amounting to 1,121,770 and 1,036,117 mainly representing ongoing contracts related to the investment program for the modernization and upgrading of the transmission grid

ii) Land plots used by the Company

As per the Group'spolicy, the financial statements include only the value of the land for which certificates authenticating the ownership rights have been obtained as of the date of the financial statements.
According to Law No. 99/1999, in case the Company obtains the title deeds for lands after the privatization, the land will be considered as contribution in kind of the State. These plots of lands are firstly recognized in other reserves, In this respect, the Company will increase the share capital in line with the value of the lands, and the beneficiary of this increase will be the Romanian State, In accordance with Art. 130 of Law 297/2004 regarding the capital market, "the increase in the share capital of a listed company on a regulated market will be made with the possibility for the other shareholders to

maintain their percentage in the share capital of that company".

26. COMMITMENTS AND CONTINGENCIES (continued)

As of the date of the issuance of these financial statements, the external legal opinion received by the management of the Group following the acquisition of legal consultancy, assistance and/or representation services needed for the share capital increase states that in the absence of other changes or clarifications in the legal framework, the general legal provisions applicable to the companies are contradictory with regards to the increase provisions for companies regulated by the privatization law. Taking into consideration the steps undertaken by the Group for the share capital increase by the value of the land plots for which certificates authenticating the ownership rights have been obtained, O.P.S.P.I. has communicated to the Group that in their opinion, the share capital increase should be performed after the changes in the legal framework.

iii) Pending disputes

The management regularly analyses the ongoing litigations, and after consulting with its legal representatives decides the need to create provisions for the amounts involved or of their presentation in the financial reports.

Taking into account the existing information, the management of the Company considers that there are no significant disputes in progress in which the Company is defendant, except for the following disputes:

• Pending with the Mehedinti Court – Section II Civil, Administrative and Fiscal Litigation Section, the **file no. 3616/101/2014** was recorded, involving the "claims in the amount of 1,091 , counter value of invoice no. 1300215/31.12.2013", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN.

By civil sentence no, 127 ruled on October 10th, 2014, the Mehedinti Court admitted the request lodged by plaintiff RAAN and ordered CNTEE Transelectrica SA to pay the amount of 1,091 , the counter value of invoice no, 1300215/31.12.2013.

The amount requested for payment represents penalties calculated by RAAN for the bonus due from the support scheme and withheld from payment by the Company, in its capacity as Administrator of the support scheme, who enforced the provisions of Article 17 (5) of ANRE's Order no, 116 / 2013 (see Note 9).

The amount was enforced by RAAN on July 15th, 2016, as per the Decision issued by the Bankruptcy Receiver Office Ailiesei si Guta in the enforcement file no. 12105/2016.

By civil decision no. 843/2015, the Craiova Court of Appeal rejected the appeal filed by CNTEE Transelectrica SA against civil sentence no, 127/10.10.2014, as lacking interest, Against the decision no, 843/May 11th, 2015 of the Court of Appeal Craiova - Section II Civil, pronounced in the public hearing from May 11th, 2015, in file no, 3616/101/2014, as well as against the decision no. 127/2014 of the Mehedinti Court- Section II Civil, Administrative and Fiscal Litigation, pronounced in the public hearing from October 10th, 2014, in file no, 3616/101/2014, as well as against the Decision no, 1/2015 of the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation, pronounced in the public hearing from January 9th, 2015, in file no, 3616/101/2014, CNTEE Transelectrica SA filed an appeal asking the court to allow the appeal as it was filed and to reverse the judgment and sentences under appeal and to refer the case to the trial court in the territorial jurisdiction for judgement, and to declare the compliance with the requirements of Articles 1616 and 1617 of the Civil Code, reason for which it is being required to declare the intervention of the compensation of mutual debts, and their redemption up to the amount of the smallest of them, namely the total amount requested by the plaintiff in the application for summons, ordering the appellee - plaintiff to pay the expenses occurred with this appeal.

The appeal was registered on the docket of the High Court of Cassation and Justice who decided to reverse decision no, 843/2015 and to remand the case for retrial to the same court, the Court of Appeal Craiova.

By decision no, 124/2017, the Court of Appeal Craiova admitted the appeal declared by Transelectrica and remanded sentence no, 127/2014 pronounced by the Mehedinti Court, and the case was remanded for retrial to the Bucharest Court – Section VI Civil, On the docket of the Bucharest Court, the case was registered under no, 40444/3/2017 who, via civil sentence no. 4406/04.12.2017, admitted the request lodged by RAAN and ordered Transelectrica to pay the amount of 1,090,831,70 lei. The decision is subject to appeal in higher court.

In the period 2014 - 2015, the Company has retained the due support scheme bonus from payment to RAAN, pursuant to the provisions of the ANRE regulations, namely the Article 17 (5) of ANRE Chairman's Order no. 116/2013.

26. COMMITMENTS AND CONTINGENCIES (continued)

Under these conditions, RAAN calculated penalties for late payment of the due cogeneration bonus in the amount of 3,497, withheld from the payment by the Company in the account of non-cashed receivables, The amount of 3,497 was refused for payment by the Company and was not registered as a liability in the support scheme.

• Pending with the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigations, the **file no. 9089/101/2013/a138** was recorded, involving the "presidential ordinance", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities - RAAN – debtor in insolvency,
Through the sentence no, 63/2016, the court ordered the defendant to continue the electricity transmission and system services necessary for continuing the activity throughout the judicial reorganization of the RAAN.
Transelectrica filed an appeal against that decision.

On May 10th, 2016, the Craiova Court of Appeal delivered its judgment no, 457/05,10,2016, which ordered the following: "Dismisses the appeal, Rejects the appeal as ill-founded. Final."

Also, the hearing of the appeal declared by RAAN against the decision of starting the bankruptcy proceedings, subject of file no. **9089/101/2013/a137** before the Court of Appeal Craiova, was postponed until May 31st, 2016, when the case was taken for judgement,.

Through the Decision no, 563/June 14th, 2016, the Court of Appeal Craiova - Section II Civil rejected the appeals lodged against interim decision no, 10/January 28th, 2016, ruled by the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section.

• Pending with the Mehedinti Court – Section II Civil, Administrative and Fiscal Litigation Section, the file no. **1284/101/2015** was recorded, involving the "claims in the amount of 11,637,439,66i", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN.

By the application for summons filed by the plaintiff, they asked Transelectrica SA to pay the amount of 11,637.

On May 22th, 2015, the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section, ruled the sentence no, 41/2015, by which it ordered the following: 'Admits the exception for lacking territorial jurisdiction, Declines jurisdiction in favor of Bucharest Court, Section VI Civil, With no means of appeal." The file was registered to the Bucharest Court - Section VI Civil, under no. 24206 / 3 / 2015.

The applicant RAAN filed a request to amend the amount of the alleged right, seeking the increased amount of 17,806 from Transelectrica SA.

On November 3rd, 2015, the Bucharest Court, Section VI Civil delivered the sentence no, 6075 / 2015, by which it ordered the following: 'Upholds the application in the way it was completed, Orders the defendant to pay the plaintiff the amount

of 17,806 , representing the equivalent value of the bonus and penalties, Dismisses the application for granting legal expenses, lodged by the plaintiff, as ill-founded, With appeal within 30 days from communication, The appeal is lodged at the Bucharest Court - Section VI Civil."

The ruling was communicated on July 4th, 2016, according to the registration entry stamp of the correspondence with Transelectrica SA, An appeal was lodged against the sentence, By Hearing protocol from January 12th, 2017, pronounced in the file no. 24206/3/2015, the Court of Appeal Bucharest ordered the postponement of the hearing of the appeal until the final settlement of the file no. 9089/101/2013/a152 on the docket of the Mehedinti Court, on the grounds of Article 413 (1) (1) of the New Civil Procedure Code, With appeal throughout the suspension.

The Court of Appeal Bucharest decided the suspension of the judgement of the case, considering that its settlement depends on the decision that shall be pronounced in file no. 9089/101/2013/a 152 on the docket of the High Court of Cassation and Justice, involving the challenge of the additional receivables table of the Autonomous Authority for Nuclear Activities SA.

• Pending with the Bucharest Court – Section VI Civil the **file no. 26024/3/2015** was recorded, involving the "claims", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN.

By the application for summons filed by the applicant, they asked Transelectrica SA to pay the amount of 10,275.

The court reserved judgement on June 13th, 2016, postponing the ruling until June 27th, 2016 when, by hearing protocol, it ordered the redocking of the case in order to discuss the administration of additional evidence to establish mutual debts and compensation invoked by the defendant, to date, setting the next hearing on November 28th, 2016.

26. COMMITMENTS AND CONTINGENCIES (continued)

By Hearing protocol from November 28th, 2016, the Bucharest Court has suspended the cause according to Article 413 (1) of the New Civil Procedure Code, in conjunction with Article 411 (1) of the New Civil Procedure Code, With appeal throughout the suspension.

The Court of Bucharest decided the suspension of the judgement of the case, considering that its settlement depends on the decision to be ruled in file no, 3014/2/2014 on the docket of the High Court of Cassation and Justice, involving appeal - annulment of the Decision of the ANRE Chairman no.743/2014.

• Pending with the Bucharest Court – Section VI Civil the file no. **3694/3/2016** was recorded, involving the "claims", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN.

By application for summons filed by the plaintiff, they asked Transelectrica SA to pay the amount of 15,699.

On the grounds of Article 413 (1) (1) of the Civil Procedure Code, on October 20th, 2016, the Bucharest Court ordered the suspension of judgement until the final settlement of the file no. 3014/2/2014 on the docket of the High Court of Cassation and Justice, involving appeal – annulment of the Decision of the ANRE Chairman no, 743/2014, With appeal throughout the suspension.

• Pending with the Mehedinti Court – Section II Civil, Administrative and Fiscal Litigation Section, the **file no. 9089/101/2013/a140** was recorded, involving the "claims in the amount of 86,513,430,67", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN.

By application for summons filed by the plaintiff, they asked Transelectrica SA to pay the amount of 86,513.

On May 19th, 2016, the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section, pronounced a hearing protocol by which it ordered the following: "on the grounds of Article 413 (1) of the Civil Procedure Code, suspends the case until the settlement of the file no, 3014/2/2014 on the docket of the High Court of Cassation and Justice, With appeal throughout the suspension, Pronounced today, May 19th, 2016, in open court."

• We also mention the fact that, by the protocol dated on September 18th, 2013, ruled by the Mehedinti Court in file no, 9089/101/2013, the opening of the general insolvency proceedings has been ordered against the debtor Autonomous Administration for Nuclear Activities R.A.(R.A.A.N.)

Through the sentence no. 387/March 20th, 2014, the Mehedinti Court confirmed the reorganization plan of the debtor Autonomous Administration for Nuclear Activities, proposed by the insolvency administrator Tudor & Partners SPRL and voted on by the General Assembly of Creditors according to the minutes of February 28th, 2014.

By interim decision no, 10/January 28th, 2016, pronounced by the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation, the liquidator ordered the commencement of the bankruptcy procedure for the debtor pursuant to Article 107 (1) C of Law, no, 85/2006, and the dissolution of the debtor and cancellation of the debtor's right to administer,

Through the Decision no, 563/June 14th, 2016, the Court of Appeal Craiova - Section II Civil rejected the appeals lodged against interim decision no. 10/January 28th, 2016, ruled by the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section.

By the hearing protocol of June 30th, 2016, Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section set the new procedural time limit as follows: "Sets the deadline for the submission of claims arising in the proceedings to August 13rd, 2016, Sets the deadline for the verification of claims arising during the procedure, preparation, display and communication of additional table of receivables on September 29th, 2016, , Sets the deadline for filing objections against receivables arising in the proceedings on October 9th, 2016 and for resolving the objections against

receivables arising in the proceedings on October 20th, 2016, Sets the deadline for the preparation and display of the consolidated final table on November 10tth, 2016."

Together with filing the receivables declaration in the bankruptcy proceedings of RAAN, Transelectrica SA may invoke the provisions of Article 52 of Law no, 85/2006, applicable to the bankruptcy proceedings for RAAN, provisions taken from Article 90 of Law no, 85/2014 concerning the creditor's right to invoke the compensation of his receivable with the

one of the debtor, when the legal provisions on compensation in legal proceedings are completed on the date of commencement of the procedure,Transelectrica SA has been registered in the table of debtor RAAN with the amount of 11,264,777,30 lei under the category of receivables resulting from the continuation of the debtor's activity, the amount

26. COMMITMENTS AND CONTINGENCIES (continued)

requested by our company being equal to 89,361 , our amount of 78,096 not being registered in the preliminary table because "this is not listed as owed in RAAN's accounting records." Moreover, the liquidator considered that the request regarding the registration in the table of the amount equal to 78,096 is tardily filed, being related to the timeframe 2011 – 2013, reason for which the receivable declaration should have been filed at the moment of commencement of the

insolvency proceedings, namely on September 18th, 2013. Objection was filed against the Table. The Mehedinti Court approved the evidence with the audit expertise. The parties lodged objections against the audit expertise report, which were admitted by the court who set the hearing on February 22nd, 2018.

• Following a verification conducted in 2013, the Court of Auditors issued several measures to be implemented by the Company as a result of a series of deficits identified within this verification, The decision and protocol issued by the Court

of Auditors have been appealed before the Court of Appeal Bucharest, the file no. 1658/2/2014 being constituted.

At the hearing from January 20th, 2016, the court postponed the case so that the appointed accounting expert can express his point of view regarding the objections of the plaintiff against the expert report concerned and so that the technical expert can perform the expertise. On June 29th, 2016, the court postponed the case so that the technical expertise report may be finished. The next hearing was set on October 26th, 2016, and until the date of drafting this report, no other changes have been registered.

At the hearing from February 8th, 2017, the objections against the expert report have been notified, Postponement term 04,04,2018.

• CNTEE Transelectrica SA filed a complaint against the Order of the ANRE Chairman no, 51/June 26th, 2014, registered at ANRE under no, 47714/August 4th, 2014, and an appeal before the Court of Appeal Bucharest, subject of the file no.

4921/2/2014, requesting either the amendment of the aforementioned Order, or the issuance of a new order, which should recalculate the RRR value at the level of 9,87% (recalculated with a (β) coefficient of 1,0359, according to the internal analyses conducted by Transelectrica) or, should this request be rejected, using the same percentage of 8,52% set by ANRE for the year of 2013 and for the first semester of 2014.

On June 26th, 2014, the ANRE Order no, 51 was issued, published in the Official Journal under no, 474/June 27th, 2014 on the approval of the average tariff for the transmission service, the tariff for the system service and the zonal tariffs for the transmission service, payable to the National Power Grid Company "Transelectrica" - SA, and the repealing of Addendum no, 1 of the ANRE Chairman's Order no, 96/2013 regarding the approval of the average tariff for the transmission service, the tariff for the system service, the zonal tariffs for the transmission service and the tariffs for the reactive electrical energy, payable to economic agents from the electricity sector.

The values taken into consideration for calculating the Regulated Rate on Return (RRR[1]) by ANRE, according to the Methodology on establishing the tariffs for the electricity transmission service, approved by ANRE Order no. 53/2013 ("the Methodology") have determined a RRR value of 7,7%.

CNTEE Transelectrica SA considers that the enforcement of the provisions of Article 51 of the Methodology on establishing the Beta (β) parameter at the value of 0,432 shall determine the financial damage of the company by decreasing the rentability with an estimated value of 138,4 mil, lei[3], having a significant impact on the financial interests of the company.

At the hearing from February 9th, 2016, the court admitted the evidence with the audit expertise - specialization financial investments and other entities of movable goods, extended the discussion on the technical evidence discussion – electro-

energetic specialization, after administering the evidence with the audit expertise - specialization financial investments and other entities of movable goods.

At the hearings from March 25th, 2016, April 22nd, 2016, June 10th, 2016 and March 3rd, 2017, the court postponed the judgement of the cause because of the missing technical expertise report, The next hearing was set for March 27th, 2018,

[1] RRR - Regulated Rate on Return is presented in the technical literature as WACC – Weighted Average Cost of Capital – translated as Weighted Average Cost of Capital, the equation of both indicators being similar: RRR = WACC = CCP + Kp/(1 – T) + CCI x Ki
[2] The value that caused the decrease of the RRR to 7.7%
[3] Calculated value compared to the RRR of 8.52%

• On March 4th, 2014, the European Commission issued a communication stating that it has imposed a fine of 1,031,000 EUR to the subsidiary of SC OPCOM S,A, for the abuse of dominant position on the Romanian market in order to

26. COMMITMENTS AND CONTINGENCIES (continued)

facilitate the trading of electricity on the spot market, in breach of the EU antitrust rules, The Company was included in the trial acting as parent company to the subsidiary SC OPCOM S,A,, being jointly responsible for paying the fine.

The General Assembly of the subsidiary SC OPCOM SA shareholders, at the meeting from June 10th, 2014, decided upon full payment of the fine amounting to 1,031,000 euro imposed by the Directorate General for Competition – European Commission for breaching of Article 102 of the Treaty on the Functioning of the European Union, according to the

Decision no. AT 39984 in the antitrust case, The subsidiary SC OPCOM SA has made full payment of the fine set by the European Commission.

On November 24th, 2014, the subsidiary SC OPCOM SA summoned CNTEE Transelectrica SA in order to force it to pay the amount of 582,086,31 euro (2,585 at the National Bank of Romania exchange rate from November 24th, 2014), representing the amount paid by her as fine, from the total of the fine amounting to 1,031,000 euro.

Also, the subsidiary SC OPCOM SA requested the court to order the Company to pay the amount of 85 as lawful interest related to the period between June 11th, 2014 - November 24th, 2014, plus legal expenses amounting to 38.

The action filed by the subsidiary SC OPCOM SA is subject of the **file no, 40814/3/2014** on the docket of the Bucharest Court, Section VI Civil, involving claims, litigation with professionals matter, CNTEE Transelectrica SA has lodged counterclaim against the application for summons in this case, invoking exceptions and defenses on the main issue of the matter regarding the unfounded and unlawful character of the action.

On July 24th, 2015, the Bucharest Court ruled the judgement no, 4275/2015, by which it ordered the following: "Admits the application for summons filed by plaintiff Romanian Gas and Electricity Market Operator - OPCOM S,A, against defendant National Power Grid Company "Transelectrica" S,A, Orders the defendant to pay the plaintiff the amount of 582,086,31 euro, representing the amount paid by the plaintiff in the defendant's stead from the fine in the amount of

1,031,000 euro, imposed by the Decision of the European Commission on March 5th, 2014 in the case no. AT.39984 and of the lawful interest related to the amount of 582,086,31 euro, calculated on June 11th, 2014 and up until de day of the actual payment, Orders the defendant to pay the plaintiff the amount of 38 as legal expenses, With right of appeal within 30 days from notification, The request for appeal shall be lodged before the Bucharest Court – Section VI Civil."

Against sentence no, 4275/2015, pronounced in the aforementioned file, Transelectrica SA filed an appeal, which was registered on the docket of the Court of Appeal Bucharest, The resolution of the Court of Appeal is the following: Admits the appeal, Changes the appealed civil sentence completely, meaning that it rejects the application for summons as ill-founded, Orders the appellee - plaintiff to pay the trial expenses to the appellant - defendant amounting to 16,129, representing legal stamp duty, With appeal within 30 days from notification, Ruled in open court today, October 10th, 2016, Document: Decision 1517/2016 from October 10th, 2016.

OPCOM S.A. filed a second appeal, The High Court of Cassation and Justice decided the following: Grants, in principle, the appellant-plaintiff Operatorul Pieței de Energie Electrică și Gaze Naturale – OPCOM S,A, motion against decision no, 1517/10,10,2016, ruled by the Bucharest Court of Appeal – Section V Civil, Sets the hearing for solving the appeal on March 13th, 2018, The parties will be summoned, Ruled in open court today, December 5th, 2017.

In 2014, the company recorded a provision amounting to 2,670 for the litigation with the subsidiary SC OPCOM SA.

• In 2013, Conaid Company SRL took legal actions against CNTEE Transelectrica for the unjustified refusal of the latter to sign an addendum to the connection agreement or to sign a new connection agreement, and requested the compensation for costs incurred up to that time, amounted to 17,420 and loss of profit for the period 2013 - 2033 amounting to EUR 722,756,000. So far, the Company did not conclude an addendum to the connection agreement because the suspensive provisions included therein have not been met by Conaid Company SRL, A new connection agreement would have had to be concluded by March 11th, 2014, the date on which the technical connection permit has expired, On the date of these financial statements, the amounts claimed by Conaid Company SRL were regarded as contingent liabilities as it is unlikely to settle this obligation, there will be necessary outflows of resources embodying economic benefits and the value of

obligation cannot be evaluated with sufficient reliability.

The file no. 5302/2/2013 was on the docket of the High Court, involving the obligation of issuing of an administrative

document, the procedural stage – second appeal, the hearing being on December 9th, 2015. At this hearing, the High Court of Cassation and Justice admitted, in principle, the second appeals and set the hearing, in substance, of the second appeals on April 8th, 2016, Formation 4, summoning the parties. The case trial was postponed for the date of June 17th, 2016, when

26. COMMITMENTS AND CONTINGENCIES (continued)

the court reserved judgement, postponing the judgement until June 29th, 2016, when it pronounced Decision no. 2148/2016, by which it ordered the following: 'Rejects the exceptions invoked by the appellant - plaintiff S.C. Conaid Company S.R.L. via insolvency administrator RVA Insolvency Specialists SPRL, and by the appellant - defendant National Company for Energy Transportation Transelectrica S.A. Admits the second appeal filed by the defendant National Company for Energy Transportation Transelectrica S.A. against the hearing protocol of February 18th, 2014 and the civil sentence no. 1866 of June 11th, 2014, pronounced by the Court of Appeal Bucharest – Section VIII.

Administrative and Fiscal Litigation Section, Partially invalidates the contested protocol and judgment and refers the case to the Bucharest Court – Section VI Civil, for settlement of the application of the plaintiff sought against the National Power Grid Company Transelectrica S,A, Maintains the other provisions of the sentence concerning the plaintiff's action against the National Regulatory Authority for Energy, Rejects the second appeals of the plaintiff SC Conaid Company S,R,L, via insolvency administrator RVA Insolvency Specialists SPRL and the intervener S,C, Duro Felguera S.A. against the civil sentence no, 1866 of June 11th, 2014 pronounced by the Bucharest Court of Appeal – Section VIII.

Administrative and Fiscal Litigation, Rejects the second appeal filed by the defendant National Power Grid Company Transelectrica S,A, against the hearing protocol from March 25th, 2014, pronounced by the Bucharest Court of Appeal - Section VIII, Administrative and Fiscal Litigation, Final, Ruled in open court today, June 29th, 2016.

On the docket of Bucharest Court – Section VI Civil, the case was registered under no, 12107/3/2017, By civil sentence no, 4364/23.11.2017, the Court admits the exception to the ineligibility of the claim and rejects it as ineligible, It also rejects the motion to intervene in the interest of the plaintiff, With right of appeal within 30 days from notification, The appeal is lodged at the Bucharest Court - Section VI Civil, Sent to the parties via registry today, November 23rd, 2017.

Following a verification conducted in 2017, the Court of Auditors issued several measures to be implemented by the Company as a result of a series of deficits identified within this verification, CNTEE Transelectrica SA filed a total of 8 objections against the measures ruled by the Romanian Court of Auditors (CCR) via Decision no, 8/27,06,2017 requesting

the annulment thereof, as well as the Decision no, 77/03,08,2017 registered with the Company's secretariat under no, 29117/08,08,2017, as well as the Control Report no, 19211/26.05.2017.

- Case file no. 47332/3/2017 on the docket of the Bucharest Court - Section VI Civil, by which the company FF Wind Energy Internațional SRL requests the following against CNTEE Transelectrica SA: - the annulment of the unilateral statement for the termination of the PTG connection agreement no, 85/14,03,2011 issued on March 2nd, 2016 under no, 8295, - ordering the Company to pay the amount of 33 mil, lei as damages following the termination of the agreement and to pay the amount of 45,000,000 euro as the amount of depreciation of the company FF Wind Energy Internațional SRL caused by the impairment of its purpose, Status of the file: in preliminary proceedings for notification of the action and filing statement of defense.

• Also, the company is involved in significant litigations in which it has the quality of plaintiff, especially for debt recovery (e,g, Eco Energy SRL, Petprod SRL, Total Electric Oltenia SA, Arcelormittal Galati SA, Regia Autonoma de Activitati Nucleare, Romenergy Industry SRL, Energy Holding SRL, UGM Energy Trading SRL, CET Iasi, CET Bacau, CET Braila, CET Govora, CET Brasov, Elsaco Energy SRL, Elsaco Esco, Arelco Power SRL, Arelco Energy SRL, Inversolar Energy SA), The company recorded adjustments for value losses for the customers and other receivables in litigation and for the customers in bankruptcy, The Company also acted as plaintiff in a dispute with ANAF as shown in Note 23, and starting with the year 2018 is the plaintiff in a new litigation against ANAF.
At the same time, the Company Transelectrica SA is also involved in litigation with former members of the Directorate and the Supervisory Board, regarding the mandate contracts concluded between the Company and them.

The management of the Company considers it is likely that there will be no cases in which an outflow of resources will be required for settling the pending litigation, In addition, there are no other pending litigations which, either by their nature or by their value would deem necessary the presentation of some contingent assets or liabilities significant for the activity of the Company,.

The Company is also involved in:

-Litiations with subsidiary SMART SA

Case file no. 3269/3/2015 registered with Bucharest Tribunal, Section VI Civil, renumbered 1015/2/2018 with the Court of Appeal Bucharest,
Case file subject:
Compelling SMART SA to pay 1,841 , VAT included and the sum of 232 as accessories – representing the reduced value

26. COMMITMENTS AND CONTINGENCIES (continued)

of our patrimony by the defendant's violating the provisions of contracts C, 43/2005 and C,237/2010,
Case file stage: On the hearing date 11,10,2017 Bucharest Tribunal pronounced civil ruling 3592/11,10,2017, whereby it denied as inadmissible the action filed by CNTEE Transelectrica SA in contradiction with the Company of Maintenance Services to the Electricity Transmission Grid SMART SA,
On 04.12.2017 CNTEE Transelectrica SA filed appeal against civil ruling 3592/2017 pronounced by Bucharest Tribunal on 11.10.2017, Such appeal is included in file 1015/2/2018 on the docket of the Appeal Court Bucharest, with hearing term set on 07.05.2018.
Case file no. **40958/3/2016** registered with Bucharest Tribunal, Section VI Civil
Case file subject:
Compelling Company SMART SA to pay 2,797 , VAT included + 1,212 accessories calculated to the amount of 2,872 Smart has misunderstood the sum of 2,871,823,43 Lei represented accessories (interest rates).
File stage: On the hearing date 07.06.2017 the instance in accordance with article 413 para 1 pt, 1 NCPC suspended judging the case until the final settlement of file 1658/3/2014 on the docket of the Appeal Court Bucharest in contradiction with the Court of Accounts, Appeal right during the entire suspension period.
Remarks about the circumstances when such action was initiated
Item 3 from Ruling 37/2013 of the Court of Accounts retained the following: "Making undue payments in the estimated sum of 314 for deforestation services provided by the same provider at higher tariffs as well as for services provided on the same surfaces" (pages 3-6 of Ruling 37/2013)
1, Case file no. 48509/3/2017 registered with Bucharest Tribunal, Section VI Civil
File subject:
CNTEE Transelectrica SA requests by court action to have SMART SA compelled to:
a) Return to our company the amount of 7,652 where VAT is to be added, as prejudice incurred by our company as a consequence of the defendant's enrichment with no just cause, in the first place, and as undue payment, in the second place;
b) Compelling the defendant to pay the non-achieved benefits associated to the sum paid under the enrichment title without just cause, in the main, calculated from the date when the subscribed made the undue payments to the defendant until the date when the law court was notified, in quantum of 2,773, as well as compelling the defendant to further pay the non-achieved benefits until the actual return date of the sum representing the principal by the defendant,
Case file stage: found in the preliminary procedure, On 12.03.2018 we were notified the contestation filed by SMART which we answered on 22,03,2018, and the first hearing term is to be set later,
- Litigations with the subsidiary Teletrans SA
1, Case file no.**20223/3/2017** registered with Bucharest Tribunal, Section VI Civil
Case file object**:**
Teletrans SA requests compelling CNTEE Transelectrica SA to pay 4,635 , as value of the performance bond constituted as per contract C243/2010, to which the sum of 293 is added, legal interest calculated on the maturity date until law suit opening – 31.05.2017,
stage of the case file :Court hearing term on 13,04,2018, in view of settling the dispute in amiable manner,
2, Case file no. **16216/3/2017** registered with Bucharest Tribunal, Section VI Civil
Case file object:
By its suing request Teletrans SA asks the instance

- To ascertain the services under contract 03/2007 have been fully provided, as added;
- In subsidiary to ascertain the services under contract 03/2007 have been provided and partially accepted, as it has been added;
- To oblige Transelectrica to pay 4,649 , to which VAT of 883,360,56 Lei is added, representing the amounts of invoices 115/2017, 123/2017 up to 143/2017;
- To oblige Transelectrica to pay 214,355,40 Euro plus VAT, at the exchange rate on the invoice issuance dates, representing the value of services provided and partially accepted for the contractual interval May 2014 – November 2016, "in subsidiary if admitted the second subject of the request not the first subject of the request";

stage of the case file: hearing term 23.04.2018, in view of settling of the litigation amicably.

26. COMMITMENTS AND CONTINGENCIES (continued)

iv) Guarantees

As of December 31st, 2017 and December 31st, 2016, the guarantees are presented as follows:

	2017	2016
Guarantees granted, of which:	**381,753**	**461,879**
- letters of guarantee issued – production	44,554	36,325
- letters of guarantee issued – investments	183,962	238,617
- other guarantees granted	153,237	186,936
Guarantees received, of which:	**497,216**	**502,122**
- letters of guarantee received – production	184,226	220,879
- letters of guarantee received – investments	264,729	233,729
- other guarantees received	48,261	47,513

Guarantees granted

In accordance with the License no, 161/2000 updated by ANRE Decision no, 802/18,05,2016 regarding the provision of electricity transmission and system services and the administration of the balancing market, the Company has the obligation to establish and maintain a financial guarantee of 1% of the turnover related to the licensed activities, which

enables the Company to continue its licensed activities, considering the major risks that may impact these activities and which covers any potential damages that may be incurred according to the concluded contractual clauses, In order to comply with this obligation, the Company concluded a loan agreement for issuance of bank letters of guarantee with EximBank SA, the value of which being 29,422,392 as of December 31st, 2017.

On December 27th, 2017, the Company concluded a loan agreement for issuance of bank letters of guarantee with Banca Comerciala Romana amounting to 26,805,370 and valid between January 1st, 2018 and December 31st, 2018.

The other guarantees granted consist mainly of bank letters of guarantee issued for contracts concluded on the centralized markets administered by OPCOM – the Centralized Market for Bilateral Electricity Contracts for Extended Auction (CMCB-EA), the Day-Ahead Market (DAM) and the Intra-Day Market (IDM), as well as commitments/guarantees granted for investments in relation to pending loan contracts.
Other guarantees granted consist of contracts assigned to secure the credit line contracted for the support scheme.

Guarantees received

The guarantees received consist mainly in bank letters of guarantee for due payment in relation to contracts concluded on the electricity market, the good performance bonds and down payment letters of guarantee in relation to investment contracts and other guarantees received based on contracts funded by the connection tariff.

v) Revaluation reserves as of December 31st, 2017

As of December 31st, 2017, revaluation reserves are in amount of 408,899 (December 31st, 2016: 458,184).

Starting with May 1st, 2009, the reserves from the revaluation of fixed assets, including land plots, recorded after January

1st, 2004, which are deducted when calculating taxable income through tax depreciation expenses or transferred and/or ceased assets expenses, are taxed simultaneously with the tax depreciation deduction, namely when the assets are disposed, as the case may be.

26. COMMITMENTS AND CONTINGENCIES (continued)

Realized reserves are taxable in the future, in case of changing the destination of the reserves in any form, in case of liquidation, merger of the Company, including using the reserves for covering the Company's losses, except for the transfer of the aforementioned reserves after May 1st, 2009.

vi) Tariff for energy transmission and system services

The tariff for electricity transmission is set based on the "revenue cap" methodology, Using this methodology, ANRE sets an initial annual target revenue calculated by summing up the regulated costs and the regulated return of recognized assets, Certain costs included in the base of regulated costs are subject to efficiency requirements limiting the level of expenses that may be recovered through the regulated tariff (controllable operating and maintenance costs, own technological consumption). The annual target revenues calculated for a regulatory period are redirected through a linearization procedure aiming at softening any severe increases/decreases of revenues from one tariff year to the next, The revenues redirected in this way are annually adjusted by the price consumption index.
Certain changes in the tariff mechanism may have a significant impact on the recovery of the regulated depreciation of fixed assets included in the regulated assets base.
The current regulatory period lasts five years (July 1st, 2014 – June 30th, 2019), and comprises five tariff years (the tariff year begins on July 1st and lasts for 12 months). Thus, 2017 was the year of transition from the third tariff year to the fourth tariff year within the current regulatory period (the third tariff year ended June 30th, 2017, the fourth tariff year began July 1st, 2017). For 2017, the tariffs for the transmission and system services were calculated according to the provisions of ANRE Orders no. 53/2013 and 87/2013, as subsequently amended and supplemented, For the first semester of 2017, tariffs for the transmission and system services were approved by ANRE Order no. 27/2016 and for the second semester of 2017 by ANRE Order no. 48/2017.

According to ANRE Order no. 53/2013, as subsequently amended and supplemented, approving the Methodology for determining the tariffs for the electricity transmission service, for the calculation of the regulated revenue for the first tariff period, the competent authority determines the amount related to the efficiency gains (resulted from the reduction of controllable operating costs incurred in a tariff period) above the targets set for prior regulated period and allocates 50% of the surplus to the customers of the transmission service (gain sharing mechanism).

According to ANRE Order no. 87/2013 approving the Methodology for determining the tariffs for the system services, the competent authority determines the amount related to gains obtained by the transmission and system operator through an efficient management of technological system services within a tariff period and allocates 80% thereof to users (gain sharing mechanism). In June 2017, via Order no. 45/2017, ANRE approved the new Methodology for determining the tariffs for the system services, applicable starting with the tariff period July 1st, 2017 - June 30th, 2018 (repealing ANRE Order no.87/2013).
The tariffs for the transmission of electricity and system services are adjusted annually by the total corrections resulting from the previous tariff period's corrections (actual data for 8 months and estimated data for 4 months) and the corrections of the second last tariff period (actual data), By way of exception, the tariff for the technological system services approved for the fourth tariff year has been revised pursuant to the provisions of Art. 45 of ANRE Order no. 45/2017, from 9.39 lei/MWh to 12.06 lei/MWh, applicable starting with January 1st, 2018, The main underlying factor for the tariff increase was represented by the reconsideration of the price assumptions related to Transelectrica's purchase of system reserves on the competitive market.

Service	Tariff applied in the first semester of 2017 (approved by ANRE Order no, 27/2016)	Tariff applied in the second semester of 2017 (approved by ANRE Order no, 48/2017)
	lei/MWh	lei/MWh
Electricity transmission service	18,70	16,86
Functional system services	1,30	1,11
Technological system services	11,58	9,39

vii) Contingencies

The following control measures are ongoing at the Company's Transelectrica headquarters:

Ministry of Public Finance - General Department of Economic and Financial Inspection - an inspection activity that started

on 15.09.2017 and which was suspended by Address 243104 / 29.11.2017 on the same date.The objectives undergoing verification for 2012-2016 are presented below:

- substantiating and executing the revenues and expenses budget;

26. COMMITMENTS AND CONTINGENCIES (continued)

- compliance with the budgetary, economic, financial and accounting discipline;

- compliance with the legal provisions regarding the public and private property of the state and of the units

administrative-territorial units, held in any form;

- compliance with the provisions of the Government Order no, 64/2001 on the distribution of profits to the national entities,national companies and commercial companies with full or majority state capital, as well as self-governing administrations with subsequent amendments and completions;

- the use of reserve holdings;

- the way of organizing and exercising the compulsory forms of internal / managerial control;

- the way in which the amounts granted from the consolidated general budget were substantiated and justified,

The Ministry of Economy – Division for Control Body of the Minister– the control commenced on January 18th, 2018 – the objectives of the measure are: verifying the observance of legal provisions and internal norms pertaining to the entity's organization and functioning, verifying the way in which the acquisition activity is organized and performed, verifying the way in which consultancy, legal assistance and representation and litigation agreements are

verifying the way in which the sponsorship agreements are concluded and performed, verifying the way in which the transportation expenses are made, analysis of the way in which orders, instructions and other requirements of the Ministry of Economy in the specific field of activity are performed, verifying the completion status of the measures ruled via previous reports, comparative analysis of the entity's economic and financial results in the last three years of activity.

The National Agency for Public Procurement – the control started on February 26th, 2018 – the control aimed at verifying the observance of the rules pertaining to the drafting of technical specifications for the allocation procedure of the agreement for the Technical upgrade of the Turnu Severin Este 220/110 kV substation – procurement notice no, 166637/15.03.2016.

On 31 December 2017 Teletrans S,A,,subsidiary of the Company was under a control that began on 29.05.2015 by the General Economic–Financial Audit Directorate from the Ministry of Public Finance, the reviewed period being 01.01.2010-31.12.2014, according to the service orders 82/2.,05.2015 and 01.01.2015- to date, according to the service order 38/31.05.2017; the economic-financial audit objectives being:

-Fundamentals and execution of the revenue and expense budget;
-Compliance with the budgetary economic-financial and accounting discipline;
-Observing the legal provisions regarding assets in the public and private state domain and of the administrative territorial units;
-The organisation and exercise of compulsory internal / managerial control;
-Checking the compliance with the provisions of GO 26/2013 on enhancing financial discipline of certain economic operators where the state or administrative territorial units are single or majority shareholders, or hold directly or indirectly majority participation in 2015 – to date.

On December 31, 2017, Teletrans SA, the subsidiary of the Company, was subject to control by the General Division- for Economic and Financial Inspection of the Ministry of Public Finance regarding the period 2010-2014 and finalized in 2018. The Economic and Financial Inspection Report Draft issued on February 21st , 2018 specifies that, as a result of the leasing of the assets belonging to the public state domain (capacities and infrastructure elements of the public telecommunications network) with disregard by the Company's representatives and Teletrans S.A. of the provisions of art. 14, art. 15 and art. 16 of Law no. 213/1998 on the public property, the state budget would have been damaged in a total amount of 88,778, representing sums collected and not paid to the state budget in the period 2006-2016.

In the letter 13443 from26.03.2018 written by Teletrans, it notified Transelectrica of the following:

-In 21.02.2018 – 10.032018 time frame several meetings took place between the representatives of Teletrans and the representatives of the Ministry's audit team, which decided the calculation base used in the draft report was
-wrong, as it strictly related to the revenues registered without taking into account the expenses made (total amortisement of the procured grid equipment, human resources as well as all indirect costs of such activities) and without fully understanding the commercial and juridical relations between Transelectrica and Teletrans;

-Consequently, the audit team together with the managers of the Economic-Financial Audit Division from the Ministry of Finance provided a new term to Teletrans by which it should submit the reviewed situation and additional explanations for the reviewed time interval, extending the 27.02.2018 term by 30.03.2018,

Teletrans letter also specified that, taking into account the above, the managerial team of Teletrans has got solid reasons to believe the finding about the so-called deviation from the draft audit report will be removed and this report will find

26. COMMITMENTS AND CONTINGENCIES (continued)

Teletrans performed correct commercial activities.

As regards the legality of using the excess optical fibre, the juridical nature of the contractual relation took into account the legal opinion of Bostina&Asociatii according to which the previous contract C45/2006 was deemed as mandate contract without representation pertaining to "concluding by SC TELETRANS SA in its own name but on behalf of the public telecommunication network of Transelectrica some contracts trading its capacity and infrastructure elements", Such construction of the juridical deed enabled concluding Covenant C111/2014, while keeping the juridical relations between parties.

Until the date of approval of the consolidated financial statements for the year ended on December 31st, .17, the Company did not complete the analysis necessary to determine the possible effect of the result of the economic and financial inspection report issued on 21 February 2018 on the consolidated financial statements of the Company for the year ended on 31 December 2017.

Considering that the ANAF-DGAMC findings for the period 2005-2010 include both additional debts and accessories corresponding to the technological services provided in the framework agreements approved by ANRE and considering that until thedrafting of the financial statements there was anofficial reply from the Authority received, regarding the amendments of the framework contract as requested by the Company, at this moment it is not possible to accurately estimate the possible influence of the authorities' interpretation of the unrealized technological system services for which Transelectrica records income from penalties for the capacities not provided to it under the contract under the conditions of IAS 37 Provisions , contingent liabilities and contingent assets.

At the same time, according to the Court of Accounts' findings regarding the expenses that were not aimed at the continuous training of the employees and which are not forms of professional training and for which the Decision no. 14/2011was issued, ANAF-DGAMC retained additional debts and corresponding accessories.

Currently there are ongoing litigations with the Court of Auditors regarding controls carried out in 2013 and 2017. Taking into account the findings of the Court of Accounts, found in the Decisions of the years 2013 and 2017, there is the potential of additional tax liabilities, which at this time cannot be accurately determined under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.
Thus considering the above on December 31st 2017 the Company's managerial team did not have the necessary information to make a sound analysis in view of determining the effects and results of such report over the stand-alone financial statements for the financial year ended on December 31st, 2017.

From 16.01.2017 to 05.05.2017 Romania's Court of Auditors conducted an audit at Smart SA pertaining to "Control on the mode of administration of the assets from the national electricity transmission network",
When such control ended an Audit report was issued on 05,05,2017, This Audit report was capitalised by Decision 6/07,06,2017, Smart SA filed objection against this decision.
The objection was settled by the Objection Settlement Commission under Conclusion 75/25,07,2017, which denied the objection, The conclusion was received by the company on 31,07,2017.
Within the legal term Smart SA filed Complaint against Conclusion 75/25.07.2017 issued by the Objection settlement commission established in Romania's Court of Accounts, requesting cancellation of such conclusion as well as cancelation of Decision 6/07.06.2017 issued by the Court of Accounts, Department IV, The complaint is included in File 6412/2017 found on the docket of the Appeal Court Bucharest, Section VIII of administrative and fiscal disputes,
Since the suspension of the obligation to enforce Decision 6/2017 ended as of the reception date of Conclusion 75/25.07.2017, the measure plan was elaborated and implemented, being registered under no.5790/23.08.2017 in order to carry out the decided measures.
The initial term to carry out the measures decided by Romania's Court of Accounts was 29,12,2017, The term was extended until 30.06.2018.

27. GROUP STRUCTURE

The main Group companies and the percentage of ownership exercised by the Company are as follows:

Entity	Country of Origin	31 December 2017 % of total shares	31 December 2016 % of total shares
SMART SA	Romania	70	70
TELETRANS SA	Romania	100	100

SC SMART SA

SC SMART SA, with registered office at 33Magheru Blvd,, district 1, Bucharest, and head office located at the work point in 246 C Calea Floreasca, "Sky Tower" Building, 20th floor, district 1 Bucharest, has as main activities the provision of maintenance services for the transmission-dispatch system, The subsidiary was incorporated by GD no, 710/July 19th, 2001 on November 1st, 2001.The share capital as of December 31st, 2017 amounted to 55,036,300, of which 38,528,600 is subscribed and fully paid up by the Company.

By Decision no, 14/10,12,2014, the Extraordinary General Assembly of Shareholders of SC Smart SA approved the company's share capital increase by in-kind contribution with the land plots value for which the certificate authenticating the ownership rights was obtained.

On December 30th, 2014, the Trade Registry Office attached to the Bucharest Court settled the application to register the share capital increase of SC Smart SA and, consequently, as of December 31st, 2015, the shareholding of SC Smart SA was the following:

- CNTEE Transelectrica SA - shares 3,852,860
  - participation in profit and loss: 70,005%
- Romanian State through the General Secretariat of the Government - shares 1,650,770
  - participation in profit and loss: 29,994%

On January 25th, 2016, the amendment regarding the change of the shareholder structure of SC Smart SA was processed at the National Trade Registry Office, namely the mention regarding the administration of State's assets, amendment required by Art, 10 of GEO no, 86/2014, as amended and revised.

*) On the docket of the courts there was a litigation - file no, 32675/3/2015 - involving the annulment of Resolution of the Designated Person No, 154954/December 30th, 2014, pronounced in file no. 449314/December 23rd, 2014, under which the Trade Register attached to the Bucharest Court has registered the share capital increase of the subsidiary SC Smart SA with contribution in kind and amended the Articles of Association according to Decision no, 12375/December 22nd, 2014 of the Chairman of the Board of Directors of the subsidiary and according to Board Decision no. 19/December 22nd, 2014, The Company also requested the competent court for the annulment of the two aforementioned decisions and the suspension of the enforcement of deeds whose annulment is requested, until the resolution of the promoted action.

In the file no. 32675/3/2015, the Bucharest Court – Section VI Civil pronounced the civil sentence no. 6468/November 16th, 2015, through which it ordered the following: "Admits the exception of inadmissibility. Dismisses the application for summons filed by the plaintiff Transelectrica against the defendants: the subsidiary Company for electricity transmission grid maintenance services SMART SA, the Romanian State and ONRC, as inadmissible. With right of appeal within 30 days from notification. The appeal is lodged with the Bucharest Court Section VI Civil, Pronounced in open court today, November 16th, 2015", CNTEE Transelectrica SA lodged an appeal, which was registered on the docket of the Court of Appeal, the case being settled at the hearing from May 23rd, 2016, when the Court of Appeal Bucharest ruled the civil decision no, 903/23.05.2016, by which it ordered the following: "Rejects the appeal as ill-founded, Admits the notification of the Constitutional Court, Pursuant to Article 29 (4) of Law no, 47/1992, notifies the Constitutional Court to resolve the exception of unconstitutionality of Article 114 (3) of Law no. 31/1990 in relation to the provisions of Article 16. Article

21 and Article 44 of the Constitution, exception invoked by the appellant. Final."

27. GROUP STRUCTURE (continued)

SC TELETRANS SA

SC TELETRANS SA, with registered office at 16 – 18 Hristo-Botev Blvd,, district3, Bucharest, has as main activities process and management IT maintenance services, telecommunication and IT specific services in the PTG, telephony and data transmission. The subsidiary was incorporated as per Decision no, 3/2002 of the General Assembly of Shareholders, The share capital as of December 31st, 2017 amounted to 6,874,430, subscribed and fully paid up.

28. REMUNERATION OF COMPANY'S MANAGEMENT

The wages paid to the management employed based on Individual Employment Contracts (IEC) for the services rendered consist primarily of base salary, benefits upon termination of employment and post-employment and the fixed and variable components for the members of the Directorate and the Board of Supervisors. These are detailed as follows:

	2017	2016
Short-term employee benefits	9,822	10,269
Other long-term benefits	121	267
Members of the Management Board and the Supervisory Board		
Fixed component	1,611	1,566
Variable component	0	2,013
Total	**11,555**	**14,116**

In 2013, the 4 year mandate was approved for the members of the Board of Supervisors and the Directorate. The General Assembly of Shareholders of November 6th, 2013 approved the mandate of the Board of Supervisors members and their variable remuneration level starting with the business day immediately following the date of approval of the Administration Plan of CNTEE Transelectrica SA for the period 2013-2017 prepared by the Board of Supervisors, i.e. from 01.10.2013.
Decision no, 1 of 23,03,2015 of the Ordinary General Assembly of Shareholders approved under items 3.3 and 3.4 the setting of the general caps of the fixed remuneration granted to the Board of Supervisors members of CNTEE "Transelectrica" – S,A, and the general caps of the variable component of their remunerations.

As of December 31st, 2017, the number of OAVTs granted to the Board of Supervisors members of Transelectrica is as follows:

Package	No, of OAVTs	Date granted	Due date	Weighted average price for the month prior to granting as per the mandate contract
Package 1 November 15th, 2013	644,545	15,11,2013	15,11,2016	13,1484 (lei/share)
Package 2 November 15th, 2014	571,561	15,11,2014	15,11,2017	26,6040 (lei/share)
Package 3 November 15th, 2015	355,640	15,11,2015	15,11,2018	25,9986 (lei/share)
Package 4 November 15th, 2016	415,274	15,11,2016	15,11,2019	29,0861 (lei/share)

As of December 31st, 2016, as per the certificates issued by the Company, the number of OAVTs granted to the Transelectrica Directorate members is as follows:

Package	No, of OAVTs	Date granted	Due date	Weighted average price for the month prior to granting as per the mandate contract
Package 1 May 15th, 2014	567,978	15,05,2014	15,11,2016	13,1484 lei/share
Package 2 November 15th, 2014	657,973	15,11,2014	15,11,2017	26,6040 lei/share
Package 3 November 15th, 2015	522,418	15,11,2015	15,11,2018	25,9986 lei/share
Package 4 November 15th, 2016	474,837	15,11,2016	15,11,2019	29,0861 (lei/share)

Details of the valuation model of OAVTs:

	Package 1	Package 2	Package 3	Package 4
Validity	3 years	3 years	3 years	3 years
Way of exerting	1/3 of the package granted yearly			
Weighted average price for the month prior	13,1484 lei/ share	26,6040 lei/ share	25,9986 lei/ share	29,0861 lei/ share

Thus, as of December 31st, 2017, the Company recorded a provision amounting to 38,498 (42,355 as of December 31st, 2016) for the annual variable component owed to the Directorate and Board of Supervisors members for the fair value of the virtual shares of the Company as of the end of the financial year.

29. NON-CONTROLLING INTERESTS

	December 31, 2017	December 31, 2016
Balance at the beginning of the year	5,484	11,645
Share of profit for the year	(1,419)	(6,161)
Additional non-controlling interests	-	-
Balance at the end of the year	**4,065**	**5,484**

30. FINANCIAL INSTRUMENTS

Financial risk management

The Group is exposed to the following risks that arise from financial instruments: market risk (interest rate risk and currency risk), credit risk and liquidity risk, The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to mitigate potentially adverse effects on the Group's financial performance, Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's profit or loss or the value of its holdings of financial instruments.

The Group does not have formal arrangements to mitigate financial risks. Despite the fact that no formal arrangements are in place, the financial risks are monitored by management considering the financial needs of the Group in order to make sure that the opportunities and threats are matched efficiently.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

30 FINANCIAL INSTRUMENTS (continued)

Interest rate risk

The Group's operating cash flows are affected mainly by changes in interest rates, due to the foreign currency long-term borrowings with variable interest rates contracted from external credit institutions. The Group has significant long-term borrowings with variable interest rates that expose it to significant cash flow risk.

At the reporting date, the financial liabilities with fixed and variables interest rates are as follows:

	December 31, 2017	December 31, 2016
Fixed rate instruments		
Financial liabilities	389,449	478,649
Variable rate instruments		
Financial liabilities	143,919	178,829

Sensitivity analysis of interest rate

As of the reporting date, a 100% appreciation of the interest rate for the borrowings with variable interest rates date would have decreased the gross profit for the period by the amounts shown below, This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	Loss 2017	Loss 2016
RON	-	(44)
EUR	(877)	(1,325)
USD	(12)	(21)
Total	**(889)**	**(1,390)**

As of the reporting date, a 100% depreciation of the interest rate for the borrowings with variable interest rates date would have increased the gross profit for the period by the amounts shown below, This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	Profit 2017	Profit 2016
RON	-	44
EUR	877	1,325
USD	12	21
Total	**889**	**1,390**

The Group did not conclude any hedging contracts regarding the debts in foreign currencies or the exposure to the interest rate risk.

Exchange rate risk

The Group may be exposed to the changes in the foreign exchange rates through cash and cash equivalents, long-term borrowings and commercial debts denominated in foreign currencies.

The Group's functional currency is RON, The Group is exposed to foreign currency risk on cash and cash equivalents, purchases and borrowings that are denominated in a currency other than the functional currency, The currencies giving rise to this risk are primarily EUR, USD and Japanese Yen (JPY), The long-term loans and other liabilities denominated in

foreign currencies are then retranslated at the prevailing exchange rate at each balance sheet date, as communicated by Romanian National Bank, The resulting differences are charged or credited to the profit or loss, but do not affect cash flows until the settlement of the amount.

30. FINANCIAL INSTRUMENTS (continued)

The Group's exposure to foreign currency risk, expressed in RON, was as follows:

	Value	RON	EUR	USD
31 December 2017				
Monetary assets				
Cash and cash equivalents	553,875	498,963	54,896	16
Other financial assets	-	-	-	-
Receivables	825,949	760,501	65,148	-
Gross exposure	**1,379,824**	**1,259,464**	**120,043**	**16**
Monetary liabilities				
Suppliers and other liabilities	704,574	638,725	65,849	-
Borrowings	533,369	224,989	308,380	-
Gross exposure	**1,237,943**	**863,714**	**374,229**	**3,435**
Net balance sheet exposure	**141,881**	**395,750**	**(254,186)**	**(3,420)**

	Value	RON	EUR	USD
31 December 2016				
Monetary assets				
Cash and cash equivalents	960,489	920,125	40,327	38
Other financial assets	135,090	135,090	-	-
Receivables	874,107	830,854	43,253	-
Gross exposure	**1,969,686**	**1,886,068**	**83,580**	**38**
Monetary liabilities				
Suppliers and other liabilities	889,349	808,560	80,789	-
Borrowings	657,478	217,343	428,798	11,337
Gross exposure	**1,546,827**	**1,025,903**	**509,587**	**11,337**
Net balance sheet exposure	**422,859**	**860,165**	**(426,007)**	**11,299**

Trade and other receivables, suppliers and other liabilities, except suppliers of non-current assets are denominated only in RON.

The following significant exchange rates were used:

Average exchange rate		Exchange rate as of	
2017	**2016**	**December 31st, 2017**	**December 31st, 2016**

RON/ EURO	4,5682	4,4908	4,6597	4,5411
RON/ USD	4,0525	4,0592	3,8915	4,3033

30. FINANCIAL INSTRUMENTS (continued)

Sensitivity analysis of exchange rate risk

A 10% appreciation of the RON against the following currencies as of December 31st, 2016 and December 31st, 2015 would have increased the gross profit by the amounts shown below, This analysis assumes that all other variables remain constant

	Profit 2017	**Profit 2016**
EUR	25,419	42,601
USD	342	1,130
JPY	-	-
Total	**25,761**	**43,731**

A 10% depreciation of the RON against the following currencies as of December 31st, 2016 and December 31st, 2015 would have had the equal but opposite effect on the above currencies to the amounts shown above, assuming that all other variables remain constant,

	Loss 2017	**Loss 2016**
EUR	(25,419)	(42,601)
USD	(342)	(1,130)
JPY	-	-
Total	**(25,761)**	**(43,731)**

Credit risk

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

The treatment of counterparty risk is based on internal and external success factors of the Group. External factors of success that are systematically reducing the risk are: de-centralization of the energy sector where production, transmission, distribution and supply are distinct activities, and the interface for the customer is the supplier, the trading of energy on the Romanian market on two market segments: regulated market and competitive market. Internal factors of success in the treatment of counterparty risk include the diversification of customer portfolio and diversification of the number of services provided on the electricity market.

Financial assets, which potentially subject the Group to collection risk, consist principally of trade receivables and cash and cash equivalents. The Group applied a series of policies to make sure that the services are rendered to customers that can provide a proper collection, by including in the commercial contracts their obligation to establish financial guarantees, The carrying amount of accounts receivable, net of impairment allowances, represents the maximum amount exposed to collection risk.

The collection risk related to these receivables is limited, as these amounts are primarily due by state-owned companies. The cash is placed in financial institutions, which are considered as having minimal risk, The deposits are placed with Banca Comeciala Romana, BRD – Groupe Societe Generale, Credit Europe Bank, Garanti Bank, Alpha Bank, Banca Transilvania, Exim Bank, ING Bank and CITI Bank,

30. FINANCIAL INSTRUMENTS (continued)

At the date of reporting, the maximum exposure to the risk of collection was:

	December 31st, 2017	December 31st, 2016
Financial assets		
Net trade receivables	728,463	774,993
Cash and cash equivalents	553,875	960,489
Other net receivables	60,689	89,339
VAT to recover	47,899	-
Other financial assets	-	135,090
	1,390,926	**1,959,911**

The situation of receivables' seniority on the date of drafting the financial position report was:

	Gross value December 31st, 2017	Provision December 31st, 2017	Gross value December 31st, 2016	Provision December 31st, 2016
Not due	573,750	1,268	648,510	5,550
Due date exceeded by 1 to 30 days	294	2	13,257	-
Due date exceeded by 31 to 90 days	2,877	2,853	6,222	-
Due date exceeded by 90 to 180 days	(91)	-	1,152	359
Due date exceeded by 180 to 270 days	61,178	2,979	27,315	7,725
Due date exceeded by 270 to 365 days	26,220	21,851	6,256	-
Due date exceeded by more than a year	189,222	96,034	175,662	89,746
Total	**853,451**	**124,988**	**878,374**	**103,381**

The situation of other receivables' seniority on the date of drafting the financial position report was:

	Gross value December 31st, 2017	Provision December 31st, 2017	Gross value December 31st, 2016	Provision December 31st, 2016
Not due	23,429	2,526	68,799	2,501
Due date exceeded by 1 to 30 days	73	0	16	9
Due date exceeded by 31 to 90 days	63	57	57	30
Due date exceeded by 90 to 180 days	34,681	34,534	6,064	4,791
Due date exceeded by 180 to 270 days	3,020	2,939	2,317	669
Due date exceeded by 270 to 365 days	179	113	3,160	595
Due date exceeded by more than a year	71,054	42,746	101,201	83,678

Total	**132,500**	**82,913**	**181,613**	**92,274**

The Group's policy is to record impairment adjustments for value loss of 100% for clients in litigation, insolvency and bankruptcy, and 100% of trade receivables and other receivables not re paid in more than 180 days, except for outstanding

30. FINANCIAL INSTRUMENTS (continued)

claims generated by the support scheme, The Group also carries out an individual analysis for trade receivables and other uncollected receivables,

The highest impairment adjustments as of 31st December 2017, calculated for trade receivables and related penalties were recorded for SC Eco Energy SRL (24,736), SC Petprod SRL (23,540), Arelco Power (17,359), SC Total Electric Oltenia SA (14,186), Romenergy Industry (13,513), Elsaco Energy (9,294), RAAN (8,517), Elsaco Energy (7,177), CET Brasov (4,665), OPCOM (4,517), In order to recover the receivablesadjusted for impairment, the Company took the following measures: court action, enrollment at creditor table, requesting clarifications from ANAF (for VAT to be collected from Opcom), etc.

At the same time, the Company has registered an impairment adjustment of the amount of 44,443 due to the total liabilities paid to NAFA.(see Note 9).

The evolution of adjustments for impairment of receivables is presented as follows:

	December 31st, 2017	**December 31st, 2016**
Balance on the 1st of January	**103,381**	**89,312**
Recognition of adjustments for impairment	36,576	22,607
Reversal of adjustments for impairment	14,969	(8,538)
Balance at the end of the period	**124,988**	**103,381**

The evolution of impairment adjustments for other receivables is presented as follows:

	December 31st, 2017	**December 31st, 2016**
Balance on the 1st of January	**92,274**	**86,429**
Recognition of adjustments for impairment	38,010	7,501
Reversal of adjustments for impairment	3,356	(1,656)
Balance at the end of the period	**82,913**	**92,274**

Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulties in fulfilling the obligations associated with financial liabilities that are settled in cash or by another financial asset's transfer.

A prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through adequate credit facilities.

	December 31, 2017	**December 31, 2016**
Assets		
Monetary assets in RON	1,258,979	1,886,068
Monetary assets in foreign currency	120,059	83,618
	1,379,339	**1,969,686**
Liabilities		

Monetary liabilities in RON	(843,210)	(1,025,903)
Monetary liabilities in foreign currency	(377,664)	(520,924)
	(1,237,943)	**(1,546,827)**
Net monetary position in RON	**395,265**	**860,165**
Net monetary position in foreign currency	**(257,605)**	**(437,306)**

30. FINANCIAL INSTRUMENTS (continued)

The Group's policy on liquidity is to maintain sufficient liquid resources to meet the obligations as they fall due.

The followings are the contractual maturities of financial liabilities, including interest payments:

December 31st, 2017	**Carrying amount**	**Contractual amount**	**12 months or less**	**1 – 2 years**	**2 – 5 years**	**> 5 years**
Financial liabilities						
Trade and other liabilities	693,349	726,521	679,594	12,917	838	-
Other tax and social security liabilities	11,225	11,503	11,225	-	-	
Borrowings	533,369	1,292,252	338,183	51,449	68,913	74,824,
Total	**1,237,942**	**2,030,276**	**1,029,001**	**64,336**	**69,751**	**74,824**

December 31st, 2016	**Carrying amount**	**Contractual amount**	**12 months or less**	**1 – 2 years**	**2 – 5 years**	**> 5 years**
Financial liabilities						
Trade and other liabilities	877,058	877,058	877,058	-	-	-
Other tax and social security liabilities	12,291	12,291	12,291	-	-	-
Borrowings	657,478	1,646,600	155,548	311,712	95,402	94,816
Total	**1,546,827**	**2,535,949**	**1,044,897**	**311,712**	**95,402**	**94,816**

Fair value of financial instruments

The fair value is the amount at which the financial instrument can be exchanged in current transactions by willing parties in an arm's length transaction, other than determined through liquidation or forced sale. The fair values are obtained from quoted market prices or through cash flows models, as appropriate. As of December 31st, 2016 and December 31st, 2015, management believes that the fair values of cash and cash equivalents, trade and other receivables, trade payables, loans and other short-term liabilities approximates their carrying value. The carrying amount of the loan is the depreciated cost.

December 31st, 2017	**Book value**	**Fair value**	**Level**
Financial assets			
Net trade receivables	728,463	727,103	Level 1
Cash and cash equivalents	553,875	553,875	Level 1
Other financial assets	49,102	38,489	Level 1
VAT for recovery	47,899	47,899	Level 1
Other net receivables	485	485	Level 1
	1,378,953	**1,378,953**	

December 31st, 2017	Carrying amount	Fair value	Level
Non-current financial liabilities			
Borrowings, except for bonds	195,186	195,186	Level 1
Bonds	-	-	Level 1
	195,186	**195,186**	

30. FINANCIAL INSTRUMENTS (continued)

Current financial liabilities			
Trade payables and suppliers of non-current assets	693,349	693,349	Level 1
Borrowings	138,183	138,183	Level 1
Bonds	200,000	200,000	Level 2
Liabilities towards employees and other liabilities	11,225	11,225	Level 1
	1,042,757	**1,042,757**	

December 31, 2016	Book value	Fair value	Level
Financial assets			
Net trade receivables	774,993	774,993	Level 1
Cash and cash equivalents	960,489	960,489	Level 1
Other financial assets	135,090	135,090	Level 1
Other net receivables	89,339	89,339	Level 1
	1,959,911	**1,959,911**	

December 31, 2016	Book value	Fair value	Level
Non-current financial liabilities			
Borrowings, except for bonds	501,930	501,930	Level 1
Bonds	200,000	200,000	Level 1
	701,930	**701,930**	
Current financial liabilities			
Trade payables and suppliers of non-current assets	877,058	877,058	Level 1
Borrowings	155,548	155,548	Level 1
Liabilities towards employees and other liabilities	12,291	12,291	Level 1
	1,044,897	**1,044,897**	

Categories of financial assets

	December 31st , 2017	December 31st , 2016
Financial assets		
Cash and bank equivalents	553,875	1,095,579
Receivables	825,949	874,107
Financial liabilities		
Depreciated cost	1,237,943	1,802,230

Personnel risk and the salary scheme

As of December 31st, 2017, the average age of the Group's personnel is quite high, It is likely that in the nearest future, the Company will face a lack of personnel due to natural causes.

The Company could also face the risk that highly qualified employees leave for private companies which may offer more attractive salary packages than those offered by the Company.

The salary policy imposed by the State on companies in which it is the majority shareholder may lead to a major fluctuation within the specialized work force.

30. FINANCIAL INSTRUMENTS (continued)

Capital risk management

The Group's policy is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to sustain future development of the business.

Debt ratio indicator

	December 31st , 2017	December 31st , 2016
Short and long-term borrowings	533,369	657,478
Cash and cash equivalents	(533,875)	(960,489)
Other financial assets	-	(135,090)
	(20,506)	**(438,101)**
Equity	2,739,554	3,133,857
Debt ratio	-	-

31. FEES CHARGED BY EACH STATUTORY AUDITOR OR AUDIT FIRM

The total fees charged by each statutory auditor or audit firm for the statutory audit of the annual financial statements and the total fees charged by each statutory auditor or audit firm for other assurance services, for tax consultancy services and for non-audit services according to Art.38 of Annex no. 1 to the Order no. 2844/2016 of the Ministry of Public Finances, as subsequently amended and supplemented, related to the year 2017, are as follows:

- **SC Deloitte Audit SRL -** Contract no, C210/30.10.2017 – audit services for the stand-alone and consolidated financial statements, issuance of the report on the conformity of the Directorate's Report with the stand-alone and consolidated financial statements, audit services regarding the fulfillment of the financial conditions specified in the loan agreements concluded with Commercial Banks/International Financial Institutions, in bond issuance contracts, audit report in compliance with Art. 113 letter G paragraph (6) of Regulation no. 1/2006 issued by the National Securities Commission – fees for 2017 – 200,000, to which VAT is added;
- **SC PKF Finconta SRL –** Contract no. C75/11.04.2016 – tax consultancy services – fees for 2017 – 36,700, to which VAT is added.

- **SC Econsulting SRL –** Contract no,.C266/03,12,2015 – audit services for the project called "Studies regarding the new 400 kV OHL d,c between the Smardan and Gutinas substations", financed via European Funds within the TEN-E program for the period April 1st, 2011 - January 27th, 2017 - fees for 2017 - 2,569;
- **SC Deloitte Audit SRL –** Contract no.C166/04,09,2017 – Independent report for limited assurance of information included in current reports drafted by the company as per provisions of Law no, 297/2004 and Regulation no. 1/2006 - fees for 2017 – 4,500, to which VAT is added;

- **KDCL CONCEPT SRL –** contract C1669 / 10,02,207 - audit services for Teletrans SA subsidiary, according to the auditing standards issued by the CAFR for the financial statements of the financial year ended 31.12.2017 - related fee 2017 - 9000 euro.
- at the time of drafting of these consolidated financial statements the general Shareholders Meeting of Smart SA was summoned for the appointment of **DBF Expert Audit SRL and Expertise and Audit Manolescu Florin through leading association DBF Expert Audit SRL** - providing audit services for the Smart SA subsidiary, according to the audit standards issued by CAFR for the financial statements of the financial year ended 31.12.2017, 31.12.2018, 31.12.2019 - related fee 2017 - 17,280 lei.

32. SUBSEQUENT EVENTS

Acceptance of mandate for interim member of the Supervisory Board

According to the Decision no 1 of Ordinary General Shareholders'Meeting from January 9th , 2018, Mr, Constantin DUMITRU was appointed as a temporary member of the Supervisory Board, with a term of office until March 30th , 2018.
The appointment of Mr, Constantin DUMITRU became effective starting with January 15th , 2018, the date of signing before the public notary of the statement of acceptance of the mandate as an interim member of the Supervisory Board of the National Power Grid Company "Transelectrica" S.A.

Extension of the directorate mandate

In the meeting on January 15th , 2018, the Supervisory Board decided to extend through an addendum, the Mandate Contract of the interim members of the Directorate for a period of 2 months, respectively until March 16th ,2018.
Therefore, the composition of the Directorate is as follows:
1, Georgeta - Corina POPESCU 2, Andreea - Georgiana FLOREA 3, Dan - Valeriu ARDELEAN 4, Mircea - Toma MODRAN 5, Florin - Cristian TĂTARU.

32. SUBSEQUENT EVENTS (continued)

Grant approval in the amount of 27,085,000 euro

On January 25th, 2018, the European Commission approved a grant of € 27,085,000 for the construction of the Cernavoda-Stalpu 400 kV power line. The Cernavodă - Stâlpu airline will contribute to increasing interconnection capacity between Romania and Bulgaria and to the integration of wind energy in the Dobrogea area.
The Cernavodă-Stâlpu 400 kV line will be about 160 km long and for its commissioning it is necessary to build the 400 kV Stâlpu station and to expand the Cernavoda and Gura Ialomiţei stations, According to the 10-year Development Plan of CNTEE Transelectrica SA, 400kV Cernavoda-Stâlpu OHL will be completed in 2020.
The Cernavoda-Stalpu Line Project, part of the Black Sea Corridor Cluster, is one of the six major investment objectives of the National Power Grid Company Transelectrica SA, which is on the third list of projects of common interest (PCI) on energy infrastructure adopted in November 2017 by the European Commission, The total value of the six investments is about one billion lei. All of these projects contribute to the achievement of the 400kV national ring, an objective included in the governance program, which leads to an increase in the operational safety of NPSs and the achievement of an economical operating regime for the PTGs.

Loans for current activity

Transelectrica signed the credit contract no. C55 / 01.03.2018 with Raiffeisen Bank for a period of 12 months for the financing of the high efficiency cogeneration bonus scheme, in the form of an overdraft facility amounting to 100,000,000, at an interest rate calculated according to the refereance rate ROBOR 1M, plus a negative margin of 0,35%, If the reference rate is less than 0,35%, the interest rate applied is 0%, This was guaranteed by:

- Mortgage on the bank account opened at the bank
- Mortgage on the receivables resulting from the High Efficiency Contribution Contribution Agreements concluded with CES Sale S.A., E.ON Energie Romania S.A .

Appointment of interim Directorate Members

As the term of office of the current members of the Directorate ceases on March 16th, 2018, the Board of Supervisors, as of March 17th, 2018, appointed the following persons as interim members of the Board of Directors as of March 17th, 2018:
1. Georgeta – Corina POPESCU
2. Andreea – Georgiana FLOREA
3. Dan – Valeriu ARDELEAN
4. Florin - Cristian TĂTARU

The mandate is granted for a period of 4 months with the possibility of extending the mandate, for solid reasons, for further two months, The term of office shall not exceed the date of finalization of the selection procedure of the members of the Directorate of the National Power Grid Company "Transelectrica" SA in the conditions of art, 642 of G,E,O, no, 109/2011 if the procedure is completed within this interval, In accordance with Art, 18 par, (4) of the Constitutive Act of the National Power Grid Company "Transelectrica" -SA, the Supervisory Board elects as the Chairman of the Executive Board, alternatively Chief Executive Officer or Chief Executive Officer - "CEO" - of the Company) of the National Company of Power Transmission "Transelectrica" SA, starting with March 17th, 2018, Ms Georgeta - Corina POPESCU, The appointment of the above-mentioned Directors will become effective on the date of signing before the public notary of the declaration of acceptance of the mandate of the Director of the National Power Grid Company "Transelectrica" SA.

Mandate Acceptance – Imterim Directorate Members

The interim members of the Executive Board, appointed on March 14th, 2018 by the Supervisory Board, signed the declaration of acceptance of the mandates on March 15th, 2018, their appointment becoming effective as of March 17th, 2018, according to the declaration of acceptance of the mandates .

32. SUBSEQUENT EVENTS (continued)

Appointment of interim Supervisory Board Chairman

At the meeting on April 13th, 2018, by Decision no. 30, the members of the Supervisory Board appointed Mr. Olteanu Gheorghe as the Chairman of the Supervisory Board.

Appointment of interim Directorate Member

At the meeting on April 20th , 2018, the Supervisory Board appointed by Decision no. 37/2018 as interim member of the Directorate Mr. Adrian - Constantin Rusu. The mandate shall be granted for the for the remainder of the term of office of the members of Directorate, respectively until July 16th , 2018. The appointment of Mr. Adrian - Constantin RUSU became effective starting with the date of signing before the public notary the declaration of acceptance of the mandate as member of the Directorate of the National Power Grid Company "Transelectrica" SA - April 23rd,2018, and his appointment became effective starting with the date of the Company's announcement.

Contract signing regarding the financing from European funds of the project of common interest "The internal line between Cernavoda and Stâlpu" between the European Commission and Transelectrica on April 20th, 2018

The National Power Grid Company Transelectrica SA received on May 8th , 2018 the first installment of 2.2 million euros from the financing approved in January by the European Commission for the construction of the Cernavodă-Stâlpu high voltage internal line, listed as project of common interest. The total grant amount approved by the European Commission through Europe's Interconnection Mechanism is EUR 27 million. This amount covers 50% of the eligible expenses of the investment, the rest of the costs being insured from the Company's own sources. The deadline for completion of the investment is December 31st , 2020. "The Cernavoda-Stalpu 400 kV line is the first project to receive funding from the six projects Transelectrica has on the list of projects of common interest of the European Commission. The 400 kV double circuit Cernavodă - Stâlpu line is aimed at consolidating the cross-section between the western coast of the Black Sea (eastern Romania) and the rest of the European system, while also contributing to the strengthening of the Romanian electricity transmission network, increasing the interconnection capacity between Romania and Bulgaria and the integration of wind energy in the Dobrogea area. The new 400 kV line will have a length of about 160 kilometers, and for its commissioning it is necessary to build the 400 kV Stâlpu station and the extension of the Cernavodă and Gura Ialomiţei stations.

Change of Directorate Chairman of the National Power Grid Company "Transelectrica" SA

By Decision 38 dated May 4th , 2018, the Supervisory Board assigned the position of Chairman of the Directorate, alternatively named Chief Executive Officer or "CEO" - of the National Power Grid Company "Transelectrica" SA, starting with May 7th , 2018, to Mr. RUSU Adrian-Constantin. Starting with May 7th , 2018 ceases the appointment as Chairman of the Directorate, Chief Executive Officer or "CEO" of the Society of the National Power Grid Company "Transelectrica" SA of Mrs. POPESCU Georgeta-Corina.

Government Decision to supplement the budget of the Ministry of Economy from the Budget reserve fund available to the Government provided for in the state budget for 2018, as well as the application of the provisions of Law no. 255/2010 in the case of ongoing expropriation proceedings concerning privately owned buildings that represent the corridor for the expropriation of public utility works of national interest "LEA 400 kv Oradea-Beckescsaba Installing a 100 KVAr compensation coil at the 400 kv Oradea South Station. Telecommunication and remote-transmission equipment for LEA 400 kV Oradea-Beckescsaba ""

On May 10th , 2018, the Government Decision was adopted that allows the completion of ongoing expropriation procedures for privately owned real estate located in the expropriation corridor of the public utility project of national interest 400 MW Oradea-Bekescsaba LEA. By the same Government Decision, funds were approved for installing a 100 MVAr compensation coil in the Oradea South 400 kV station and for the acquisition of telecommunication and remote-transmission equipment for Oradea-Bekescsaba 400 kV LEA.

The 400 kV LEA 400 kV Oradea-Bekescsaba was put into operation only partially, namely the double-circuit section, 400 kV Nadab (RO) - Bekescsaba (HU): 60 km, out of which 22 km in Romania, kV Arad-Nadab. The LEA 400 kV Oradea Sud - Nadab section has a length of 72 km, simple circuit A and is partially completed.
The commissioning of the Oradea - Nadab section and thus the completion of the 400 kV Oradea - Bekescsaba LEA contributes to closing the 400 kV ring of the country's electricity transmission network, a priority objective of Romania.

Also, the existence of this line leads to avoiding congestion costs in the northwest, which last year amounted to about 39,000 lei - in March, and about 160,000 lei - in November.

At the same time, due to the urgent completion of the works at the 400 kV Oradea - Bekescsaba LEA will be eliminated the risk of damage to the safety in operation of the National Electricity System, a higher risk generated by the potential unavailability of the interconnection line between Romania and Ukraine 400 kV Rosiori - Mukacevo), the situation in which maintaining the operational safety of the north - western area of the country would become extremely difficult and costly.

The completion of the line can be assimilated with the provision of a new flow / new power supply to the northwest of the country, with a significant impact on the increase of the operational safety, the availability of the electric energy transport service, the speed of the reaction / refueling, capacity and flexibility in the event of disruptions in the transport infrastructure caused by major damage, natural disasters, disasters, armed attack, terrorist attack, etc.
Also, by putting into operation the 400 kV Oradea Sud - Nadab LEA, the transfer capacity in the interconnection will increase in the export direction by 100 MW, and in the import direction by 300 MW, depending on seasonal and specific factors, internal and external.

Currently, Romania has an interconnection capacity of only 7% of the power installed in the NPS, compared to the target of 10% as stipulated in the European regulations for 2020, this aspect being notified to the European Commission. Putting into operation of the 400 kV Oradea Sud - Nadab LEA will help bring the European target closer.

Directorate

Adrian-Constantin RUSU	**Dan-Valeriu ARDELEAN**	**Andreea Georgiana FLOREA**	**Georgeta-Corina POPESCU**	**Florin-Cristian TATARU**
Chairman	Member	Member	Member	Member

Cristina STOIAN
Economics and Financial Strategy Department Director

Cristiana ZIRNOVAN
Budgeting and Management Reporting Department Manager

To the: Bucharest Stock Exchange – Department of Operations Issuers Regulated Markets

Financial Supervision Authority - General Directorate Supervision - Issuers Division

Current report according to the provisions of Law no 24/2017, Regulation 1/2006 and BSE Code
Date of the report: **April 30, 2018**
Name of the Issuer Company: National Power Grid Co. Transelectrica SA, managed under two tier system
Headquarters: Bucharest 1, Blvd. Magheru no. 33
Working location: no. 2-4, Olteni Street, Bucharest 3
Phone/fax number: 4021 3035 611/4021 3035610
Single Registration Code: 13328043
LEI Code: 254900OLXCOUQC90M036
Number in the Commercial Register: J40/8060/2000
Share capital subscribed and paid: 733,031,420 RON
Regulated market where the issued securities are transacted: Bucharest Stock Exchange

DECISION No. 6 Of the Shareholders' General Ordinary Assembly of the National Power Grid Company Transelectrica SA of 30 april 2018

The Shareholders' general ordinary assembly of the National Power Grid Company Transelectrica SA, managed under two-tier system, established and acting in accordance with the Romanian legislation, registered with the National Office of the Trade Register from Bucharest Tribunal under no. J40/8060/2000, fiscal code 13328043, having its headquarters in Bucharest City 1, Blvd. General Gheorghe Magheru 33, share capital subscribed and paid of 733,031,420 Lei, divided into 73,303,142 nominative ordinary dematerialised shares of 10 Lei nominal value each, having assembled on **30 april 2018, 10:00 h**, attended by shareholders representing 70,82750% of the share capital and 70,82750% of the total voting rights, in accordance with the provisions of the Company law 31/1990, republished, with later amendments and additions, of Law 24/2017 on the issuers of financial instruments and market operations, of Law 297/2004 on the capital market, with later amendments and additions, of the National Securities Commission's Regulations 1/2006 on issuers and security operations and 6/2009 on exercising certain shareholders' rights in the general assemblies of trading companies, issue the following

D E C I S I O N:

With respect to the agenda items under nos. 4, 4^1, 5, 5^1, 7, 7^1, 8, 8^1, 9, 9^1, 10, 16, 17, 19 and 20 as follows:

1. Regarding **item 4 on the agenda with the vote 'against' of the shareholders representing 83,01886% of the total valid casted vote**, it is not approved the Stand-alone financial statements of the National Power Grid Company Transelectrica SA for the 2017 financial exercise according to address no 14345/29.03.2018.

2. Regarding **item 4^1 on the agenda, with the vote "*for*" of the shareholders representing 83,01886% of the total number of votes validly cast**, the stand-alone financial statements of the National Power Grid Company "Transelectrica"–SA for the financial year of 2017 are approved, amended by the registration of the loss resulted from the additional payments obligations recorded in the tax inspection report of ANAF – DGAMC, amounting to 75,727,088 lei, detailed in the Company's Memo no. 14134/March 29th, 2018, in the reported result generated by the correction of accounting errors.

3. Regarding **item 5 on the agenda with the vote 'against' of the shareholders representing 83,01886% of the total valid casted vote**, it is not approved Consolidated financial statements of the National Power Grid Company Transelectrica SA for the 2017 financial exercise according to address no 14348/29.03.2018.

4. Regarding **item 5^1 on the agenda, with the vote "*for*" of the shareholders representing 83,01886% of the total number of votes validly cast**, the consolidated financial statements of the National Power Grid Company "Transelectrica"–SA for the financial year of 2017 are approved, amended by the registration of the loss resulted from the additional payments obligations recorded in the tax inspection report of ANAF – DGAMC, amounting to 75,727,088 lei, detailed in the Company's Memo no. 14134/March 29th, 2018, in the reported result generated by the correction of accounting errors.

5. Regarding **item 7 on the agenda with the vote 'against' of the shareholders representing 83,01886% of the total valid casted vote**, it is not approved to cover the accounting loss recorded on December 31st 2017 from retained earnings obtained from the surplus from revaluation reserves , non-taxable upon change of destination in accordance with the Letter no 14135/29.03.2018.

6. Regarding **item 7^1 on the agenda, with the vote "*for*" of the shareholders representing 83,01886% of the total number of votes validly cast**, the distribution of profit corresponding to the financial year of 2017 is approved, with the following destinations:

Destination	Amount (lei)
Accounting profit remaining after deducting income tax as of December 31st, 2017	28,267,175
Allocation of accounting profit to the following destinations:	
Legal reserve (5%)	2,601,192
Other allocations provided by law - exemption of reinvested income tax	12,541,025
Other allocations provided by law – revenues obtained in 2017 by allocating the interconnection capacity (net of income tax and legal reserve) – partial distribution, limited by the net profit	13,124,958
Profit not distributed	-

7. Regarding **item 8 on the agenda with the vote 'against' of the shareholders representing 83,01886% of the total valid casted vote**, it is not approved to constitute reserves associated to revenues obtained from the allocation of transmission capacity on the interconnection lines from the surplus obtained from revaluation reserves non-taxable when changing their destination in accordance with the letter no 14136/29.03.2018.

8. Regarding **item 8^1 on the agenda, with the vote "*for*" of the shareholders representing 83,01886% of the total number of votes validly cast**, approval is granted for the establishment of reserves amounting to 33,940,566 lei, corresponding to the income acquired from the transmission capacity allocation on the interconnection lines, left uncovered following the profit distribution of 2017 from the surplus acquired from revaluation reserves, non-taxable for the destination modification.

9. Regarding **item 9 on the agenda with the vote 'against' of the shareholders representing 83,01886% of the total valid casted vote**, it is approved to cover the loss from actuarial losses with the surplus obtained from revaluation reserves non-taxable when changing the destination in accordance with the letter no 14137/29.03.2018.

10. Regarding **item 9[1] on the agenda, with the vote "*for*" of the shareholders representing 83,01886% of the total number of votes validly cast**, approval is granted for covering of losses generated from actuarial losses amounting to 16,634,230 lei and covering the loss generated from additional payment obligations recorded in the tax inspection report of ANAF – DGAMC amounting to 75,727,088 lei, from the surplus acquired from the revaluation reserves, non-taxable for the destination modification.

11. Regarding **item 10 on the agenda with the vote 'for' of the shareholders representing 99,77229% of the total valid casted vote**, it is approved the discharging of the liability of Directorate and Supervisory Board members for the 2017 financial year.

12. Regarding **item 16 on the agenda with the vote 'for' of the shareholders representing 94,53782% of the total valid casted vote**, the discussion of the topic regarding the approval of the Board of Supervisors' profile is postponed.

13. Regarding **item 17 on the agenda with the vote 'for' of the shareholders representing 94,53782% of the total valid casted vote**, the discussion of the topic regarding the approval of the candidates' profile is postponed.

14. Regarding **item 19 in the agenda**, **18 may 2018** is approved as set **registration date** of the shareholders that will be touched by the effects of the decision taken by the Shareholders' general ordinary assembly **with the "*for*" vote of shareholders representing 99,99969% from the total number of validly cast votes**.

15. Regarding **item 20 in the agenda**, **with the "*for*" vote of shareholders representing 99,99969% from the total number of validly cast votes** the assembly chairperson **Georgeta - Corina POPESCU** is mandated to sign the Decision of the Shareholders' general ordinary assembly and the documents necessary to register and publish such Decision of the Shareholders' general ordinary assembly according to legal provisions. **Georgeta - Corina POPESCU** can also mandate other persons to carry out the publicity and registration formalities for the Decision of the Shareholders' general ordinary assembly.

Georgeta - Corina POPESCU

Executive Director General
Directorate Chairwoman

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders,
C.N.T.E.E. Transelectrica S.A.

Qualified Opinion

1. We have audited the separate financial statements of C.N.T.E.E. Transelectrica S.A. (the Company), with registered office in Bucharest District 1, B-dul G-ral Gheorghe Magheru, No. 33, identified by the unique tax registration code RO13328043, which comprise the separate statement of financial position as at December 31, 2017, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, including a summary of significant accounting policies and notes to the separate financial statements.

2. The separate financial statements as at December 31, 2017 are identified as follows:

   - Net assets/ Equity RON 2,717,146,656
   - Net loss for the financial year RON 47,945,023

3. In our opinion, except for the possible effects of the matter described in paragraph 4 in the "*Basis for Qualified Opinion"* section of our report, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Company as at December 31, 2017, and its separate financial performance and its cash flows for the year then ended in accordance with Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by European Union.

Basis for Qualified Opinion

4. As at December 31, 2017, S.C. Teletrans S.A., a subsidiary of the Company, was subject to an inspection undertaken by the General Direction for Economic and Finance Inspection of the Ministry of Public Finances for the period 2010 – 2014, which has been completed in 2018. The draft inspection report issued on February 21, 2018 specifies that following the rental of several assets of the State public domain (capacities and infrastructure elements of the telecommunications public network) without observation by the Company and Teletrans of the provisions of art. 14, art. 15 and art. 16 of Law 213/1998 regarding public goods, possible prejudices to the state budget in the amount of RON 88,778,158 were made, representing amounts collected but not transferred to the state budget for the period 2006 - 2016. Until the issuance of our audit report the Company has not finalized the necessary analysis to determine the possible effect of the results of the aforementioned draft inspection report on the separate financial statements as at and for the year ended December 31, 2017. We were not able to determine during our audit the possible adjustments that would have been necessary to be recorded on the separate financial statements as at and for the year ended December 31, 2017, had such an analysis been made.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/ro/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

5. We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and the Council (forth named The "Regulation") and Law 162/2017 ("the Law")(if PIE). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), in accordance with ethical requirements relevant for the audit of the financial statements in Romania including the Regulation and the Law and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

6. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

   We have determined that there are no key audit matters to communicate in our report, in addition to the matters described in the "*Basis for Qualified Opinion"* section*.*

Other information- Administrator's Report

7. Management is responsible for preparation and presentation of the other information. The other information comprises the Administrator' report, but does not include the separate separate financial statements and our auditors report thereon, nor the non-financial information declaration which is presented in a separate report.

   Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

   In connection with our audit of the separate financial statements for the year ended December, 31, 2017, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

   With respect to the Administrator's report, we read and report if this has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by European Union, article no. 20.

   On the sole basis of the procedures performed within the audit of the separate financial statements, in our opinion:

   a) the information included in the administrators' report for the financial year for which the separate financial statements have been prepared are consistent, in all material respects, with these separate financial statements;

   b) the administrators' report has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU, article no. 20;

Moreover, based on our knowledge and understanding concerning the Company and its environment gained during the audit on the separate financial statements prepared as at December 31, 2017, we are required to report if we have identified a material misstatement of this Administrator's report . Except for the possible effects of the matter described in paragraph 4 of the "*Basis for Qualified Opinion"* section of our report, we have nothing to report in this regard.

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Responsibilities of Management and Those Charged with Governance for the Separate financial statements

8. Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

9. In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

10. Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the financial statements

11. Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

12. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

    - Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

    - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

    - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

    - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

    - Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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13. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

14. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

15. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

16. We have been appointed by the General Assembly of Shareholders on December 14, 2017 to audit the separate financial statements of C.N.T.E.E. Transelectrica S.A. for the financial year ended December 31, 2017. The uninterrupted total duration of our commitment is 4 years, covering the financial years ended December 31, 2014 until the December 31, 2017.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Audit Committee of the Company that we issued the same date we issued and this report. Also, in conducting our audit, we have retained our independence from the audited entity.

- We have not provided for the Company the non-audit services referred to in Article 5 (1) of EU Regulation No.537 / 2014.

The engagement director on the audit resulting in this independent auditor's report is Zeno Caprariu.

Zeno Caprariu, Audit Director

For signature, please refer to the original Romanian version.

Registered with the Romanian Chamber of Financial Auditors
under no. 2693/18.11.2008

On behalf of:

DELOITTE AUDIT S.R.L.

Registered with the Chamber of Financial Auditors of Romania
under certificate no. 25/25.06.2001

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March 29, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders,
C.N.T.E.E. Transelectrica S.A.

Qualified Opinion

1. We have audited the consolidated financial statements of C.N.T.E.E. Transelectrica S.A. and its subsidiaries (the Group), with registered office in Bucharest District 1, B-dul G-ral Gheorghe Magheru, No. 33, identified by the unique tax registration code RO13328043, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and notes to the consolidated financial statements.

2. The financial statements as at December 31, 2017 are identified as follows:

   - Net assets / Equity RON 2,739,069 thousand
   - Net loss for the financial year RON 54,788 thousand

3. In our opinion except for the possible effects of the matter described in paragraph 4 in the "*Basis for Qualified Opinion"* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Order 2844/2016, with subsequent amendments for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU.

Basis for Qualified Opinion

4. As at December 31, 2017, S.C. Teletrans S.A., a subsidiary of the Company, was subject to an inspection undertaken by the General Direction for Economic and Finance Inspection of the Ministry of Public Finances for the period 2010 – 2014, which has been completed in 2018. The draft inspection report issued on February 21, 2018 specifies that following the rental of several assets of the State public domain (capacities and infrastructure elements of the telecommunications public network) without observation by the Company and Teletrans of the provisions of art. 14, art. 15 and art. 16 of Law 213/1998 regarding public goods, possible prejudices to the state budget in the amount of RON 88,778,158 were made, representing amounts collected but not transferred to the state budget for the period 2006 - 2016. Until the issuance of our audit report the Group has not finalized the necessary analysis to determine the possible effect of the results of the aforementioned draft inspection report on the consolidated financial statements as at and for the year ended December 31, 2017. We were not able to determine during our audit the possible adjustments that would have been necessary to be recorded on the consolidated financial statements as at and for the year ended December 31, 2017, had such an analysis been made.

5. We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and the Council (forth named The " Regulation") and Law 162/2017 ("the Law"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), in accordance with ethical requirements relevant for the audit of the financial statements in Romania including the Regulation and the Law and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

6. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

   We have determined that there are no key audit matters to communicate in our report, in addition to the matters described in the "Basis for Qualified Opinion" section

Other information – Administrator's Report

7. The administrator is responsible for preparation and presentation of the other information. The other information comprises the Administrator's report but does not include the consolidated financial statements and our auditors report thereon, nor the non-financial information declaration is presented in a separate report.

   Our opinion on the consolidated financial statements does not cover the other information and, unless otherwise explicitly mentioned in our report, we do not express any form of assurance conclusion thereon.

   In connection with our audit of the consolidated financial statements for the year ended December 31, 2017, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

   With respect to the Administrator's report, we read and report if this has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU, article no. 20.

   On the sole basis of the procedures performed within the audit of the consolidated financial statements, in our opinion:

   a) the information included in the administrators' report for the financial year for which the financial statements have been prepared are consistent, in all material respects, with these financial statements;

   b) the administrators' report has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU, article no. 20;

   Moreover, based on our knowledge and understanding concerning the Company and its environment gained during the audit on the consolidated financial statements prepared as at December 31, 2017, we are required to report if we have identified a material misstatement of this Administrator's report. Except for the possible effects of the matter described in paragraph 4 of the "*Basis for Qualified Opinion"* section of our report, we have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

8. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Order 2844/2016, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

9. In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

10. Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

11. Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

12. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

    - Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

    - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

    - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

    - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

    - Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

    - Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

13. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

14. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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15. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

16. We have been appointed by the General Assembly of Shareholders on December 14, 2017 to audit the consolidated financial statements of C.N.T.E.E. Transelectrica S.A. for the financial year ended December 31, 2017. The uninterrupted total duration of our commitment is 4 years, covering the financial years ended December 31, 2014 until the December 31, 2017.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Audit Committee of the Company that we issued the same date we issued and this report. Also, in conducting our audit, we have retained our independence from the audited entity.

- We have not provided for the Company the non-audit services referred to in Article 5 (1) of EU Regulation No.537 / 2014.

The engagement director on the audit resulting in this independent auditor's report is Zeno Caprariu.

Zeno Caprariu, Audit Director

For signature, please refer to the original Romanian version.

Registered with the Romanian Chamber of Financial Auditors
under no. 2693/18.11.2008

On behalf of:

DELOITTE AUDIT S.R.L.

Registered with the Chamber of Financial Auditors of Romania
under certificate no. 25/25.06.2001

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Bucharest, România
March 30, 2018

CNTEE Transelectrica SA
Two-Tier Company

Stand-alone financial statements
on the date and for the financial year concluded on
December 31st, 2017

Drafted according to
the Order of the Ministry of Public Finances no. 2844/2016
with subsequent amendments and completions
for the approval of the Accounting arrangements
pursuant to the International Financial Reporting Standards

	Note	December 31st, 2017	December 31st, 2016
Assets			
Fixed assets			
Property, plant and equipment	**5**	3,044,365,315	3,189,591,544
Intangible assets	**6**	15,563,225	14,457,314
Financial assets	**27**	78,038,750	78,038,750
Long-term receivables	**7**	-	9,774,959
Total fixed assets		**3,137,967,290**	**3,291,862,567**
Current assets			
Inventories	**8**	32,014,652	30,409,648
Trade and other receivables	**9**	818.044.769	851,971,683
Other financial assets	**10**	-	135,090,000
Cash and cash equivalents	**11**	520,746,500	933,661,193
Total current assets		**1.370.805.921**	**1,951,132,524**
Total assets		**4.508.773.211**	**5,242,995,091**
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital, from which:		733,031,420	733,031,420
- *Subscribed share capital*		*733,031,420*	*733,031,420*
Initial offering		49,842,552	49,842,552
Legal reserves		116.360.295	116,360,295
Revaluation reserves		499.921.435	549,088,226
Other reserves		56,953,503	56,953,728
Retained earnings		1.261.037.451	1.602.438.193
Total shareholders' equity	**12**	**2.717.146.656**	**3.107.714.414**
Non-current liabilities			
Non-current deferred revenues	**13**	410,642,185	429,858,527
Loans	**14**	195,185,934	501,929,998
Deferred tax liabilities	**17**	25,036,280	30,195,003
Obligations regarding employee benefits	**15**	52,646,906	43,304,975
Total non-current liabilities		**683,511,305**	**1,005,288,503**

	Note	December 31st, 2017	December 31st, 2016
Current liabilities			
Trade and other payables	**16**	699.936.819	873.948.200
Other taxes and social insurance liabilities	**19**	8.688.192	8.611.209
Loans	**14**	317.063.988	138.204.932
Provisions	**16**	41.545.187	53.801.778
Short-term deferred revenues	**13**	40.881.064	38.125.074
Income tax to be paid	**17**	-	17.300.981
Total current liabilities		**1.108.115.250**	**1.129.992.174**
Total liabilities		**1.791.626.555**	**2.135.280.677**
Total shareholders' equity and liabilities		**4.508.773.211**	**5.242.995.091**

These separate financial statements have been approved by Management on March 28th, 2018 and have been signed on its behalf by:

Directorate,

Georgeta - Corina POPESCU	**Andreea Georgiana FLOREA**	**Dan - Valeriu ARDELEAN**	**Florin - Cristian TATARU**
Chairman	Member	Member	Member

Cristina STOIAN
Economics and Financial Strategy Department Director

Veronica CRISU
Accounting Department Manager

	Note	2017	2016
Revenues			
Transmission revenues		1,054,629,112	1,146,256,800
System service revenues		650,746,554	716,339,587
Revenues on the balancing market		1,304,613,489	814,079,670
Other revenues		50,327,846	45,827,232
Total revenues	**20**	**3,060,317,001**	**2,722,503,289**
Operating expenses			
System operating expenses	**21**	(257,916,731)	(230,756,782)
Expenses on the balancing market	**21**	(1,304,613,489)	(814,079,670)
Expenses regarding the technological system services	**21**	(661,323,176)	(561,027,373)
Depreciation		(311,853,273)	(323,363,219)
Employee-related expenses	**22**	(178.575.211)	(211,867,366)
Repairs and maintenance		(84,765,211)	(88,394,391)
Expenditures with materials and consumables	**8**	(8,316,853)	(7,675,889)
Fines and penalties ANAF control	**23**	(99, 890,556)	

Other operating expenses	**23**	(160.794.955	(133,720,367)
Total operating expenses		**(3.068.049.455)**	**(2.370.885.057)**
Operating profit		**(7.732.454)**	**351.618.232**
Financial revenues		19,098,960	29,960,030
Financial expenses		(40,219,198)	(46,988,308)
Net financial result	**24**	**(21,120,238)**	**(17,028,278)**
Result before income tax		**(28.852.692)**	**334,589,954**
Income tax	**17**	(19.092.331)	(62,228,411)
Result of the financial year		**(47.945.023)**	**272,361,543**
Basic and diluted earnings per share (lei/share)	**18**	**0,6540**	**3.7155**

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Chairman	Member	Member	Member

Cristina STOIAN
Economics and Financial Strategy Department Director

Veronica CRISU
Accounting Department Manager

	Note	**2017**	**2016**
Profit of the financial year		**(47,945,023)**	**272,361,543**
Other comprehensive income			
Elements which will not be reclassified in the profit and loss account, out of which:			
- The effect of taxation corresponding to the reevaluation reserve		-	-
- Surplus from the reevaluation of tangible assets		-	-
- Actuarial losses corresponding to the determined benefits plan	**15**	(6,331,427)	(958,650)
Other comprehensive income (AERG)		**(6,331,427)**	**(958,650)**
Total comprehensive income		**(54.276.450)**	**271,402,893**

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Cristina STOIAN
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Veronica CRISU
Accounting Department Manager

	Share capital	Share premium	Legal reserves	Reserve fund from reevaluation	Other reserves	Retained earnings	Total
Balance on January 1st, 2016	**733,031,420**	**49,842,552**	**99,407,385**	**603,684,792**	**55,694,602**	**1,487,644,971**	**3,029,305,722**
Profit of the financial year	-	-	-	-	-	272,361,543	272,361,543
Other elements of the comprehensive income, from which:							
Recognition of actuarial losses regarding the determined plan of benefits	-	-	-	-	-	(958,650)	(958,650)
Total other elements of the comprehensive income	-	-	-	-	-	**(958,650)**	**(958,650)**
Total comprehensive income of the period	-	-	-	-	-	**271,402,893**	**271,402,893**
Other elements							
Transfer of the reserves from reevaluation in the retained earnings	-	-	-	(54,596,566)	-	54,596,566	-
Increase of the legal reserve fund	-	-	16,952,910	-	-	(16,952,910)	-
Other elements	-	-	-	-	-	-	-
Total other elements	-	-	**16,952,910**	**(54,596,566)**	-	**37,643,656**	-
Contribution from shareholders and distributions to shareholders							
Subsidies of public assets (see Note 12)	-	-	-	-	1,259,126	-	1,259,126
Distribution of dividends	-	-	-	-	-	(194,253,327)	(194,253,327)
Total contributions from shareholders and distributions to shareholders	-	-	-	-	**1,259,126**	**(194,253,327)**	**(192,994,201)**
Balance on December 31st, 2016	**733,031,420**	**49,842,552**	**116,360,295**	**549,088,226**	**56,953,728**	**1,602,438,193**	**3,107,714,414**

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Directorate,

Georgeta - Corina POPESCU	**Andreea Georgiana FLOREA**	**Dan – Valeriu ARDELEAN**	**Florin - Cristian TATARU**	**Cristina STOIAN** Economics and Financial Strategy Department Director
Chairman	Member	Member	Member	

	Share capital	Share premium	Legal reserves	Reserve fund from reevaluation

Balance on January 1st, 2017	**733,031,420**	**49,842,552**	**116,360,295**	**549,088,226**	
Comprehensive income of the period					
Profit of the financial year	-	-	-	-	
Other elements of the comprehensive income, from which:					
Recognition of actuarial losses regarding the determined plan of benefits	-	-	-	-	
Total other elements of the comprehensive income	-	-	-	-	
Total comprehensive income of the period	-	-	-	-	
Other elements					
Transfer of the reserves from reevaluation in the retained earnings	-	-	-	(49,166,791)	
Increase of the legal reserve fund	-	-	-	-	
Other elements	-	-	-	-	
Total other elements	-	-	-	**(49,166,791)**	
Contribution from shareholders and distributions to shareholders					
Derecognition of land plot by dismantling (see Note 5)	-	-	-	-	
Distribution of dividends from the profit of 2016	-	-	-	-	
Distribution of special dividends as per GO no. 29/2017	-	-	-	-	
Total contributions from shareholders and distributions to shareholders	-	-	-	-	
Balance on December 31st, 2017	**733,031,420**	**49,842,552**	**116,360,295**	**499,921,435**	

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Directorate,

Georgeta - Corina POPESCU Chairman	**Andreea Georgiana FLOREA** Member	**Dan - Valeriu ARDELEAN** Member	**Florin - Cristian TATARU** Member	**Cristina STOIAN** Economics and Financial Strategy Department Director	**Veronica CRISU** Accounting Department Manager

	2017	2016
Treasury flows from the operating activity		
Result of the financial year	(47,945,023)	272,361,543
Adjustments for:		
Income tax expense	19,092,331	62,228,411
Depreciation expenses	311,853,273	323,363,219
Expenditures with adjustments for trade receivables impairment	36.575.509	21.221.841
Reversal of adjustments for trade receivables impairment	(14,502,821)	(8.538.076)
Loss from various debtors	45.080.551	67.328
Net expenditures/loss with adjustments for various debtors impairment	(9.466.794)	6.163.084
Net expenditures with adjustments for inventory impairment	1,203,735	2,501,184
Net loss on disposal of property, plant and equipment	838,153	272,673
Net expenditures on adjustments regarding tangible assets	1,663,348	4,736,607
Net expenditures regarding provisions	(9,567,625)	22,821,573

Financial expenses with adjustments for the loss of value of assets	-	493,000
Interest expenses, interest revenues and foregone revenues from exchange differences	21,124,449	16,967,314
Cash flows before changes in the current capital	**355,949,086**	**724,659,701**
Changes in:		
Clients and similar accounts - electricity and other activities	2.326.941	(38,582,866)
Clients - balancing	12,432,909	(100,325,112)
Clients - cogeneration	(30,511,221)	(20,438,116)
Inventories	(1,605,004)	3,919,306
Trade payables and other liabilities - electricity and other activities	(54.948.491)	(67,341,791)
Liabilities - balancing	(81,854,364)	122,122,565
Liabilities - cogeneration	41,162,173	6,642,675
Liabilities paid according to ANAF taxation decision	(99.890.556)	
Other taxes and social insurance liabilities	76,983	1,847,846
Deferred revenues	(16,460,352)	(26,887,004)
Treasury flows from the operating activity	**126.678.104**	**605,617,204**
Paid interests	(22,246,255)	(25,002,612)
Paid income tax	(8,064,579)	(65,766,950)
Net cash from the operating activity	**96,367,271**	**514,847,642**
Treasury flows used in the investment activity		
Acquisition of tangible and intangible assets	(182,858,424)	(171,758,870)
Collection from down payments in the previous financial year and unused	-	29,581,392
Collection from sales of tangible assets	25,909	37,001
Collected interests	5,991,201	5,297,687
Received dividends	2,180,584	3,038,332
Other financial assets	135,090,000	(65,005,000)
Net cash used in the investment activity	**(39,570,729)**	**(198,809,458)**
Treasury flows used in the financing activity		
Repayments of long-term loans	(134,371,923)	(162,486,218)
Special dividends paid as per GO 29/2017	(169,798,704)	-
Paid dividends	(165,540,607)	(194,342,031)
Net cash used in the financing activity	**(469,711,234)**	**(356,828,249)**
Net decrease of cash and cash equivalents	**(412,914,693)**	**(40,790,065)**
Cash and cash equivalents on January 1st	**933,661,193**	**974,451,258**
Cash and cash equivalents at the end of the period	**520,746,500**	**933,661,193**

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1. DESCRIPTION OF ACTIVITIES AND GENERAL INFORMATION

The main activity of CNTEE Transelectrica SA ("The Company") consists of: the electricity transmission services and of the system service, operator of the balancing market, administrator of the bonus type support scheme, other related activities. These activities take place according to the provisions of the business license no. 161/2000 issued by ANRE, updated through the Decision ANRE no. 270/February 4th, 2015, of the general Conditions associated to the license approved through the ANRE Order no. 104/2014 and of the final certification of the Company as a transport operator and system of the National Electroenergetic System according to the model of separating the property ("ownership unbundling").

The registered headquarters is located in: 33 General Gheorghe Magheru Blvd., Bucharest, district 1. Currently, the activity of the Company's executive takes place at the place of operations in 2-4 Olteni Street, district 3, Bucharest.

The stand-alone financial report as of December 31st, 2017, drafted according to the Order of the Ministry of Public Finances no. 2844/2016 for the approval of the Accounting arrangements pursuant to the International Financial Reporting Standards as subsequently amended, is available at the Company's offices from 2-4 Olteni street, district 3, Bucharest.

Starting with 2006, the Company's shares are traded on the Bucharest Stock Exchange under the symbol TEL.

According to the Decision of the Extraordinary General Assembly of Shareholders from July 18th, 2012, the Company switched from one-tier to two-tier Company in order to perform a clear separation of the management activities from the controlling activities. Thus, the Company is managed by a Directorate under the supervision of a Board of Supervisors.

Establishment of the Company

In accordance with Government Decision ("GD") no. 627 on the reorganization of the National Power Company - SA (the "Predecessor Entity") issued on July 31st, 2000 by the Government of Romania, the National Power Company was split into four newly created legal entities ("Successor Entities"). The sole shareholder of the Successor Entities was the Romanian State, through the Ministry of Economy ("ME"). CNTEE Transelectrica SA was established as a result of this reorganization as a joint-stock company which has as main activity the electricity transmission, dispatching of electricity, organization and management of the electricity market.

As described in Note 12, as of December 31st, 2017, the shareholders of the Company are: the Romanian State via the Ministry of Economy, Commerce and Tourism, which holds 43,020,309 shares (58.69%), DEDEMAN SRL with 4,192,363 (5.72%), other legal entity shareholders which hold 20,689,339 shares (28.22%) and other natural person shareholders which hold 5,401,131 shares (7.37%).

According to GEO no. 86/17.12.2014 "on the establishment of reorganization measures at the level of the central public administration and to amend and supplement certain legal acts", the Ministry of Economy, Commerce and Tourism exercises the rights, as of December 17th, 2014, and fulfills the obligations arising from its capacity as State shareholder in the National Power Grid Company "Transelectrica" - S.A.

GD no. 47/2013 on the organization and operation of the Ministry of Economy was amended and supplemented accordingly by GD no. 41/2015.

To enforce the provisions of GEO no. 86/2014, on February 20th, 2015, Depozitarul Central SA recorded the transfer of 43,020,309 shares (representing 58.68% of the share capital) issued by CNTEE Transelectrica SA, from the account of the Romanian State represented by the Government via the Secretariat-General of the Government into the account of the Romanian State through the Ministry of Ministry of Economy, Commerce and Tourism.

Based on the provisions of art. 2 of GEO no. 55/November 19th, 2015 on establishing reorganization measures in the central public administration and amending certain legal acts, the Ministry of Economy, Commerce and Relations with the Business Environment was established, by reorganizing and taking over the activities of the Ministry of Economy, Commerce and Tourism, which was closed, and by taking over the activity and structures of small and medium-sized enterprises from the Ministry of Energy, Small and Medium-Sized Enterprises and the Business Environment.

Company's mission

The Company's mission is to ensure safety and security in the functioning of the National Power System (NPS) by complying with the standards and the performance stipulated by the technical regulations in force, providing a public service for all users of the electricity transmission grids, ensuring transparency, non-discrimination and fairness for all market participants.

1. DESCRIPTION OF ACTIVITIES AND GENERAL INFORMATION (continued)

Other information relating to the Company's activity

CNTEE Transelectrica SA became a member of the Union for the Coordination of Transmission of Electricity ("UCTE") in October 2004, and from November 2004 it became a member of the European Transmission System Operators ("ETSO"). As of July 2009, ENTSO-E was created by joining ETSO, UCTE and other four European Transmission System Operators ("TSO") associations have been fully integrated into the European Network of Transmission System Operators for Electricity ("ENTSO-E"), joining 42 TSOs from 35 countries. The activity of ENTSO-E is governed by the applicable European legislation (Regulation 714/2009).

CNTEE Transelectrica SA is an affiliate member to the following international organizations:

- ENTSO – E - European Network of Transmission System Operators for Electricity;
- CIGRE - International Council on Large Electric Systems;
- LWA - Live Working Association;

CNTEE Transelectrica SA is responsible for the secure, reliable and efficient functioning of the NPS, by carrying out the provisions of Directive (EU) no. 54/2003, Art. 9.

On May 23, 2017, Moody's Investors Service's credit rating agency published its updated credit rating, assessing Transelectrica's current and future ability to meet its payment obligations to creditors.
The credit rating of Moody's Investors Service credit rating agency maintained the Company's rating at the level of the previous year, respectively Ba1.

Starting January 2017, the Company has signed a contract with Fitch Ratings International Credit Company.
On July 5, 2017, Fitch grants the Company a stable BBB rating, as a recognition of the Company's efforts to achieve operational excellence and a responsible approach to the business environment in which it operates. On Oct. 11, 2017, Fitch maintains the BBB rating, stable outlook, rating one step above the country's rating (BBB- / stable outlook) for the Company.

Legislative environment

The activity in the energy sector is regulated by the Romanian Energy Regulatory Authority ("ANRE"), an autonomous public institution whose object of activity is to develop, approve and monitor the application of all the regulations mandatory at national level necessary for the efficient operation of the electricity, heat and gas sector and market, under conditions of efficiency, competition, transparency and consumer protection.

ANRE has the following main responsibilities in the field of electricity and heat produced in cogeneration: to grant, suspend or revoke the permits and licenses, to develop and approve methodologies and criteria for the calculation of tariffs and regulated prices, to approve tariffs and regulated prices, to draft framework agreements, to approve technical and commercial regulations etc.

ANRE establishes the tariffs for electricity transmission and system services. Ergo, the decisions made by ANRE can have significant effects on the Company's activity.

The Company's operating activity has been carried out according to License no. 161/2000 for electricity transmission and provision of system services issued by ANRE, valid until 2025, revised by ANRE Decision no. 802/18.05.2016 and the General Conditions associated to the license approved by ANRE Order no. 104/2014, as subsequently amended and supplemented.

Taking into account that the Company's operations and revenues are regulated by ANRE, the most important risks arising from this aspect are:

- the regulatory framework is relatively new and constantly prone to changes, which may affect the Company's performances;
- ANRE decisions regarding future tariffs may affect the Company's activity;
- the volume risk, namely the decrease in the amount of tariffable energy that may adversely affect the Company's financial situation. In 2017, according to ANRE Decision no. 71/2017, a simulation of two-tier tariffs has been performed by inserting a tariff for grid capacity reservation (the tariff component – fixed – for power) additional to the tariff for the energy distributed in the grid (the tariff component – variable – for energy). The application of two-tier tariffs aims at better reflecting the costs of use of the electricity transmission grid (by applying the fixed tariff component), optimizing investments in the electricity transmission grid and protecting the revenues of the transmission operator through the stability offered by the fixed tariff component.

Final certification of Transelectrica as TSO of the NPS, according to the ownership unbundling model

In accordance with the provisions of Law no. 123/2012 regarding electricity and natural gas, as subsequently amended and supplemented, the Romanian Energy Regulatory Authority (ANRE) approved, via Order no. 164/07.12.2015, the certification of the National Power Grid Company "Transelectrica" SA as transmission and system operator of the National Power System according to the ownership unbundling model.

1. DESCRIPTION OF ACTIVITIES AND GENERAL INFORMATION (continued)

The ownership unbundling model has become available to the Company pursuant to Law no. 123/2012 on electricity and natural gas which transposes Directive 2009/72/EC.

ANRE Order no. 164/07.12.2015, accompanied by the European Commission Approval no. C (2015) 7053 final/12.10.2015, as integral part of the Order, was published in the Official Journal no. 908/08.12.2015 and together with the Approval Report thereof is communicated by ANRE to the European Commission.

This order enforces the provisions of the European Union and the national legislation regarding the certification of transmission and system operators.

The certification notification was sent to the European Union, which published it in the Official Journal of the EU from 08.01.2016, in accordance with Art. 10(2) of Directive 2009/72/EC.

Tariffs for electricity transmission and system services

Electricity transmission is a general interest activity in the field of electricity, authorized and monitored by a public authority (public service), in the form of natural monopoly. The tariffs charged by the Company for transmission and system services are established and approved by ANRE (see Note 20).

Regulated assets base ("RAB")

The transmission tariff is set, among others, based on the regulated asset base. The regulated asset base includes the net value of property, plant and equipment and intangible assets which correspond to the private patrimony of the Company and the net value of the State's public patrimony assets funded via the Company's own sources, recognized by ANRE and used in providing the electricity transmission service.

Assets resulting from additional investments made with the approval of the regulatory authority, due to exceptional circumstances as compared to the investment program initially approved at the beginning of the regulatory period are inserted in the RAB in the specific regulatory period if in the regulatory period savings amounts were registered and only within the limits thereof, or shall be included in the RAB at the beginning of the next regulatory period, at the value left for depreciation if a value saving was not made.

The current regulatory period lasts five years (July 1st, 2014 – June 30th, 2019), and comprises five tariff years (the tariff year begins on July 1st and lasts for 12 months). Thus, 2017 was the year of transition from the third tariff year to the fourth tariff year within the current regulatory period (the third tariff year ended June 30th, 2017, the fourth tariff year began July 1st, 2017).

The regulated return on assets in 2017 for the electricity transmission activity is 7.7%, a value determined ANRE for the current regulatory period.

Inclusion of Transelectrica in the local and international stock exchange indexes

Starting from 29.08.2006, CNTEE Transelectrica SA shares are traded on the regulated market managed by the BSE, in category I under the symbol TEL. The Transelectrica shares are part of the BET index [which reflects the evolution of the 10 most traded companies on the BSE Regulated Market, excluding financial investment companies (SIFs)], with a share of 2.21% as of December 31st, 2017 (December 31st, 2016: 4.11%), with a stock exchange capitalization of 1,799,592,136 as of December 31st, 2017 (December 31st, 2016: 2,140,451,746).

Transelectrica is also included in the local stock exchange indexes BET-XT, BET-NG, BET-XT-TR, BET Plus, BET-TR, BET-BK, ROTX and in the international indexes Dow Jones Wilshire Global Indexes (Dow Jones Wilshire Global Total Market Index SM; Dow Jones Wilshire Romania Index SM; Dow Jones Wilshire Electricity Index SM). Starting with January 5th, 2015, the Company was included in the Premium category of the regulated market managed by the BSE.

Company's revenues

The main revenue generating activities of the Company are represented by the provision of the following services:

- Electricity transmission service;
- System services (the technical operational management of the NPS);
- Balancing market operator.

1. DESCRIPTION OF ACTIVITIES AND GENERAL INFORMATION (continued)

Electricity transmission service

The transmission service consists in ensuring the electricity transmission between two or more points of the power transmission grid ("PTG"), under conditions of efficiency and safety, whilst observing the applicable performance standards.

The Company ensures the non-discriminatory and regulated access to the transmission grid to all electricity market participants. The transmission activity is carried out through eight branches located in: Bucharest, Bacau, Cluj, Craiova, Constanta, Pitesti, Sibiu and Timisoara.

The transmission service provided by Transelectrica consists in ensuring the technical conditions and maintaining the PTG parameters during the injection/extraction of energy in/from PTG.

System Services

The Company's responsibility is to permanently maintain the operation of the National Power System under safe conditions whilst complying with the quality standards provided in the technical code of the power transmission grid. To this effect, the Company uses its own resources called functional system services and purchases technological system services from electricity producers.

CNTEE Transelectrica SA provides this service by using dispatch management systems under a tariff regulated and approved by ANRE, which is applied to the same base - electricity delivered to consumers - and includes:

tariff for system services, of which:

tariff for functional system services.

The technological system services are purchased from energy producers at the request of CNTEE Transelectrica SA pursuant to a procedure regulated by ANRE for maintaining the operational safety of the NPS as well as the quality of electricity transmitted at the parameters required by the applicable legislation. CNTEE Transelectrica SA re-invoices the entire amount of system services purchased from producers (except for the active energy component which covers the PTG losses) to electricity suppliers licensed by ANRE which are the end beneficiaries of such services.

The functional system services pertain to the dispatch services provided by CNTEE Transelectrica SA and consist of planning and operationally managing the NPS, as well as the other activities of CNTEE Transelectrica SA in order to balance production against consumption in real time, in order to safely cover the electricity consumption at minimum costs whilst maintaining the operational safety level of the NPS.

Balancing market operator

In accordance with the provisions of the Commercial Code of the Wholesale Electricity Market, the balancing market was introduced and started functioning in Romania in July 2005. The purpose of this market is to ensure the balance between production and consumption in real time, using resources offered in a competitive system.

CNTEE Transelectrica SA is the balancing market operator which, based on procedures and regulations approved by ANRE, must approve all the balancing market participants, must collect, check and process all the orders and perform the settlement procedures.

High-efficiency cogeneration

Starting with April 1st, 2011, CNTEE Transelectrica SA is the administrator of the support scheme for high-efficiency cogeneration. The purpose of this support scheme is to promote highly efficient systems cogenerating heat and power, with the advantage of a more environmentally friendly electricity production. It aims to provide easy access on the market for electricity produced in high-efficiency cogeneration plants via a cogeneration bonus granted if the total electricity and heat production costs generated by such cogeneration plants exceed the market prices of the two types of energy. The support scheme targets electricity and heat producers owning or operating high-efficiency power plants, so as to encourage new investments in cogeneration, as well as the refurbishment of existing facilities.

1. DESCRIPTION OF ACTIVITIES AND GENERAL INFORMATION (continued)

Government Decision no. 1215/2009 establishes the legal framework according to the European Union regulations necessary for implementing the bonus support scheme for promoting high-efficiency cogeneration based on the demand for thermal energy, in order to cover the difference between high-efficiency cogeneration production costs and sale prices. ANRE approved the reference bonus values per megawatt an hour ("MWh") of electricity produced and delivered in the grid from high-efficiency cogeneration plants. The beneficiaries of the scheme are the producers that meet certain criteria established by ANRE.

According to provisions of Article 14 of Government Decision no. 1215/2009, CNTEE Transelectrica SA is designated as responsible for the administration of the support scheme. The main tasks of the Company as the administrator of the support scheme are: collecting the contribution from the suppliers of the electricity consumers in a bank account distinct from the core activity; paying the bonus to the high-efficiency cogeneration electricity and heat producers; concluding contracts with suppliers in order to collect the contribution and with producers that will be the beneficiaries of the scheme; verifying the value of the contribution collected; issuing invoices to suppliers; refunding the high-efficiency cogeneration contribution to the suppliers who import in Romania energy produced in high-efficiency cogeneration in other member states of the European Union; monitoring and reporting to ANRE the way of administration of the support scheme; paying the bonus to energy producers that are the beneficiaries of the scheme; paying late penalties to the producers for not paying the bonus on the due date.

The Company acts as an agent of the State in the monthly collection of the cogeneration contribution and the monthly payment of the bonus and under such circumstances, the operations associated to the support scheme do not influence the income and expense accounts, except for the own administration costs recognized by ANRE to run the support scheme, which are self-invoiced.

On December 8th, 2016, by Government Decision no. 925, the amendment and supplement have been adopted for GD no. 1215/2009 on setting the necessary criteria and conditions to implement the support scheme for promoting the high efficiency cogeneration based on the effective heat demand. The main amendments refer to the following:

- to receive the bonus, produces are requested not to generate liabilities to the administrator of the support scheme or to conclude conventions for the settlement of liabilities and receivables;
- the over-compensation is recovered according to the national legislation and the legislation of the European Union in the field of State aid;
- the undue over-compensation/bonus remaining to be paid by producers, for which all the legal actions have been taken, will be recovered by including the amount in the cogeneration contribution, according to the methodology issued by ANRE;
- the ANRE decisions regarding the amount of the over-compensation and/or the undue bonus are mandatory for producers and are enforced for recovering the amount by issuing a decision by the scheme administrator in accordance with the legislation in the field of State aid;
- the financial closing of the support scheme is made in the first semester of 2024, according to the regulatory framework drawn up by ANRE.

Electricity markets price coupling mechanism

On November 19th, 2014, the "4M Market Coupling" project became operational, which provides the connection of Day-Ahead electricity markets (Day-Ahead Market) in Romania, Hungary, The Czech Republic and Slovakia.

In terms of the internal regulatory framework, the roles and responsibilities of the operators involved, i.e. CNTEE Transelectrica SA and SC OPCOM SA, as well as the operations carried out within the market coupling processes are provided in the Regulation for the Organization and Operation of the Day-Ahead Electricity Market, approved by ANRE Order no. 82/2014 (the Regulation), by observing the price coupling mechanism of markets and amending certain legal acts that regulate the day-ahead electricity market.

The target model for the day-ahead market, based on the principle of price coupling of regions (PCR - Price Coupling of Regions) uses a single algorithm to correlate bids and set the price.

If coupling is not possible on the 4M MC market, the TSOs of Romania, Hungary, the Czech Republic and Slovakia will apply the fallback procedures, by which cross-border capacity is allocated.

Art. 138 of the Regulation provides that, during the post-coupling process, the Transmission and System Operators (TSOs) act as shipping agents for the electricity resulted from the coupling algorithm as being shipped between two adjacent bidding zones.

Within the price coupling mechanism of day-ahead markets, the electricity exchanges correlate, based on auctions, the day-ahead electricity trades depending on the interconnection capacity made available by TSOs through which it is implicitly allocated.

1. DESCRIPTION OF ACTIVITIES AND GENERAL INFORMATION (continued)

CNTEE Transelectrica SA, acting as TSO, transfers the electricity both in physical and commercial terms to the neighboring TSOs (MAVIR-Hungary) and manages the congestion income on the respective interconnection (Article 139 from ANRE Order no. 82/2014), while in relation to SC OPCOM SA it acts as Implicit Participant on the Day-Ahead Market.

As a Shipping Agent and Implicit Participant, CNTEE Transelectrica SA has the commercial task to settle the power traded between SC OPCOM SA and MAVIR.

Thus, within the price coupling mechanism of regional markets, CNTEE Transelectrica SA:

- fulfils the role of implicit participant on the DAM and acts as shipping agent;
- provides the interconnection capacity for the physical supply of electricity traded on the DAM, namely the transfer of power from one bidding zone to another through the interconnection lines, limited to the available transfer capacity of such lines.

Congestion income is divided on a monthly basis between transmission and system operators and foreign exchange differences are withheld or covered by TSOs, as the case may be.

The Company approved that the transactions related to the price coupling mechanism of regional markets will not influence the income and expense accounts, except for income from congestion management across interconnection lines, for income/expenses from foreign exchange differences and for expenses with bank fees resulting from clearing transactions carried out by the Company as shipping agent.

2. BASIS OF PREPARATION

(a) Declaration of conformity

The stand-alone financial statements ("financial statements") were drafted according to the Order of the Ministry of Public Finances no. 2844/2016 approving the Accounting arrangements pursuant to the International Financial Reporting Standards with subsequent amendments and additions ("OMFP no. 2844/2016"). Within the meaning of Order no. 2844/2016, the International Financial Reporting Standards mean the standards adopted according to the procedure provided by Regulation (EC) no. 1.606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards ("EU IFRS").

The Company applies the International Financial Reporting Standards as approved by the European Union upon the preparation of the stand-alone financial statements for 2017 in accordance with OMF no. 881/2012, as subsequently amended and supplemented.

(b) Basis of assessment

The financial statements are prepared at historical cost, except for property, plant and equipment other than the ones in progress, which are assessed at revaluated value, while the liabilities related to cash settled share-based payment transactions are assessed at fair value.

(c) Functional and presentation currency

The financial statements are presented in Romanian LEI ("LEI" or "RON") according to the applicable accounting regulations, which is the Company's functional currency.

(d) Use of estimates and judgements

The preparation of consolidated financial statements in accordance with EU IFRS requires management to use professional judgment, estimates and assumptions that impact the application of accounting policies and the recognized value of assets, liabilities, income and expenses, assumptions regarding the fair value (see Note 4), commitments and contingencies (see Note 26), the recognition of non-refundable funds to be received (see Note 13), the provision for impairment of receivables (see Note 9), the liabilities related to cash settled share-based payment transaction (Note 28) and the liabilities for defined benefit plans (Note 15).

Actual results may differ from these estimates. Estimates and assumptions are revised periodically. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future impacted periods.

2. BASES OF DRAFTING (continued)

Information regarding assumptions and estimates which imply significant uncertainties are included in the following notes:

- Note 13 – the Company's management estimate related to the existence of a reasonable assurance that the conditions regarding non-refundable funds will be fulfilled and the funds will be received;
- Note 15 – assessment of liabilities for defined benefit plans;
- Note 26 – recognition and assessment of provisions, commitments and contingencies; key assumptions regarding the probability and magnitude of an outflow of resources;
- Note 28 – assessment of liabilities related to cash settled share-based payment transactions.

Information regarding the accounting policy rationale pertaining to the service concession agreements is presented in the following paragraphs.

In 2004, the Company (operator) concluded a service concession agreement with the Ministry of Economy (grantor) according to which the Company has the right to use public patrimony assets which mainly include the electricity transmission grid and the land on which it is located, in exchange for providing electricity transmission services (see Note 3 (b)). Taking into consideration that the majority of the Company's shares are held by the State, the Company's management considers it to be a public-sector company and therefore out of the scope of IFRIC 12 "Service Concession Arrangements". With no other specific international financial reporting standard pertaining to service concession agreements, the Company considered whether IFRIC 12 should nevertheless be applied, based on the hierarchy set out in IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", which requires to first consider the requirements of other IFRSs dealing with similar issues.

In determining whether IFRIC 12 is applicable, the Company considered if the following features of a public-to-private service concession agreement are to be applied to the concession agreement concluded with the Ministry of Economy, as of the date on which IFRIC 12 is required to be adopted:

- the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price;
- the grantor controls — through ownership, beneficial entitlement or otherwise — any significant residual interest in the infrastructure at the end of the term of the arrangement: 49 years;
- the contractual agreement would include the same terms if entered into with a private-sector company.

The analysis of the characteristics of the concession agreements of public-to-private services reveals as follows:

- the services provided by the Company are regulated by ANRE, therefore the Grantor – the competent Ministry – does not control or regulate the type of services that the Company must provide;
- at the end of the contractual period, the residual interest in infrastructure is approximately nil, and most of the goods belonging to the State public domain are completely depreciated;
- there are currently are no other similar contracts, the Company holds the monopoly in the electricity transmission sector.

The Company concluded that accounting for the concession agreement under IFRIC 12 would not reflect the economic substance of the transaction, as the Company pays an annual fee as royalty for the use of the assets under the concession agreement of 1/1000 of the total annual revenue from electricity transmission services, computed based on the actual transmitted quantity, a fee that is significantly lower than the amount of the depreciation that the Company would have recorded for these assets, had the concession agreement not been signed. As a result, IFRIC 12 is not applicable, and the Company applied the accounting policies as explained in Notes 3 (a) and (b).

3. ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for those aspects disclosed in Note 3 letter (x) which discloses the changes in accounting policies.

(a) Property, plant and equipment

3. ACCOUNTING POLICIES (continued)

Owned assets

Property, plant and equipment, except for the ones in progress, are stated at their revalued value, less any accumulated depreciation and accumulated impairment losses. Property, plant and equipment in progress is stated at cost. The cost of assets built by the Company includes cost of materials, direct salaries, initial estimate, where applicable, of costs with dismantling and relocating items and restoring the site, plus a share of indirect costs.

Recognition

Property, plant and equipment is initially valued at cost.

The cost includes the costs that are directly attributable to the acquisition of the asset. The cost of constructed assets by the entity includes:

- cost of materials and direct staff costs;
- other costs directly attributable to bringing the asset to the location and condition/stage necessary for the intended use; and
- capitalized loan costs.

Impairment adjustment are recorded for the idle or obsolete tangible assets.

Subsequent expenditures

The Company recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be reliably measured. All other costs are recognized in the income statement, as occurred.

Depreciation

Property, plant and equipment items are depreciated using the straight-line method over their useful lives, as follows:

	Normal useful life (years)
Buildings and special installations	40-60
Machinery and equipment	15-40
Control and measurement devices	7-12
Vehicles	5-8
Other property, plant and equipment	3-5

Land is not depreciated. Where parts of an item of property, plant and equipment have different useful lives, these are accounted for as separate asset items (major components). Asset depreciation methods, useful lives and residual values are revised and adjusted, if necessary, at the end of each reporting period.

Revaluation

The Company chose to disclose property, plant and equipment at revalued value, except for advances and property, plant and equipment in progress, presented at historical cost.

Revaluations are performed by independent expert acting as evaluators with sufficient regularity so that the book value does not significantly differ from the value which can be determined based on the fair value as of the reporting date.

(b) Public patrimony assets

As stipulated by Law no. 213/1998, the electricity transmission grids represent the State's public patrimony goods.

Government Resolution no. 627/2000 establishes in Annex no. 8 the State public patrimony fixed assets which are under the Company's administration since August 1st, 2000, and which are subject to inventory count and are updated whenever necessary, through legal act (GD).

3. ACCOUNTING POLICIES (continued)

Prior to signing the concession agreement described below, public patrimony assets were treated as contribution in kind of the Romanian state through its representative, the Ministry of Economy, as the Company did not have to pay any tax for using the assets.

In November 1998, Law no. 213/1998 was issued, which regulates the status of public patrimony. The law stipulates that the State or local authorities have ownership of the State public patrimony and that they can rent or grant use of such patrimony. According to the provisions of Law no. 213/1998 and Law no. 219/1998, the Ministry of Economy has signed, on behalf of the State, a concession agreement pertaining to the energy transmission grid (high voltage electricity lines and electrical substations) and the land on which they are built. Concession agreement no. 1 was concluded on June 29th, 2004 between the Ministry of Economy and the Company for all public patrimony tangible assets in balance as of December 31st, 2003 and is in effect for 49 years.

Following the execution of the concession agreement with the Ministry of Economy on behalf of the Romanian State, on June 29th, 2004, the nature of the relationship between the Ministry and the Company changed and thus the Company derecognized public patrimony assets, including the public patrimony reserve included in equity. Subsequent to the conclusion of the concession agreement, the Company accounts as operating lease the assets over which it has been granted a right of use. The payments for the concession agreement (royalty) are accounted for by the Company as expenses in the profit or loss account during the year.

Concession agreement no. 1/2004 was published in the Official Journal of Romania no. 298 bis of April 30th, 2015.

Between 2005 and 2013, seven addenda have been concluded to the concession agreement. Therefore, assets from the public patrimony obtained out of the development fee after June 29th, 2004 have been derecognized.

Taking into account the provisions of Government Decision no. 1009/2012 and of Government Decision no. 984/2012, approving the amendment of Appendix no. 7 to Government Decision no. 1705/2006 approving the centralized inventory of the goods in the public patrimony that were transferred to the Company under concession, and following the inventory procedure of the assets under public patrimony in 2012 and the revaluation/valuation of these goods, on 14.02.2013, Addendum no. 7 to Concession agreement no. 1/29.06.2004 was signed with the Ministry of Economy.

Government Decision no. 1032 from December 11th, 2013, published in the Official Journal no. 22 from January 13th, 2014, approved the amendment and supplementing of Addendum no. 7 to Government Decision no. 1705/2006 approving the centralized inventory of the assets under public patrimony, following the 2012 inventory of the assets under public patrimony.

The main terms of the concession agreement are as follows:

- The Ministry of Economy has legal ownership over the assets within the scope of the agreement;
- The Company has the right of use over these assets for a period of 49 years from June 1st, 2004 until May 31st, 2053;
- The annual fee paid by the Company in the form of royalty for use of the assets is set by the Ministry of Economy and represents 1/1000 of the total revenue gained from the electricity transmission services, based on the actual capacity transmitted;
- The assets will be returned to the Ministry of Economy upon termination or expiration of the agreement; the contract can be unilaterally terminated by either party;
- The Company has the obligation to use the assets according to the provisions of the concession agreement and pursuant to the operating license.

The amount that the Company paid under the concession agreement for the period January 1st – December 31st, 2014 is significantly lower than the amount of the depreciation that the Company would have recorded for such assets had the concession agreement not been concluded. However, the Company has not recorded into the financial statements any amount related to this potential benefit, as the Company is unable to determine the amount that a third party would pay for the use of the assets in an arm's length transaction.

Self-funded investments made by the Company regarding the assets under the scope of the concession agreement are capitalized and depreciated over the remaining useful life of the assets. After the recovery of the investment depreciation, they will be included in the inventory of goods belonging to the State's public domain.

In the case of assets representing self-funded finished non-current assets, they will be included in the inventory of goods belonging to the State's public domain after recovering the investment depreciation, namely upon the expiry of the normal period of utilization, of the concession or lease agreement, pursuant to the applicable legal provisions, based on a regulatory act adopted in this regard.

3. ACCOUNTING POLICIES (continued)

(c) Intangible assets

The intangible assets purchased by the Company are stated at cost less any accumulated depreciation and accumulated impairment losses. The depreciation is recognized in the profit and loss account based on the straight-line method over the estimated useful life of the intangible asset. The majority of intangible assets recorded by the Company consists of intangibles in progress and customized software. These are depreciated on a straight-line basis over 3 years.

Asset depreciation methods and useful lives are revised and adjusted, if necessary, at the end of each reporting period.

Subsequent expenditures

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

(d) Foreign currency transactions

Transactions in foreign currencies are converted to LEI by applying the exchange rates applicable at the date of the transaction. Monetary assets and liabilities expressed in foreign currencies at the end of the period are converted to LEI at the exchange rates applicable on that date. Exchange gains and losses, realized or unrealized, are included in the profit and loss account for that year. The exchange rates at December 31st, 2017 and December 31st, 2016 are as follows:

Currency	December 31st, 2017	December 31st, 2016
1 EUR	4.6597	4.5411
1 USD	3.8957	4.3033

Non-monetary assets and liabilities expressed in foreign currencies are measured at fair value, at the exchange rate applicable at the date of the transaction.

(e) Receivables

Trade receivables are initially recognized at fair value and subsequently assessed using the effective interest method, less the value losses. A value loss is established when there is clear evidence that the Company will not be able to collect all amounts due within the agreed deadline. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganization and late payments (over 180 days) are considered indications that these trade receivables might be impaired.

A value loss corresponding to an asset is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced via the use of a value loss, and the amount of the loss is recognized in profit or loss account under "Other operating expenses".

(f) Inventories

Inventories consist of:

- raw materials, materials, spare parts that do not meet the definition of PPE and other consumables that are to be used during the performance of the basic activity of the Company;
- security and intervention stock needed for fast repairs of the failures occurred in the PTG installations in order to assure the safe functioning of the NPS. These materials are recorded as inventories when purchased and then expensed when consumed or capitalized, as the case may be.

Inventories are assessed at the lowest value between the cost and net realizable value. The cost of inventories consumed is determined based on the FIFO method and includes expenditures with acquisition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion, if any, and selling expenses.

The Company's policy is to write off a loss of value of 100% for current inventories older than 365 days and that are not expected to be used in the future.

3. ACCOUNTING POLICIES (continued)

(g) Cash and cash equivalents

Cash and cash equivalents include petty cash, current accounts and bank deposits with original maturities of maximum 3 months that are subject to an insignificant risk of change in fair value.

(h) Revaluation reserves

After the recognition as an asset, an item of property, plants and equipment whose fair value can be reliably measured is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not significantly differ from that which would be determined using the fair value at the balance sheet date.

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

If the carrying amount of property, plant and equipment decreases as a result of a revaluation, such decrease is recognized the in profit or loss account. However, the decrease is made by decreasing revaluation reserves, if there is any credit balance existing in the revaluation surplus in respect of such property, plant and equipment.

The revaluation reserve included in equity related to an item of property, plant and equipment is transferred directly to the retained earnings, over the depreciation of the revaluated item and when the item is derecognized.

Starting with May 1st, 2009, the reserves from the revaluation of property, plant and equipment, including land plots, recorded after January 1st, 2004, which are deducted when calculating taxable income through tax depreciation expenses or transferred and/or ceased assets expenses, are taxed simultaneously with the tax depreciation deduction, namely when the assets are disposed, as the case may be.

The Company registered deferred tax for the liability pertaining to the reserves from the revaluation of fixed assets, including land plots, recorded after January 1st, 2004.

Reserves from the revaluation of property, plant and equipment, including land plots, recorded before December 31st, 2003, as well as the portion of the revaluation performed after January 1st, 2004 and related to the period before April 30th, 2009 will not be taxed when transferred to retained earnings.

The Company did not register deferred tax for the liability pertaining to the reserves from the revaluation of fixed assets, including land plots, recorded until December 31st, 2003.

Reserves from the revaluation of property, plant and equipment are taxable in the future, in case of changing the destination of reserves in any form, in case of liquidation, merger of the Company, including using the reserves for covering the Company's losses, except for the transfer in the retained earnings after May 1st, 2009 of revaluation reserves when the revaluation was performed after January 1st, 2004, which are taxed at the same time with the deduction of tax depreciation.

(i) Impairment of non-financial assets

The carrying amount of the Company's non-financial assets, other than inventories and deferred tax assets, are revised at each reporting date to determine whether there is any evidence pertaining to an impairment. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

The recoverable amount of an asset or cash generating unit is the greater value between the value of use and the fair value less selling costs. In assessing the value of use, the estimated future cash flows are updated in order to determine the presented value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continued and use that are largely independent of the cash inflows of other assets or groups of assets ("cash generating unit").

3. ACCOUNTING POLICIES (continued)

Impairment losses are recognized in the profit or loss account. Impairment losses recognized in respect of cash generating units are primarily allocated to reduce the carrying amount of the goodwill allocated to cash generating units (group of cash generating units), as the case may be, and then to reduce the carrying amount of other assets in the cash generating unit (group of cash generating units) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, the impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

(j) Share capital

Ordinary shares are classified as part of equity. Incremental costs directly attributable to the issue of new shares and shares options are recognized as a deduction in equity at the value net from tax effects.

(k) Dividends

Dividends are recognized as a liability when the shareholder's right to payment is established.

(l) Trade and other payables

Trade accounts payables and other payables are recorded at depreciated cost and include the value of invoices issued by suppliers of goods, executed works and provided services.

(m) Interest-bearing loans

Interest-bearing loans are initially recognized at fair value net of attributable transaction costs. Subsequent to the initial recognition, interest-bearing loans are recorded at depreciated cost with any difference between cost and redemption value being recognized in the profit and loss account over the period of the loan based on the effective interest rate.

(n) Recognition and de-recognition of non-derivative financial instruments

Non-derivative financial assets

The Company initially recognizes receivables on the date when they originated. All other financial assets are initially recognized on the trading date when the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset upon the expiry of the contractual rights on the cash flows generated by the asset, or upon the transfer of the rights to collect the contractual cash flows generated by the financial asset in a transaction in which all the risks and rewards associated with the ownership of the financial asset are significantly transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

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

The Company's non-derivative financial assets are mainly represented by trade and other receivables and cash and cash equivalents.

Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date they originated. All other liabilities (including liabilities designated at fair value through the profit or loss account) are initially recognized on the trade date when the Company becomes a party to the contractual provisions of the instrument.

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

3. ACCOUNTING POLICIES (continued)

(n) Recognition and de-recognition of the non-derivative financial instruments (continued)

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to the initial recognition, these financial liabilities are assessed at depreciated cost using the effective interest method.

Other financial liabilities comprise loans, trade and other payables.

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in the profit or loss account except for the extent that it relates to a business combination or items directly recognized in equity or in other elements of comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the fiscal profit or loss for the current year, using tax rates enacted or substantively enacted at the reporting date, as well as any adjustment to income tax payable in respect of previous years. Current income tax also includes any tax liability arising from declared dividends.

(ii) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base used for taxation purposes.

Deferred tax is not recognized for:

- temporary differences that occur at the initial recognition of assets and liabilities in a transaction that is not a business combination and that impact neither accounting nor fiscal profit or loss;
- temporary differences related to investments in subsidiaries or jointly controlled entities to the extent that it is probable that they will not be reversed in the foreseeable future; and
- temporary differences occurring at the initial recognition of goodwill.

The assessment of deferred tax reflects the tax consequence that would ensue from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is calculated based on the tax rates that are expected to be applied to temporary differences at the moment of their reversal, pursuant to the enacted legislation or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset current tax liabilities and assets, and if they relate to taxes levied by the same tax authority for the same taxable entity, or for different tax entities which intend to settle current tax assets and liabilities with the current tax on a net basis or whose tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused fiscal losses, tax credits and deductible temporary differences, only to the extent that it is probable that future taxable profits are possible to be used for covering the fiscal loss. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related fiscal benefit will be realized.

(iii) Income tax exposure

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of professional judgements about future events. New information may become available that causes the Company to change its professional judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities may affect the income tax expense in the period when such determination is made.

3. ACCOUNTING POLICIES (continued)

(p) Employee benefits

Other long-term employee benefits

The Company's net obligation in respect of long-term employee benefits, other than pension plans, is the value of future benefits that employees have earned in return for their service in the current and prior periods. Such benefit is updated to determine its fair value, and the fair value of any related asset is deducted. Such benefits are estimated using the projected unit credit method. Any actuarial gains or losses are recognized in other elements of the comprehensive income in the period in which they arise. Other long-term employee benefits are represented by anniversary premiums.

Cash settled share-based payment transactions

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities over the period during which employees become unconditionally entitled to payment. Until the liability settlement date, the Company must reassess the fait value of the liability at each reporting date and at the settlement date, and any changes in the fair value are recognized in the profit or loss account of the period.

As the employees render their service, the Company recognizes the services received and a liability to pay for those services. Certain share appreciation rights vest immediately and the employees are therefore not required to complete a specified period of service in order to become entitled to the cash payment. In such cases, the Company recognizes the entire value of the right as an expense, at the date of granting.

Short-term employee benefits

Short-term employee benefit obligations are assessed on an un-updated basis and are recognized as the related service is provided. A provision is recognized for the amount estimated to be paid for short-term benefits as premiums or profit sharing plans only if the Company has a present legal or implicit obligation to pay this amount as a result of past service provided by employees and the obligation can be reliably estimated. The short-term employee benefits are represented mainly by salaries.

The Company, in the normal course of business, makes payments to the pension funds on behalf of its employees. All employees of the Company are members of the Romanian State pension plan. These payments are expensed as the related services are provided by the employees.

(q) Revenues

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable and the associated costs can be estimated reliably. Revenues comprise mainly the value of electricity transmission service, system service and balancing market computed based on the volume of energy supplied to consumers. The tariffs for transmission and system services are regulated by ANRE. Revenues include also the transactions on the balancing market as described in Note 1.

The Romanian State, via ANRE, regulates the prices charged by the Company for electricity transmission and system operator services. The Romanian State has a number of roles to fulfil, apart from being the majority shareholder, and might thus have broader goals and objectives than an investor, whose main concern is return on investment.

As mentioned in Note 1, the Company is also the administrator of the bonus support scheme for promoting high-efficiency cogeneration. The Company acts as agent because it is involved in the collection and distribution of money.

In addition, the Company and SC OPCOM SA are involved in the price coupling mechanism of regional markets based on ANRE Order no. 82/2014 (see Note 1).

Thus, within the price coupling mechanism of regional markets, CNTEE Transelectrica SA:

- fulfils the role of implicit participant on the DAM and acts as shipping agent;

- provides the interconnection capacity for the physical supply of electricity traded on the DAM, namely the transfer of power from one bidding zone to another through the interconnection lines, limited to the available transfer capacity of such lines.

3. ACCOUNTING POLICIES (continued)

(q) Revenues (continued)

Connection fees

IFRIC 18 "Transfers of Assets from Customers" applies to contracts with customers in which the Company receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant or equipment and the Company must then use the item of property, plant or equipment to connect customers to the network.

According to Art. 25(1) of Law no. 123/2012 on electricity and natural gas, as subsequently amended and supplemented, the "access to power grids of public interest shall be a mandatory service provided under regulated conditions, which the transmission and system operator, as well as the distribution operator, must ensure".

The connection tariff is a regulated fee which represents the expense incurred by a network operator to perform the works for connecting a demand and/or production facility of a user to the power grid.

If the connection of a customer to the power transmission grid does not represent a separate component of the connection contract, then the connection tariffs are recognized in the profit and loss account on a systematic basis throughout the useful life of the asset.

The Company recognizes the cash received from the connection tariff as a credit under the account "Deferred income" in the statement of financial position in order to subsequently reverse it under "Other income" in the profit and loss account on a systematic basis over the useful life of the asset.

(r) Net financing costs

Net financing costs comprise interest payable on loans calculated using the effective interest rate method, except for loan costs capitalized as part of assets with long cycle of manufacture, dividend income, foreign exchange gains and losses, risk fees and commissions.

In accordance with the revised IAS 23 "Borrowing Costs" and invoking the optional exception from the retrospective application according to IFRS 1 "First-time adoption of IFRS", the Company capitalizes the borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale, for which financing was obtained after January 1st, 2011, the date of transition to IFRS.

Interest revenues are recognized in the profit and loss account of the year in which they arise, using the effective interest method. Dividend revenues are recognized in the profit and loss account on the date when the Company's right to receive dividends is recognized.

(s) Subsidies

Subsidies pertaining to assets are initially recognized as "deferred income" at fair value when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the subsidies, and then the subsidies shall be recognized in the profit and loss account as other operating revenues over the useful life of the asset. Non-refundable funds are recognized as assets when there is reasonable assurance that they will be received and the conditions corresponding will be met.

(t) Provisions

A provision is recognized when, and only when the following conditions are met: the Company has a current obligation (legal or implicit) as a result of a past event; it is probable (i.e. more likely than not) that an outflow of resources representing economic benefits will be required to settle the obligation; a reliable estimate for the value of the obligation can be made. Where the effect of the time value of money is significant, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

(u) Earnings per share

Pursuant to IAS 33, "Earnings per share", the earnings per share are calculated by dividing the profit or loss allocated to the Company's shareholders by the weighted average of ordinary shares outstanding during the period.

The weighted average of ordinary shares outstanding during the period is the number of shares outstanding at the beginning of the period, adjusted by the number of shares issued during the period and multiplied by the number of months when the shares were outstanding during the year.

3. ACCOUNTING POLICIES (continued)

(v) Earnings per share (continued)

Dilution is a reduction in earnings per share or an increase in loss per share resulting under the assumption that convertible instruments are converted, or that ordinary shares are issued after meeting the specified conditions. The objective of diluted earnings per share is similar with that of basic earnings per share, namely to provide a measure of the interest of each ordinary share in the performance of an entity.

(w) Contingences

Contingent liabilities are not recognized in the accompanying financial statements. They are disclosed only when an outflow of resources embodying economic benefits is possible, but not probable.

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

(x) Operating segments

An operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which distinct financial information is available.

The Company's activities are taking place in different parts of Romania with each location being involved in both transmission and dispatch activities. The Company's management considers all activities together, as "a single segment".

Operating segments are reported in a manner consistent with the internal reporting provided by the chief operating decision maker of the entity, who is responsible for allocating resources to and assessing performance of the segments.

(y) Implications of the New International Financial Reporting Standards (EU IFRS)

*Standards and Interpretations effective in the current period*The following standards and amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) have entered into force for the current period:

- Amendments to **IAS 7 "Statement of Cash Flows"** - Presentation Requirement Initiative - adopted by the EU on 6 November 2017 (applicable for annual periods beginning on or after 1 January 2017),
- Amendments to **IAS 12 "Income Tax"** - Recognition of deferred tax assets for unrealized losses - adopted by the EU on 6 November 2017 (applicable for annual periods beginning on or after 1 January 2017),
- Amendments to **IFRS 12 following "IFRS Improvements (Cycle 2012-2014)"** resulting from the annual IFRS Improvement Project (IFRS 1, IFRS 12 and IAS 28) with the primary objective of eliminating inconsistencies and clarifying certain formulations - adopted by the EU on 7 February 2018 (amendments to IFRS 12 are applicable for annual periods beginning on or after 1 January 2017).

The adoption of these amendments to the existing standards has not significant changed the Company's financial statements.

Standards and amendments to the existing standards issued by the IASB and adopted by the EU but not yet in force

At the date of approval of these financial statements, the following new standards issued by the IASB and adopted by the EU are not yet in force:

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (applicable for annual periods beginning on or after 1 January 2018),
- **IFRS 15 Revenue from Contracts with Customers** and Amendments to IFRS 15 "IFRS 15 Effective Date" - adopted by the EU on 22 September 2016 (applicable for annual periods beginning on or after 1 January 2018),
- **IFRS 16 "Leasing"** - adopted by the EU on 31 October 2017 (applicable for annual periods beginning on or after 1 January 2019),
- Amendments to **IFRS 4 "Insurance Contracts"** - Application of IFRS 9 Financial Instruments in Accordance with IFRS 4 Insurance Contracts - Adopted by the EU on 3 November 2017 (applicable for annual periods beginning on or after 1 January 2018 or first-time adoption of IFRSs 9 "Financial Instruments"),
- Amendments to **IFRS 15 "Revenue from contracts with customers"** - IFRS 15 clarifications Revenue from contracts with customers - adopted by the EU on 31 October 2017 (applicable for annual periods beginning on or after 1 January 2018),

- Amendments to **IFRS 1 and IAS 28 "Improvements to IFRS (Cycle 2014-2016)"** resulting from the annual IFRS Improvement Project (IFRS 1, IFRS 12 and IAS 28) with the primary objective of eliminating inconsistencies and clarifying certain formulations - adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are applicable for annual periods beginning on or after 1 January 2018).

The company chose not to adopt these new standards and amendments to existing standards prior to the effective date of entry into force. The Company expects that adopting these standards and amendments to existing standards will not have a material impact on the Company's financial statements during the initial period of application.

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

Currently, IFRSs as adopted by the EU do not differ significantly from the IASB regulations, except for the following new standards, amendments to existing standards and new interpretations that have not been approved for use in the International Accounting Standards Board (IASB). EU:

- **IFRS 14 "Deferred Regarding Regulated Activities"** (applicable for annual periods beginning on or after 1 January 2016) - The European Commission has decided not to issue the approval process for this interim standard and to await its completion,
- **IFRS 17 "Insurance Contracts**" (applicable for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 2 Share-based Payment - Classification and measurement of share-based payment transactions (applicable for annual periods beginning on or after 1 January 2018),
- Amendments to **IFRS 9 "Financial Instruments"** - Advance Payment Charges with Negative Compensation (applicable for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS **10 "Consolidated Financial Statements**" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or contribution of assets between an investor and its associates or joint ventures and subsequent amendments (effective date has been postponed for an undetermined period until the research project on the equivalence method is completed),
- Amendments to **IAS 19 Employee Benefits -** Change, reduction or settlement of a plan (applicable for annual periods beginning on or after 1 January 2019),
- Amendments to **IAS 28 "Investments in associates and joint ventures"** - Long-term interests in associates and joint ventures (applicable for annual periods beginning on or after 1 January 2019),
- Amendments **to IAS 40 "Investment property"** - Real estate investment transfers (applicable for annual periods beginning on or after 1 January 2018),
- Amendments to various Standards following the "**IFRS Improvements (Cycle 2015-2017)"** resulting from the annual IFRS Improvement Project (IFRS 3, IFRS 11, IAS 12 and IAS 23) with the primary objective of eliminating inconsistencies and clarifying certain formulations (applicable for annual periods beginning on or after 1 January 2019),
- **IFRIC 22 " Foreign Currency Transactions and Advance Consideration "** (applicable for annual periods beginning on or after 1 January),
- **IFRIC 23 "Income Tax Treatment Uncertainty"** (applicable for annual periods beginning on or after 1 January 2019).

The Company expects that the adoption of these Standards and amendments to existing standards will not have a material impact on the Company's financial statements during the initial period of application

4. DETERMINATION OF FAIR VALUE

Certain accounting policies and information disclosures of the Company require the measurement of fair values, for both financial and nonfinancial assets and liabilities. When measuring the fair value of an asset or liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques, as follows:

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

The fair values were determined in order to measure and/or disclose information based on the methods described below:

(i) Property, plant and equipment

The fair value of items of property, plant and equipment are based primarily on the cost method considering the particularities of the Company's property, plant and equipment, except for assets in progress, which are accounted for under the cost model.

5. PROPERTY, PLANT AND EQUIPMENT

The development of property, plant and equipment between January 1st, 2017 and December 31st, 2017 are as follows:

	Land plots and land improvements	Buildings and special installations	Machinery and equipment	Control and measurement devices	Vehicles	Other property, plant and equipment	Property, plant and equipment in progress	Total
COST								
Balance on January 1st, 2016	**52,811,058**	**1,291,503,378**	**2,981,192,272**	**414,218,155**	**11,567,940**	**264,447,694**	**407,672,581**	**5,423,413,078**
Additions	-	597	46,963	-	-	-	174,568,463	**174,616,023**
Transfers from tangible assets in progress	-	19,717,133	49,817,972	8,067,284	7,984,752	5,368,922	(90,956,063)	-
Reclassifications among non-current assets accounts	-	444,416	(437,120)	(7,296)	-	-	-	-
Disposals	-	(242,426)	(6,169,167)	(1,057,383)	(279,907)	(2,672,169)	(274,542)	**(10,695,594)**
Balance on December 31st, 2016	**52,811,058**	**1,311,423,098**	**3,024,450,920**	**421,220,760**	**19,272,785**	**267,144,447**	**491,010,439**	**5,587,333,507**
Balance on January 1st, 2017	**52,811,058**	**1,311,423,098**	**3,024,450,920**	**421,220,760**	**19,272,785**	**267,144,447**	**491,010,439**	**5,587,333,507**
Additions			3,370			16,502	170,777,341	170.797.213
Transfers from tangible assets in progress		37,382,966	107,303,350	36,176,207	2,684,594	16,838,579	(200,385,696)	-
Reclassifications among non-current assets accounts							(2,181,516)	(2.181.516)
Disposals	(59,067)	(275,420)	(14,556,831)	(627,352)	|(441,285)	(2,231,810)	(1,221,017)	(19.412.783)
Balance on December 31st, 2017	**52,751,991**	**1,348,530,644**	**3,117,200,809**	**456,769,615**	**21,516,094**	**281,767,718**	**457,999,550**	**5,736,536,421**
Accumulated depreciation								
Balance on January 1st, 2016	**138,179**	**-**	**1,624,858,514**	**292,074,248**	**8,186,162**	**143,906,980**	**-**	**2,069,164,083**
Depreciation expenses	-	90,136,428	170,088,691	29,597,934	706,866	30,373,465	-	**320,903,384**
Accumulated depreciation of disposals	-	(69,916)	(6,117,426)	(1,057,384)	(279,906)	(2,591,904)	-	**(10,116,536)**
Balance on December 31st, 2016	**138,179**	**90,066,512**	**1,788,829,779**	**320,614,798**	**8,613,122**	**171,688,541**	**-**	**2,379,950,931**
Balance on January 1st, 2017	**138,179**	**90,066,512**	**1,788,829,779**	**320,614,798**	**8,613,122**	**171,688,541**	**-**	**2,379,950,931**
Depreciation expenses	-	87,027,784	152,253,417	38,896,676	1,988,587	29,848,167	-	**310,014,630**
Accumulated depreciation of disposals	-	(16,098)	(14,062,361)	(608,539)	(441,285)	(2,140,352)	-	**(17,268,635)**
Balance on December 31st, 2017	**138,179**	**177,078,198**	**1,927,020,836**	**358,902,935**	**10,160,423**	**199,396,355**	**-**	**2,672,696,925**

5. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land plots and land improvements	Buildings and special installations	Machinery and equipment	Control and measurement devices	Vehicles	Other property, plant and equipment	Property, plant and equipment in progress	Total
ADJUSTMENTS FOR IMPAIRMENT								
Balance on January 1st, 2016	**-**	**11,479**	**-**	**-**	**157,307**	**-**	**12,629,493**	**12,798,279**
Expenditures with impairment adjustments	-	(11,479)			(43,899)	-	5,048,131	**4,992,753**
Balance on December 31st, 2016	**-**	**-**	**-**	**-**	**113,408**	**-**	**17,677,624**	**17,791,032**
Expenditures with impairment adjustments	-	367,593	-	-	(113,408)	-	1,428,963	**1,683,148**
Balance on December 31st, 2017	**-**	**367,593**	**-**	**-**	**-**	**-**	**19,106,587**	**19,474,180**
BOOK VALUE								
Balance on January 1st, 2016	**52,672,879**	**1,291,491,899**	**1,356,333,758**	**122,143,907**	**3,224,471**	**120,540,714**	**395,043,088**	**3,341,450,716**
Balance on December 31st, 2016	**52,672,879**	**1,221,356,586**	**1,235,621,141**	**100,605,962**	**10,546,256**	**95,455,906**	**473,332,815**	**3,189,591,544**
Balance on December 31st, 2017	**52,613,812**	**1,171,084,853**	**1.190.179.973**	**97,866,680**	**11,355,671**	**82,371,363**	**438,892,963**	**3,044,365,315**

5. PROPERTY, PLANT AND EQUIPMENT (continued)

In 2017, the value of land plots recorded a decrease amounting to 59,067 by the re-update of the surfaces resulted from measurements and of authentic documentation to declare subdivision into flats, subject to the Protocol no. 8044/2002 of hand over-take over concluded with Teletrans Craiova agency, as follows:
- the ground surface of 1974.21 m^2 pertaining to the land plot situated on 5 Brestei street, Craiova, for which the Certificate authenticating the ownership rights was obtained with series M03/10283 of 07.08.2006, has been decreased with the surface of 39.46 m^2;
- the ground surface of 1325.67 m^2 pertaining to the land plot situated on 22 George Cosbuc street, Tg. Jiu, for which the Certificate authenticating the ownership rights was obtained with series M03/10195 of 08.11.2005, has been decreased with the surface of 15.5 m^2;
- the ground surface of 1849.72 m^2 pertaining to the land plot situated on 422 Tg. Jiului way, Dr. Tr. Severin, for which the Certificate authenticating the ownership rights was obtained with series M03/9762 of 14.12.2004, has been decreased with the surface of 9.6 m^2;

The total net value of tangible assets decreased on December 31st, 2017 compared to December 31st, 2016 due to the corresponding depreciation of 2017, which was registered against the background of increased amounts of tangible assets in progress.

In 2017, the value of tangible assets in progress increased represented mainly by investment works in the high voltage electricity substations and lines, as follows:

- Technical upgrade of the Bradu 400/220/110/20 kV substation – 43,722,468;
- 400 kV OHL interconnecting Resita (Romania) - Pancevo (Serbia) – 29,160,469;
- Replacing AT and TRAFO in electrical substations - Stage II – 25,617,956;
- Upgrading the 400/110/10 kV Cluj Est substation – 12,529,350;
- Upgrading the Suceava 110 kV and 20 kV substation – 9,985,185;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - stage I - Portile de fier - (Anina) – Resita 400 kV OHL s.c. – 8,710,417;
- Upgrading the command-control-protection system of the Sardanesti 220/110/20 kV substation – 5,812,144;
- Technical upgrade of the Campia Turzii 220/110/20 kV substation – 5,734,551;
- Integrated security system in electric substations, stage IV - 3,571,263;
- Urgent repair of the damage to the Iernut - Gadalin 400 kV OHL and the Iernut - Baia Mare 3 220kV OHL – 2,842,612;
- Upgrading the Tihau 220/110 kV substation - primary equipment – 2,705,653;
- Technical upgrade of the Tulcea Vest 400/110/20 kV substation - the construction part – 2,625,207;
- Motor vehicles_2017 – 2,616,294;
- Deploying an optical fiber line between the Bradu 400/220/110 KV substation and the Stuparei 220/110 KV substation – 1,798,732;
- Upgrading the SCADA system for the Constanta Nord substation – 1,439,414;
- Upgrading the hardware and software platforms of the SCADA system in the Slatina 400/220 substation – 1,398,333;
- Replacing the connectors from electrical substations – 1,149,484;
- Replacing the 110/20 kV TRAFO, 10 MVA in the Fantanele 220/110/20 kV substation – 1,077,551;
- Upgrading the 110/6 kV station from the Pestis 220/110/6 kV substation – 1,062,965;
- Technical upgrade of the Isaccea 400 kV substation - Stage I - replacing the compensation bobbins, the corresponding cells and the Stupina 400 kV cell – 1,004,798;
- Gutinas – Smardan 400 kV OHL d.c. – 928,054;
- Creating the coexistence conditions between the Iernut Ungheni 400(220) kV OHL in the 71-72 opening and the Brasov Targu Mures Cluj Oradea Ungheni Ogra highway, km 4+500 km 14+605 – 882,093;
- Suceava - Balti 400 kV OHL, for the part of the project on Romanian territory - 818,392;
- Regulating the coexistence between the Mintia-Sibiu 400 kV OHL, in the 6-8 opening, and the Lugoj-Deva highway, 4th lot, Ilia-Deva district, km 77+361 - km 99+500 – 743,770;
- Movement and protection of the high voltage electrical installations - 220 kV OHL on the route of the Sebes-Turda highway - 4th lot, the Cluj Floresti - Alba Iulia 220 kV OHL (178-179 crossing) – 617,712;
- Connecting the Isaccea - Varna 400 kV OHL and the Isaccea - Dobrudja 400 kV OHL in the Medgidia Sud 400 kV substation – 584,342;

- Upgrading the Dumbrava 220/110 kV substation – 558,920;
- Technical update of the Turnu Severin Est 220/110 kV substation - 542,783.

In 2017, the biggest transfers from tangible assets in progress to tangible assets are mainly represented by the startup of the investment objectives, as follows:

- Technical upgrade of the Bradu 400/220/110/20 kV substation – 84,925,346;
- Technical upgrade of the Campia Turzii 220/110/20 kV substation – 39,630,796;
- Replacing AT and TRAFO in electrical substations - Stage II – 19,806,190;
- Integrated security system in electric substations, stage IV: Rosiori 400/220 kV substation, the Oradea Sud 400/110/20 kV station, the Paroseni 220 kV substation, the Iernut 400/220/110/6 kV substation and the Gutinas 400/220/110 kV substation – 17,278,383;
- Urgent repair of the damage to the Iernut - Gadalin 400 kV OHL and the Iernut - Baia Mare 3 220kV OHL – 8,260,889;
- Upgrading the Suceava 110 kV and 20 kV substation – 6,583,432;
- Upgrading the Tihau 220/110 kV substation – primary equipment – 6,412,602;
- Deploying an optical fiber line between the Bradu 400/220/110 KV substation and the Stuparei 220/110 KV substation – 2,659,775;
- Motor vehicles_2017 – 2,616,294;
- Connecting the 147 MW Valea Dacilor WPP to the PTG – 2,400,930;
- Replacing the 110/20 kV TRAFO, 10MVA in the Fantanele 110/20 kV substation – 1,127,962;
- Upgrading the SCADA system for the Constanta Nord 400/110/10 kV substation – 986,064;
- Creating the coexistence conditions between the Iernut Ungheni 400/220 kV OHL in the 71-72 opening and the Brasov-Targu Mures-Cluj-Oradea-Ungheni-Ogra highway, km 4+500 km 14+605 – 882,094;

- Deposit power transformers for system reserves and isolated passages in the security stock of CNTEE "Transelectrica" - SA in the Sibiu Sud 400 kV substation – 845,925;
- Upgrading the control building from the Roman Nord 400/110/20 kV substation – 675,560;
- Special intervention beams, Universally Anchored Portal type for the 220-400 kV tension, including prefabricated foundations – 643,058;
- Movement and protection of the high voltage electrical installations - 220 kV OHL on the route of the Sebes-Turda highway - 4th lot, the Cluj Floresti - Alba Iulia 220 kV OHL (178-179 crossing) – 617,713;
- Replacing the connectors from electrical substations – 567,278.

The balance of tangible assets in progress on December 31st, 2017 is represented by the projects in progress, the most significant being listed below:

- 400 kV OHL interconnecting Resita (Romania) - Pancevo (Serbia) – 98,257,618;
- PTG connection of the Ivești 300 MW WPP, Fălciu 1 88 MW WPP and Fălciu 2 18 MW WPP via the new Banca (400)/220/110 kV substation – 46,884,983;
- Technical upgrade of the Bradu 400/220/110/20 kV substation – 36,793,858;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - stage I - Portile de fier - (Anina) – Resita 400 kV OHL s.c. – 20,836,277;
- Extending the services providing business continuity and recovery after disasters – 14,413,918;
- Upgrading the 400/110/10 kV Cluj Est substation – 13,296,517;
- Replacing AT and TRAFO in electrical substations - Stage II – 11,639,718;
- Connecting the Isaccea - Varna 400 kV OHL and the Isaccea - Dobrudja 400 kV OHL in the Medgidia Sud 400 kV station – 10,752,585;
- Integrated security system in electric substations, stage IV - 10,308,122;
- Upgrading the Suceava 110 kV and 20 kV substation – 9,656,270;
- Cernavodă - Stâlpu 400 kV OHL d.c. and connection in Gura Ialomiţei – 8,363,002;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - stage I - Resita 400/220/110 kV station – 6,572,497;
- 400 kV HVDC Link (submarine cable Romania - Turkey) – 5,853,759;

- 400 kV OHL Gadalin - Suceava, including the NPS interconnection - 5,661,191;
- Upgrading the command-control-protection system of the Sardanesti 220/110/20 kV station – 5,660,476;
- Suceava - Balti 400 kV OHL, for the part of the project on Romanian territory - 4,430,641;
- Technical upgrade of the Hasdat 220/110 kV substation – 4,397,192;
- Reparation of the failure of the 110-120 terminals of the Bucharest Sud - Ghizdaru 220 kV OHL - 4,274,774;
- Gutinas – Smardan 400 kV OHL d.c. – 3,206,287;
- Extending the control system with new functions and IT registration of access in the objectives of CNTEE Transelectrica SA - 3,200,918;
- Converting of the Portile de fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV, stage II - Resita - Timisoara – Sacalaz 400 kV OHL d.c. (Timisoara 220/110 kV substation) - 3,197,788;
- Connecting the 136 MW wind power plant Platonesti, Ialomita county, to the Grid through constructing a 110 kV cell in the Gura Ialomitei 400/110 kV station – 2,889,337;
- Assembling the optic fiber and upgrading the system of distance protections on the Tantareni-Turceni 400 kV OHL d.c. and the Urechesti-Rovinari 400 kV OHL s.c. – 2,835,840;
- Upgrading the Arefu 220/110/20 kV station - 2,828,131;
- Integrated security system in electric substations, stage III - 2,798,024;
- Upgrading the Raureni 220/110/20 kV station - 2,753,614;
- Technical upgrade of the Tulcea Vest 400/110/20 kV substation - the construction part – 2,739,753;
- By-passing the Cetate 110 kV OHL 1 & 2 in the proximity of the Ostrovul Mare 110/20/6 kV substation - 2,578,438;
- PTG connection of Dumesti 99 MW WPP and Romanesti 30 MW WPP, Iasi county, through constructing a 110 kV line cell in the FAI 220/110 kV substation – 2,545,853;
- Security solution for implementing the security measures related to classified information – 2,012,114;
- Upgrading the 110/6 kV station from the Pestis 220/110/6 kV substation – 1,763,017;
- Executive - DCBPA/CPA: Consolidation, upgrading and extension of the CNTEE "Transelectrica" headquarters – 1,627,393;
- Upgrading the hardware and software platforms of the SCADA system in the Slatina 400/220 substation – 1,415,333;
- Technical upgrade of the Isaccea 400 kV substation - Stage I - replacing the compensation bobbins, the corresponding cells and the Stupina 400 kV cell – 1,243,115;
- Integrated security system at the new Banca 400/220/110 kV substation – 1,133,202;
- Deploying an optical fiber line between the Pitesti Sud substation and the remote control and installation supervision center of the Pitesti ST (SF) – 1,075,201;
- Upgrading the SCADA system for the Constanta Nord substation – 986,064;
- Upgrading the Dumbrava 220/110 kV substation – 927,421;
- Connecting the Stupina 400 kV substation to the PTG and connecting the Isaccea-Varna 400 kV OHL – 874,015;
- Replacing the connectors from electrical stations – 788,490;
- Ostrovu Mare 220 kV OHL double circuit - PTG – 754,874;
- Oradea – Beckescsaba 400 kV OHL – 740,728.

According to the provisions of Art. 46 of ANRE Order no. 59/2013 approving the Regulation on the consumers' connection to the public power grids, the receipt of the installations resulting from the works performed to build and commission the connection facilities is performed in accordance with the applicable legislation.
For the following projects included in outstanding tangible assets in progress, funded from the connection tariff, the technical conditions to prepare the Commissioning Minutes have not been met:

- Connection to the PTG of the Bogdanesti 56 MW WPP, Deleni 112.5 MW WPP, Viisoara Nord 1 20.8 MW WPP, Viisoara Nord 1 52.8 MW WPP, Viisoara Sud 47.5 MW WPP, in the area of certain localities in Vaslui county, via the new Banca 400/220/110 kV electrical substation – the work is completed, there is minutes upon completion of works no. 34759/14.11.2013; the contract is in force until 31.12.2022; total value of ongoing investment – 48,018,186;

- Connection to the PTG of the Dumesti 99 MW WPP and Romanesti 30 MW WPP, in the area of Dumesti and Romanesti localities, Iasi county, through a 110 kV line cell in the 220/110 kV FAI substation, Iasi county, in amount of 2,545,853 lei, minutes upon completion of works no. 14584/29.04.2014 is concluded in connection with the investment and the contract is in force until 31.12.2018;

Tangible assets were not revalued in 2017. The management concluded that:

- market prices did not change significantly as compared to 2016, when the Company performed the last revaluation, and
- there is no indication of impairment of the assets held by the Company both from internal and external sources.

Land plots have been revalued on December 31st, 2011, based on the market approach. Also, the "Other tangible assets" group was revalued on December 31st, 2011.

Buildings and special installations were revalued on December 31st, 2015 by SC JPA Audit & Consultanta SRL, independent evaluator authorized by the National Union of Authorized Evaluators in Romania.
The valuation was performed at fair value, assuming that the Company would further carry on its business by using the tangible assets in the existing structure. The following were not valued:

-fixes assets classified in Group 1 - "Constructions" represented by constructions registered in the Company's accounting records as aof 31st December 2015, fully depreciated, proposed for disposal;

- own sources used for the financing of the public domain assets registered in the Company's accounting records as of December 31st, 2015, fully depreciated, included in the inventory of the public state domain;

- own sources (structural funds and the connection fee) used for the financing of goods belonging to the public state domain , included in the inventory of the public domain and for which no depreciation was calculated.

The assets from the State's public domain representing finished non-current assets self-funded by the Company will be included in the inventory of assets belonging to the State's public domain after recovering the self-funding sources, when the inventory of goods belonging to the State's public domain is approved by Government Decision.

Buildings and special installations include mainly transformation substations and high voltage electricity lines. Machinery and equipment mainly include transformers and cells relating corresponding to the NPS of 110 kV, 220 kV, 400 KV and 750 kV.

As of December 31st, 2017 and December 31st, 2016, the Company did not have any assets pledged or mortgaged.

Fair value of property, plant and equipment

The Company's property, plant and equipment other than property, plant and equipment in progress are disclosed in the financial statements at revaluated amount, which is the fair value as of the date of valuation less accumulated depreciation and impairment adjustments.

The fair value of the Company's land plots was determined using the direct comparison method.

This method is recommended for properties when there is sufficient and reliable data on sale transactions or similar offers involving properties in the area. Analysis of prices at which the transactions were made or of the prices asked or offered for comparable properties is followed by corrections to such prices in order to quantify the differences between the prices paid, asked or offered due to differences between specific characteristics of each property, called elements of comparison.

The fair value of buildings, equipment and measurement devices has been determined through the cost approach.

This method assumes that the maximum value of an asset for an informed buyer is the amount needed to buy or build a new asset of an equivalent utility. When the asset is not new, all forms of impairment that can be assigned for those assets up to the valuation date should be subtracted from the current gross cost.

Information on the hierarchy of fair value as of December 31st, 2017 and December 31st, 2016:

	Level 1	Level 2	Level 3	Fair value as of December 31st, 2017
Land plots and land improvements	-	-	52,613,812	52,613,812
Buildings and special installations	-	-	1,171,084,853	1,171,084,853
Machinery and equipment	-	-	1,190,179,974	1,190,179,974
Control and measurement devices	-	-	97,866,680	97,866,680
Vehicles	-	-	11,355,671	11,355,671
Other property, plant and equipment	-	-	82,371,363	82,371,363

	Level 1	Level 2	Level 3	Fair value as of December 31st, 2016

Land plots and land improvements	-	-	52,672,879	52,672,879
Buildings and special installations	-	-	1,221,356,586	1,221,356,586
Machinery and equipment	-	-	1,235,621,141	1,235,621,141
Control and measurement devices	-	-	100,605,962	100,605,962
Vehicles	-	-	10,546,256	10,546,256
Other property, plant and equipment	-	-	95,455,906	95,455,906

There were no transitions between the fair value levels in 2017 or in 2016.

The value at cost of property, plant and equipment as of December 31st, 2017 and December 31st, 2016, net of accumulated expenses with depreciation and impairment is presented below:

	Value at cost December 31st, 2017	**Value at cost December 31st, 2016**
Land plots and land improvements	8,843,786	8,784,944
Buildings and special installations	783,669,036	744,290,077
Machinery and equipment	1,184,344,466	1,171,847,235
Control and measurement devices	99,619,188	98,781,910
Vehicles	10,486,786	10,479,432
Other property, plant and equipment	95,455,882	95,455,882
TOTAL	**2,182,419,144**	**2,129,639,480**

6. INTANGIBLE ASSETS

As of December 31st, 2017 and December 31st, 2016 the Company's intangible assets are as follows:

	Licenses and software	**Intangible assets in progress**	**Total**
COST			
Balance on January 1st, 2016	**68,419,502**	**31,902,650**	**100,322,152**
Additions, of which:		5,048,678	**5,048,678**
Transfers from intangible assets in progress	2,270,566	(2,270,566)	-
Transfers from tangible assets in progress			
Disposals	(7,517,190)	(22,950,765)	**(30,467,955)**
Balance on December 31st, 2016	**63,172,878**	**11,729,997**	**74,902,875**
Balance on January 1st, 2017	**63,172,878**	**11,729,997**	**74,902,875**
Additions		1,919,186	**1,919,186**
Transfers from intangible assets in progress	1,761,191	(1,761,191)	-
Transfers from tangible assets in progress		1,087,634	**1,087,634**
Disposals	(7,334,214)	(78,552)	**(7,412,766)**
Balance on December 31st, 2017	**57,599,855**	**12,897,075**	**70,496,930**
ACCUMULATED DEPRECIATION			
Balance on January 1st, 2016	**64,998,482**	**-**	**64,998,482**
Depreciation expenses	2,593,261		**2,593,261**
Accumulated depreciation of disposals	(7,517,190)		**(7,517,190)**
Balance on December 31st, 2016	**60,074,553**	**-**	**60,074,553**

Balance on January 1st, 2017	**60,074,553**	**-**	**60,074,553**
Depreciation expenses	1,842,159		**1,842,159**
Accumulated depreciation of disposals	(7,334,215)		**(7,334,215)**
Balance on December 31st, 2017	**54,582,497**	**-**	**54,582,497**
ADJUSTMENTS FOR IMPAIRMENT			
Balance on January 1st, 2016	**-**	**753,979**	**753,979**
Expenditures with impairment adjustments		(382,971)	**(382,971)**
Balance on December 31st, 2016	**-**	**371,008**	**371,008**
Expenditures with impairment adjustments		(19,800)	**(19,800)**
Balance on December 31st, 2017	**-**	**351,208**	**351,208**
BOOK VALUE			
Balance on January 1st, 2016	**3,421,020**	**31,148,671**	**34,569,691**
Balance on December 31st, 2016	**3,098,325**	**11,358,989**	**14,457,314**
Balance on December 31st, 2017	**3,017,358**	**12,545,867**	**15,563,225**

In 2017, the biggest transfers from intangible assets in progress to intangible assets are mainly represented by the startup of the investment objectives, as follows:

- Upgrading the SCADA system for the Constanta Nord 400/110/10 kV substation with 8 types of licenses – 571,350.
- Licenses corresponding to the technical upgrade of the Campia Turzii 220/110/20 kV substation – 568,075;
- SCADA (software) programs in the Bradu 400/220/110/20 kV substation – 304,871;
- Software for the integrated security management system – 173,658;

For the intangible assets in progress, the largest entries in 2017 were:

- Replacement of EMS SCADA AREVA system components - software component, hardware component – 1,221,966;
- Upgrade of the existing antimalware solution – 45,414;

The balance of intangible assets in progress on December 31st, 2017 is mainly represented by:

- Implementing a system of Electronic Archiving and Document Management within CNTEE Transelectrica SA – 5,474,290;
- Replacement of EMS SCADA AREVA system components - software component, hardware component – 4,000,079;
- MIS extension – advanced reporting and budget planning solution – 3,047,834;
- Upgrading the SCADA system for the Constanta Nord substation – 571,350.

On December 31st, 2017, the tangible assets also included down payments amounting to 31,180,858, granted to the supplier ELCOMEX - IEA SA for performing the projects:

- Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja OHL to the Medgidia Sud 400 kV substation – down payment amounting to 9,948,593;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - Stage I - Resita 400/220/110 kV substation – down payment amounting to 21,232,265.

The down payments made to ELCOMEX - IEA SA have been secured with the insurance policies issued by Asito Kapital S.A.

On April 7th, 2017 the Court of Constanta, Section II Civil, by Hearing protocol no. 294/2017, upheld the application for a declaration of insolvency of the debtor Elcomex - IEA SA, naming Pricewaterhouse Coopers Business Recovery Services IPURL as insolvency administrator. Following the declaration of insolvency of Elcomex IEA SA, CNTEE Transelectrica SA entered on its statement of affairs for the amount of 31,189,487, representing the consideration of the down payment made to SC Elcomex IEA SA for the agreements no. C163/29.07.2015 and C255/18.11.2015 and other expenses. Starting with June 30th, 2017, the down payments amounting to 31,180,858 have been reclassified from "Tangible Assets" to "Receivables", where further details are available.

7. LONG-TERM RECEIVABLES

On December 31st, 2017 the Company no longer registers long-term receivables representing trade receivables with maturity of over 1 year that have been spread up for payment, associated to the bonus type support scheme for high efficiency cogeneration promotion, following the integral collection of the amount of 4,557,606 representing the overcompensation for the year of 2016, amount that should have been collected starting with the month of October 2018, according to the concluded agreements.

8. INVENTORIES

On December 31st, 2017 and December 31st, 2016, the inventories (at net value) were presented as follows:

	December 31st, 2017	**December 31st, 2016**
Spare parts	23,645,784	21,904,697
Consumables and other materials	7,352,525	7,226,833
Auxiliary materials	577,400	637,832
Other inventories	438,943	640,286
Total	**32,014,652**	**30,409,648**

8. INVENTORIES (continuation)

As of December 31st, 2017 and December 31st, 2016, the inventories impairment adjustments are presented as follows:

	December 31st, 2017	December 31st, 2016
Adjustments for impairment of consumables	5,672,349	4,504,931
Adjustments for impairment of other materials	1,838,752	1,924,134
Adjustments for impairment of packaging	155,991	34,293
Total	**7,667,092**	**6,463,358**

As of December 31st, 2017 and December 31st, 2016, the evolution of inventories impairment adjustments are presented as follows:

	December 31st, 2017	December 31st, 2016
Balance on the 1st of January	**6,463,358**	**3,962,174**
Inventories impairment adjustments	2,412,507	4,110,045
Reversal of inventories impairment adjustments	(1,208,773)	(1,608,861)
Balance at the end of the period	**7,667,092**	**6,463,358**

During 2017, the expenditures incurred with materials and spare parts consumption are presented as follows:

	December 31st, 2017	December 31st, 2016
Expenditures on spare parts	2,878,154	2,229,478
Expenditures on consumables	1,344,894	1,199,932
Expenditures on other materials	1,419,908	1,536,239
Expenditures on auxiliary materials	386,521	406,494
Expenditures on fuel	2,287,376	2,303,746
Total	**8,316,853**	**7,675,889**

9. TRADE AND OTHER RECEIVABLES

On December 31st, 2017 and December 31st, 2016, the trade receivables and other receivables are presented as follows:

	December 31st, 2017	December 31st, 2016
Trade Receivables	846,827,429	865,338,164
Other Receivables	116.051.033	129,703,771
Down payments to suppliers	11,102,342	19,155,031
Non-reimbursable funds to be received	-	-
VAT to be recovered	47.005.991	28,432,828
Adjustments for impairment of uncertain trade receivables	(122.650.719)	(100,578,031)
Adjustments for impairment of other receivables	(80.291.307)	(90,080,080)
Total	**818.044.769**	**851,971,683**

The structure of trade receivables is as follows:

	December 31st, 2017	December 31st, 2016
Customers on the electricity market, out of which:	845,529,240	863,706,722
- Clients - operational activity - energy	382,602,892	428,633,645
- Clients - balancing market	243,547,548	255,980,457
- Clients - bonus type support scheme to promote the high-efficiency cogeneration	219,378,800	179,092,620

Clients from other activities	1,298,189	1,631,442
Total Trade Receivables	**846,827,429**	**865,338,164**

- CNTEE Transelectrica SA operates based on the Operating License No. 161/2000 issued by ANRE, as updated by the Decision of ANRE Chairman no. 802/May 18th, 2016, for the transmission of electricity, the provision of the system service and for the management of the balancing market.

On December 31st, 2017, the current customers in the operational activity registered a decrease compared to December 31st, 2016, which was mainly determined by:
- fall in the electricity capacity provided to consumers in December 2016 compared to December 2017;
- decrease of the average tariff approved by ANRE for these services

The main current customers on the electricity market are represented by: CIGA Energy, RAAN, Electrocentrale Bucuresti, Societatea Energetica Electrica, Electrica Furnizare, Enel Energie Muntenia SA, Enel Energie SA, E.ON Energie Romania, Complexul energetic Oltenia, Petprod. The weight of the main customers on the electricity market is about 54% in the Total Gross Receivables.

- CNTEE Transelectrica SA operates its activities related to the bonus type support scheme for promoting the high efficiency cogeneration, acting as the administrator of the support scheme according to the provisions of the Government Decision no. 1215/2009, as amended and supplemented, "the main tasks being to collect, on a monthly basis, the contribution for cogeneration and the monthly payment of bonuses".

On December 31st, 2017, the Company registered receivables to be cashed from the bonus type support scheme for promoting the high efficiency cogeneration in a proportion of approximately 26% (December 31st, 2016 - 22%) of the total trade receivables.

The customers from the bonus type support scheme for promoting the high-efficiency cogeneration registered an increase in the receivables on December 31st, 2017, mainly determined by the receivables amounting to 139,913,507, registered according to the ANRE Decisions on the overcompensation of the activity regarding the support scheme for the year 2016, for which invoices were issued in the month of March 2017.

In the timeframe January 1st – December 31st, 2017, the amounts related to the bonus type support scheme have increased compared to December 31st, 2016, mainly due to the over-compensation decisions for 2016, issued in 2017. The overview of the cashing of receivables for the cogeneration scheme is as follows:

- the amount of 1,393,972 representing the overcompensation for the year of 2014, via bank transactions from Termoficare Oradea (for Electrocentrale Oradea, according to the staging Convention);
- the amount of 13,233,556 representing the overcompensation for the year of 2015, via bank transactions from Termoficare Oradea (for Electrocentrale Oradea, according to the staging Convention);
- the amount of 83,233,120 representing overcompensation for the year of 2016, on the grounds of reciprocal compensations made via the Management and Informatics Institute (on the grounds of DG no. 685/1999) (the amount of 29,865,930 with Enet SA, Modern Calor, Rulmenti Barlad, Soceram, Thermoenergy Group, Veolia Energie Iasi, Veolia Energie Prahova, CET Govora) and receipts in the bank account dedicated to the administration of the support scheme (the amount of 53,367,190 from CET Grivita, Electrocentrale Bucuresti, Termoficare Oradea, Thermoenergy Group, Veolia Energie Prahova)<
- the amount of 70,765 representing undue bonus for the year of 2016, on the grounds of compensations made via the Management and Informatics Institute (on the grounds of DG no. 685 / 1999) – CET Arad.

On December 31st, 2017, the Company registered receivables amounting to 168,849,902, represented by the issued invoices under the bonus type support scheme for high efficiency cogeneration, out of which:

- overcompensation for the timeframe 2011 - 2013 in the amount of 76,702,140, namely from RAAN - 63,467,054 and CET Govora SA - 13,235,086;
- undue bonus for 2014 in the amount of 3,914,960, namely from RAAN – 1,981,235, CET Govora – 1,933,725;
- undue bonus for 2015 in the amount of 563,899, namely from CET Govora - 534,377, Interagro - 29,523;
- overcompensation for 2015 in the amount of 9,774,958, namely from Electrocentrale Oradea (debt taken over by Termoficare Oradea);
- overcompensation for 2016 in the amount of 56,680,387, namely from Electrocentrale Bucuresti – 56,680,387;
- contribution for cogeneration not collected from the suppliers of electricity consumers, in the amount of 21,213,558, namely from: Transenergo Com – 5,882,073, PetProd - 4,391,193, Romenergy Industry – 2,680,620, RAAN- 2,385,922, Arelco Power – 2,378,723, UGM Energy – 1,814,175, CET Govora – 900,864, KDF Energy – 887,527 and others.

For discharging the receivables generated by the overcompensation and the undue bonus, the Company requested the reciprocal compensations from the qualified producers in the support scheme. For producers (RAAN, Electrocentrale Bucuresti, CET Govora) that have not agreed to this way of discharging the reciprocal receivables and debts, the Company has applied and continues to apply the provisions of Article 17 (5) of the Order of ANRE Chairman no. 116/2013 for approving the Regulation on determining the way to collect the contribution for high efficiency cogeneration and payment of the bonus for the electricity produced in high efficiency cogeneration: "if the manufacturer did not make the payment in full to

the administrator of the support scheme for its obligations resulted in accordance with the provisions of this Regulation, the administrator of the support scheme pays to the producer the difference between the invoices issued by the producer and the payment obligations of the producer on the support scheme, with explicit mention on the payment document of the respective amounts", and detained from payment the amounts due related to the corresponding support scheme.

CNTEE Transelectrica SA has concluded an agreement with CET Govora on compensation and rescheduling of payments for the amounts representing the equivalent receivables from the counter value of the overcompensation for the timeframe 2011 - 2013 and of the undue bonus for 2014 (Agreement no. C 135/June 30th, 2015 and Addendum no. 1/August 4th, 2015). The period of the Agreement was 1 year (timeframe July 2015 - August 2016) and stipulated the Company's right to calculate and collect payment penalties over the installment period.

According to the Agreement, the Company's receivables to be collected from CET Govora SA were compensated with the debts to CET Govora SA, represented by the cogeneration bonus for the period May 2014 - October 2015 detained pursuant to the Art. 17 (5) from the Order of the ANRE Chairman no. 116/2013 and the provisions of the Agreement, in the amount of 40,507,669.

Following the suspension in court, by Civil sentence no. 3185/November 27th, 2015, the ANRE Decision no. 738/March 28th, 2014 on setting the overcompensation amount for the timeframe 2011 - 2013, CET Govora SA no longer respected the obligations undertaken according to the Agreement.

Starting with May 9th, 2016, the general insolvency proceedings were opened for CET Govora. To recover its liabilities recorded before the insolvency proceedings, the Company applied the specific procedures provided by the Law no. 85/2014 on Insolvency and requested admission of its liabilities, according to the law.

Given the aforementioned facts, starting with May 9th, 2016, the Company has terminated the enforcement of article 17 (5) from the Order of ANRE Chairman no. 116 / 2013 on approving the Regulation regarding the settlement of the collection procedure of the high efficiency cogeneration contribution and the payment of the bonus for the electricity produced via high efficiency cogeneration, and has paid the cogeneration bonus to CET Govora on a monthly basis.

Via Civil Decision no. 2430/October 5th, 2016, the High Court of Cassation and Justice admitted the appeal declared by ANRE against Civil Ruling no. 3185/November 27th, 2015, has partially cancelled the contested sentence and has rejected the suspension request lodged by CET Govora, the judgement being final. Thus, starting with 05.10.2016, the effects of the ANDRE Decision no. 738/28.03.2014 are no longer suspended, being in full effect.

Under these circumstances, the Company enforces the provisions of article 17 (5) of the ANRE Order no. 116 / 2013 for the reciprocal debts and receivables occurred after the insolvency proceedings, retaining the bonus owed to CET Govora SA up to the amounts unpaid to the Company according to the support scheme.

In the month of September 2016, CNTEE Transelectrica SA has concluded an agreement with SC Termoficare Oradea, to take over the debt of SC Electrocentrale Oradea, representing the overcompensation for the year 2014 and 2015. The overtaken debt, in the amount of 29,259,377, has been spread over 24 monthly instalments (October 31st, 2016 - September 30th, 2018).

Taking into consideration the Government Decision 925/2016, as subsequently amended and supplemented, presented above in Note 1, the Company does not register provisions for the support scheme, the unrecovered value of these receivables being included in the cogeneration contribution.

Other receivables

On December 31st, 2017, other receivables in the amount of 116.051.033 mainly included:
- late payment penalties calculated to late paying clients, amounting to 64,817,416 (out of which the amount of 26,021,403 represents penalties in relation to the support scheme). The largest penalties for late payment have been registered by the following customers: RAAN (16,901,449), SC CET Govora (9,606,504), SC Eco Energy SRL (8,909,843), SC Petprod SRL (8,894,655), Total Electric Oltenia (3,288,967), Arcelor Mittal Galati (2,952,319), Also Energ (2,121,010). For the penalty charges for late payment of the receivables from operational activities, depreciation adjustments were recorded.
- compensations owed by suppliers for not delivering electricity (Arelco Power 2,816,658 and Enol Grup 2,541,312). Impairment adjustments were recorded for the compensations owed by suppliers from operating activities.
- the down payments granted to the supplier ELCOMEX - IEA SA amounting to 31,180,858, to which penalties amounting to 687,458 have been added. The down payments have been granted to the supplier ELCOMEX - IEA SA for performing the following projects:
    - Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja OHL to the Medgidia Sud 400 kV substation – down payment amounting to 9,948,593;
    - Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - Stage I - Resita 400/220/110 kV substation – down payment amounting to 21,232,265.

The down payments made to ELCOMEX - IEA SA are secured with the insurance policies issued by Asito Kapital S.A.
On April 7th, 2017 the Court of Constanta, Section II Civil, by Hearing protocol no. 294/2017, upheld the application for a declaration of insolvency of the debtor Elcomex - IEA SA, naming Pricewaterhouse Coopers Business Recovery Services IPURL as insolvency administrator.
On the day of insolvency, CNTEE Transelectrica SA held the following agreements concluded with SC Elcomex IEA SA: C163/29.07.2015: "Converting the Portile de Fier – Resita – Timisoara – Sacalaz – Arad to 400 kV / the 400/220/110 kV

Resita substation" and C255/18.11.2015 "Connecting the OHL 400 kV Isaccea-Varna and OHL 400 kV Isaccea-Dobruja in the 400 kV Medgidia Sud station, stage I". Following the declaration of insolvency of SC Elcomex IEA SA, CNTEE Transelectrica SA entered on its statement of affairs for the amount of 31,189,487 lei, representing the consideration of the down payment made to SC Elcomex IEA SA for the agreements no. C163/29.07.2015 and C255/18.11.2015 and other expenses.
Pricewaterhouse Coopers Business Recovery Services IPURL notifies CNTEE Transelectrica on August 7th, 2017, regarding the cancellation of the agreement C 163/29.07.2015 "Converting the Portile de Fier – Resita – Timisoara – Sacalaz – Arad to 400 kV / the 400/220/110 kV Resita substation".
On August 8th, 2017, the judiciary administrator Pricewaterhouse Coopers Business Recovery Services IPURL considers itself bound to note the cancellation by CNTEE Transelectrica SA of the agreement no. C255 from November 18th, 2015, regarding "Connection of the Isaccea-Varna 400 kV OHL and Isaccea-Dobruja 400 kV OHL in the Medgidia Sud 400 kV OHL, Stage I", notified by the Company with letter no. 24597 from July 5th, 2017, and at the same time the termination of the agreement on the initiative of CNTEE Transelectrica SA.
Given that to the date of drafting these financial statements, the amounts guaranteed by ASITO KAPITAL SA for the payment of down payments have not been recovered, the Company registered on December 31st, 2017, impairment adjustments amounting to 31,180,858.
On July 1st, 2017, the Company submitted an application for summons regarding the issuance of a payment order, an action subject to the **case file no. 24552/3/2017 on the docket of the Bucharest Court**, Section VI Civil, requesting the Court to rule a decision obliging the debtor ASITO KAPITAL SA to pay the amount of **7,058,773.36 Euro** *(the equivalent of 31,180,857.96 lei),* representing guarantee policies for the down payments no. BR – 1500544/November 18th, 2015, and no. BR – 1500520/July 29th, 2015.
At the hearing from November 7th, 2017, after deliberation, the Bucharest Court ruled the following solution, in short:
- Admits the request.
- Orders the debtor to pay, within 20 days from notification of this decision, the amount of 2,237,750.83 euro (the equivalent of 9,948,592.64 lei at the exchange rate of 4.4458 euro), representing the down payment which was not reimbursed but guaranteed via letter of guarantee no. BR-1500544/18.11.2015;
- Orders the debtor to pay, within 20 days from notification of this decision, the amount of 4,821,022.53 euro (the equivalent of 21,233,265.32 lei at the exchange rate of 4.4041 euro), representing the down payment which was not reimbursed but guaranteed via letter of guarantee no. BR-1500520/29.07.2015;
- Orders the debtor to pay, within 20 days from notification of this decision, the amount of 200 lei representing legal expenses.
With right of request in annulment within 10 days from notification. Document: Decision 4067/2017 - 07.11.2017.
By the date of drafting these financial statements, Decision 4067/2017 - 07.11.2017 has not been drafted and communicated in order to be enforced.

- receivables from OPCOM representing VAT for the contribution in kind to the subsidiary's equity, amounting to 4,517,460;
- deferred expenses amounting to 4,807,348 mainly represented by the advances on contracts concluded with the suppliers of electricity needed for covering the own technological consumption for future periods (3,321,562), a guarantee fee for the BEI 25710 loan (83,475) and commission of ING credit granting (354,799), maintenance and technical assistance (97,220), rents (599,548);
- other long-term receivables amounting to 4,517,259, out of which 4,199,505 represent guarantees for temporary occupation of the land calculated and retained in accordance with Article 39 (1), (2) and (5) of the Law no. 46 / 2008 on the Forestry Code, in order to achieve the investment objective Resita – Pancevo (Serbia) 400 kV OHL.

Down payments to suppliers

On December 31st, 2017, the down payments to suppliers are represented by the suppliers who are debtors for services amounted to 11,102,342, out of which 11,082,612 represent amounts from transactions related to the price coupling mechanism. Application of the mechanism coupling through the price began on November 19th, 2014, the date at which the project "4 Market Market Coupling" which provides the unification of the electricity markets DAM Square (Next Day Market) from Romania, Hungary, Czech Republic and Slovakia entered in the operating phase. Within the price coupling mechanism for the day-ahead markets, the electricity exchanges correlate the day-ahead electricity transactions based on bids, taking into account the interconnection capacity provided by the TSOs, by which it is implicitly allocated CNTEE Transelectrica SA, acting as TSO, transfers the electricity both in physical and commercial terms to the neighboring TSOs (MAVIR-Hungary) and manages the congestion revenues along the respective interconnection (Article 139 from ANRE Order no. 82/2014), while in relation to SC OPCOM SA it acts as Implicit Participant on the Day-Ahead Market.
As a Shipping Agent and Implicit Participant, CNTEE Transelectrica SA has the commercial task to settle the power traded between SC OPCOM SA and MAVIR.

Adjustments for depreciation of trade receivables, of uncertain trade receivables and of other uncertain receivables

Transelectrica's policy is to register impairments amounting to 100% for clients in litigation, under insolvency and bankruptcy, and 100% from trade receivables and other receivables not collected for more than 180 days, except for outstanding receivables generated by the support scheme. The Company also makes a case by case analysis of uncollected trade and other receivables.

On December 31st, 2017, the highest adjustments of depreciation, calculated for the trade receivables and related penalties,

have been recorded for SC Petprod SRL (23,539,650), SC Eco Energy SRL (24,736,066), Arelco Power (17,359,453), SC Total Electric Oltenia SA (14,185,577), Romenergy Industry (13,512,997), Elsaco Energy (9,293,972), Also Energ (7,177,167), RAAN (6,235,210), CET Brasov (4.664.627), OPCOM (4,517,460). The Company took the following measures in order to recover the impaired receivables: court proceedings, entering on the statement of affairs, requesting clarifications from ANAF (regarding the VAT collected from Opcom) and so on.

The Company's exposure to the collection risk, as well as the value adjustments for trade receivables, are presented in Note 29.

10. OTHER FINANCIAL ASSETS

On December 31st, 2017 and December 31st, 2016, the other financial assets were presented as follows:

	December 31st, 2017	December 31st, 2016
Bank deposits with maturity larger than 90 days	-	135,090,000
Total	**-**	**135,090,000**

On December 31st, 2017, the Company has no bank deposits with maturity larger than 90 days.

11. CASH AND CASH EQUIVALENTS

On December 31st, 2017 and December 31st, 2016, the cash and cash equivalents were presented as follows:

	December 31st, 2017	December 31st, 2016
Current accounts and bank deposits, out of which:	520,708,388	933,616,367
- cash and deposits from high efficiency cogeneration	19,172,948	107,811,909
- cash from revenues related to interconnection capacity allocation used for grid investments	84,247,056	77,026,910
- cash from the connection fee	31,152,565	22,532,536
Petty cash	37,850	44,789
Other cash equivalents	262	37
Total	**520,746,500**	**933,661,193**

The bank deposits with initial maturity smaller than 90 days, constituted with cash available in current accounts (including cogeneration deposits) amounted to 251,047,468 at December 31st, 2017 and to 688,114,823 at December 31st, 2016.

12. SHAREHOLDERS' EQUITY

Share capital

According to GEO 86/2014 on the establishment of reorganization measures at central public administration level and for modifying and completion of some normative acts, on February 20th, 2015 was recorded in the Company's shareholder Register the transfer of 43,020,309 shares from the account of the Romanian State from the administration of the General Secretariat of Government, in the account of the Romanian State in the management of the Ministry of Economy, Trade and Tourism.

Under the provisions of Article 2 of Government Emergency Ordinance no. 55/November 19th, 2015 on the establishment of reorganization measures at the central government level and to supplement several acts, the Ministry of Economy, Trade and Business Environment Relationship (MECRMA) was incorporated by reorganizing and taking over the activities of the Ministry of Economy, Trade and Tourism, which was dissolved, and by merging and structures in the field of small and medium businesses of the Ministry of Energy, Small and Medium Enterprises and Business Environment.

According to the provisions of GD no. 27/January 12th, 2017 on the organization and functioning of the Ministry of Economy, the Company functions under the authority of the Ministry of Economy.

On March 3rd, 2017 the transfer in the amount of 43,020,309 shares was registered in the Company's Shareholder Register, from the account of the Romanian State from the administration of the Ministry of Economy, Trade and Tourism, in the account of the Romanian State in the administration of the Ministry of Economy.

At the end of each reporting period, the subscribed and paid share capital of the Company amounted to 733,031,420 is divided into 73,303,142 ordinary shares with a nominal value of 10 lei/share and corresponds to the one registered in the Trade Register.

The shareholder structure on December 31st, 2017 and on December 31st, 2016 was as follows:

	December 31st, 2017		December 31st, 2016	
Shareholder	**Number of shares**	**% of the Share capital**	**Number of shares**	**% of the Share capital**
Romanian State through MECRMA	43,020,309	58.69%	43,020,309	58.69%
Other legal person shareholders	20,689,339	28.22%	25,797,725	35.19%
DEDEMAN SRL	4,192,363	5.72%	-	-
Other natural person shareholders	5,401,131	7.37%	4,485,108	6.12%
Total	**73,303,142**	**100.00%**	**73,303,142**	**100.00%**

The Company recognizes changes in the share capital in accordance with the legislation in force and only after their approval in the Extraordinary General Assembly of Shareholders and their registration with the Trade Registry.

As of December 31st, 2017 and December 31st, 2016, the share capital is as follows:

	December 31st, 2017	December 31st, 2016
Share capital (nominal value)	733,031,420	733,031,420
Share capital balance	**733,031,420**	**733,031,420**

The shareholders are entitled to receive dividends and are entitled to one vote per share at the meetings of the Company.
The value of shareholders' dividends distributed from the profit of 2016 according to the General Assembly Decision no. 4/April 27th, 2017 amounts to 165,445,191, and their payment is done through the Central Depository starting with June 28th, 2017. The amount of unpaid dividends as of December 31st, 2017 is 2,414,333 (December 31st, 2016: 1,312,744).

Share premium

All new shares issued within the capital increase by the primary initial public offering from 2006 were subscribed and fully paid in against the issue price. The share premium amounting to 49,842,552, being the difference between the share issue price and the share nominal value, was recorded in the Company's reserve account.

Legal reserves

Legal reserves in the amount of 116,360,295 as of December 31st, 2017 and 116,360,295 as of December 31st, 2016 represent legal reserves constituted according to the statutory legislation and cannot be distributed. The Company transfers to this reserve at least 5% of its annual accounting profits (GEO no. 64/2001, Law no. 227/2015) until the cumulative balance reaches 20% of its paid in share capital.

Revaluation reserves

The revaluation reserve amounts to 499.921.435as of December 31st, 2017 and 549,088,226 as of December 31st, 2016. The latest revaluation of buildings and special installations was made on December 31st, 2015 by SC JPA Audit & Consultanta SRL, independent evaluator authorized by the National Union of Authorized Evaluators in Romania ("ANEVAR").

Other reserves

As of December 31st, 2017, other reserves amount to 56,953,503 (56,953,728 as of December 31st, 2016), of which 20,952,260 represents the value of structural funds received from the Managing Authority for Sectoral Operational Program "Increase of Economic Competitiveness" and 32,718,386 represents the value of subsidies from connection tariffs, which were used to finance received investment works in assets that are part of the State's public domain, and 3,282,857 represents the value of the land for which certificates authenticating the ownership rights were obtained. As described in Note 26, the land for which the certificates authenticating the ownership rights are obtained is first recognized at fair value in reserve and followed by an increase in share capital after it is recorded with the Trade Registry Office.

Retained earnings

Retained earnings amount to 1.261.037.451 as of December 31st, 2017 (1.602.438.193 as of December 31st, 2016)
On December 31st, 2017, the Company records an accounting loss in the amount of 47.945.023. The accounting regulations in line with the International Financial Reporting Standards approved by the OMPF no.2844 / 2016 provide the following:
(1) The retained accounting loss shall be covered from the profit of the financial year and from retained earnings, from the reserves, the share premiums and the share capital, according to the decision of the general meeting of the shareholders or associates, in compliance with the legal provisions.
(2) In the absence of express legal provisions, the order of the sources from which the accounting loss is covered is the responsibility of the general meeting of shareholders or associates, respectively of the board of directors.

On December 31st, 2017, the Company recorded a positive retained earning result corresponding to the surplus from the revaluation reserves in the amount of 834,510,994, out of which 189,989,113 surplus from the revaluation reserves not taxable at the change of destination, and 644,521,881 surplus from the revaluation reserves taxable at destination change.

Considering art. 176 of the Accounting Regulations in compliance with the International Financial Reporting Standards approved by the OMPF no. 2844/2016 with subsequent amendments and completions ,as well as art. III par. (1) of GO no. 64/2001 with the subsequent amendments and completions, shall be subject to the approval of the General Shareholders' Meeting, to cover the accounting loss recorded as of December 31st, 2017 in the amount of 47,945,023 lei from the positive result of the surplus from the non-taxable revaluation reserves upon the change of the destination

13. DEFERRED REVENUES

Deferred revenues are mainly represented by: the connection fee, other subsidies for investments, non-refundable European funds collected from the Ministry of European Funds, as well as revenues from the use of interconnection capacities.

On December 31st, 2017, the deferred revenues were as follows:

	December 31st, 2017	Out of which short term portion as of 31.12.2017	December 31st, 2016	Out of which: short-term portion as of 31.12.2016
Deferred revenues – interconnection capacity allocation	5,797,166	5,797,166	6,578,507	6,578,507
Deferred revenues - European Funds	2,558,135	2,558,135	1,320,318	1,320,318
Funds from the connection fee	311,396,019	23,558,353	319,025,555	21,082,024
European Funds	101,624,877	7,415,017	109,440,915	7,472,520
Other subsidies	30,147,052	1,552,393	31,618,306	1,671,705
Total	**451,523,249**	**40,881,064**	**467,983,601**	**38,125,074**

Evolution in advance short-term revenues during the 2017 is presented as follows:

	December 31st, 2017	December 31st, 2016
Balance at the beginning of the period	38,125,074	33,408,244
Advance income related to the interconnection capacity	75,479,347	38,685,253
Income from European Funds	1,327,202	1,213,273
Transfer of long-term deferred income	2,299,514	(313,881)
Revenues from the use of the interconnection capacity	(76,260,688)	(34,867,815)
Revenues from European Funds	(89,385)	-
Total	**40,881,064**	**38,125,074**

13. DEFERRED REVENUES (continued)

The evolution in advance long-term revenues during the 2017 is presented as follows:

	December 31st, 2017	December 31st, 2016
Balance at the beginning of the period	429,858,527	462,721,487
Connection subsidies	14,227,840	(2,951,432)
Non-refundable funds	173,928	32,742
Non-refundable funds to be repaid	-	(137,280)
Transfer to short-term deferred revenues	(2,299,514)	608,559
Release of deferred revenues	(31,318,596)	(30,415,549)
Total	**410,642,185**	**429,858,527**

In 2017, CNTEE Transelectrica SA collected from the Ministry of Economy the amount of 163,809 lei in order to start the expropriation procedures for the privately owned immovable properties constituting the expropriation corridor for the following works of national interest:
- Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja 400 kV OHL in the Medgidia Sud 400 kV substation - Stage II - Connections in the Medgidia Sud 400 kV OHL d.c. substation;
- Converting the Portile de Fier – Resita – Timisoara – Sacalaz – Arad axis/Portile de Fier – (Anina) – Resita 400 kV OHL to 400 kV;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV / stage I: Extension of the Portile de Fier 400 kV substation, Portile de Fier - Anina - Resita 400 kV OHL, Resita 400/220/110 kV Resita substation;
- Resita-Pancevo 400 kV OHL interconnection;
- Ostrovu Mare 220 kV OHL double circuit – PTG;
- Gutinas – Smardan 400 kV OHL d.c. and
- Cernavoda-Stalpu 400 kV OHL d.c. and connection in the Gura Ialomitei substation.

14. LOANS

Long-term loans

On December 31st, 2017 and December 31st, 2016, the amounts owed to credit institutions for a period of over one year are the following:

Description	December 31st, 2017	December 31st, 2016
NIB PI No 02/18 (a)	3,417,420	11,337,158
BIRD 7181 (b)	43,603,118	74,348,437
NIB PI No 03/5 (c)	10,717,310	20,889,060
NIB PI No 02/37 (d)	5,737,176	11,182,303
KfW 10431 (e)	-	9,521,818
KfW 11300 (f)	-	9,611,198
BEI 25709 (i)	89,742,370	98,390,500
BEI 25710 (i)	97,425,565	105,910,484
ING+BRD (j)	58,712,220	95,363,100
Unsecured bonds (k)	200,000,000	200,000,000
Total long-term loans from credit institutions, out of which:	**509,355,179**	**636,554,058**
Less: Current portion of long-term loans	**(314,169,245)**	**(134,624,060)**
Total long-term loans net of current installments	**195,185,934**	**501,929,998**

14. LOANS (continued)

Overview of the long-term loans as on December 31st, 2017

No.	Loan name	Date granted	Loan value (foreign currency)	Balance at 31.12.2017 (foreign currency)	Balance at 31.12.2017 (RON)	Interest rate	Maturity as per loan
1	NIB PI 02/18	19.02.2003	18,441,684.50 USD	878,175.45 USD	3,417,420	LIBOR 6M+0,9%	16.04.2018
2	BIRD 7181	15.07.2003	71,622,715.47 EUR	9,357,494.80 EUR	43,603,118	last transmitted 0%	15.01.2020
3	NIB PI 03/5	12.11.2004	23,000,000.00 EUR	2,300,000 EUR	10,717,310	EURIBOR 6M+0,85%	17.09.2018
4	NIB PI 02/37	25.02.2004	12,927,944.17 EUR	1,231,232.77 EUR	5,737,176	EURIBOR 6M+0,9%	17.09.2018
5	BEI 25709	05.08.2010	32,500,000.00 EUR	19,259,259.30 EUR	89,742,370	3.596%	10.09.2025
6	BEI 25710	05.08.2010	32,500,000.00 EUR	20,908,119.65 EUR	97,425,565	3.856% and 2.847%	11.04.2028
7	ING+BRD	26.07.2012	42,000,000.00 EUR	12,600,000 EUR	58,712,220	EURIBOR 6M+2,75%	13.02.2019
8	Unsecured Bonds	19.12.2013	200,000,000.00 RON	200,000,000 RON	200,000,000	6.1%	19.12.2018
	TOTAL				**509,355,179**		

14. LOANS (continued)

The long-term Loans are detailed as follows:

a) Loan no. 02/18 from NIB PIL

The loan from NIB was granted on February 19th, 2003. The total amount due as of December 31st, 2017 amounts to USD 878,175. The loan was granted to finance the rehabilitation of the Slatina 400/220 kV electrical substation. The loan bears a variable interest rate of six months LIBOR plus a 0.9% margin. Repayment is scheduled over 10 years in 20 instalments, from 2008 to 2018.

b) Loan no. 7181 from IBRD

The loan from IBRD was granted on July 15th, 2003 for the objective "Electricity Market". The total amount outstanding as of December 31st, 2017 is EUR 9,357,495. The loan bears a variable interest rate communicated by IBRD depending on the financing cost. The interest rate for the last instalment was 0%. The repayment is performed biannually (on January 15th and July 15th of each year), starting July 15th, 2008, with the last instalment being scheduled on January 15th, 2020.
The loan agreement includes certain financial provisions: (i) a debt service cover ratio of not less than 1.3 and (ii) a ratio of current assets to current liabilities of not less than 1.2.

c) Loan no. 03/5 from NIB PIL

The loan from NIB was granted on November 12th, 2004 for the objective "Rehabilitation of the Gutinas 400/220/110 kV electrical substation". The total amount outstanding as of December 31st, 2017 is EUR 2,300,000. The interest rate is 6 month EURIBOR plus 0.85%, repayment is performed biannually, in equal instalments starting March 15th, 2009, with the last instalment being scheduled on September 17th, 2018.

d) Loan no. 02/37 from NIB PIL

The loan was granted by NIB on February 25th, 2004 for the objective "Rehabilitation of the Rosiori 400/220 kV electrical substation". The total amount outstanding as of December 31st, 2017 is EUR 1,231,233. The interest rate is 6 month EURIBOR plus 0.90%, repayment is performed biannually, in equal instalments starting September 15th, 2008, with the last instalment being scheduled on September 17th, 2018.

e) Loan no. 10431 from KfW

The loan has been granted by KfW on August 12th, 2004 for the objective "Rehabilitation of the Sibiu Sud 400/220/110 kV electrical substation". As of December 31st, 2017, the loan was repaid in full. The interest rate is 6 months EURIBOR plus 0.60%, the repayment being performed biannually, in equal instalments starting January 31st, 2008, with the last instalment being scheduled on July 31st, 2017.

f) Loan no. 11300 from KfW

The loan has been granted by KfW on August 12th, 2004 for the "Rehabilitation and modernization of the Bucuresti Sud 400/220/100 kV electrical substation". As of December 31st, 2017, the loan was repaid in full. The interest rate is 6 months EURIBOR plus 0.60%, the repayment being performed biannually, in equal instalments starting January 31st, 2008, with the last instalment being scheduled on July 31st, 2017.

g) Loan no. 25709 and no. 25710 from EIB
The loans were granted by EIB on August 5th, 2010 for financing the modernization and rehabilitation of the Romanian Power Transmission Grid. Each loan amounts to EUR 32,500,000. EIB loan no. 25709 is not guaranteed, while EIB loan no. 25710 is guaranteed by CitiBank Europe PLC, Dublin – Romania branch. The repayment period is of 15 years, with a grace period of 2 years. The repayment is scheduled from 2012 to 2025 for EIB loan no. 25709 (on March 10th and September 10th of each year) and from 2013 to 2028 for EIB loan no. 25710 (on April 11th and October 11th of each year). The interest rates are 3.596% for EIB loan no. 25709 and 3.856% and 2.847% for EIB loan no. 25710.

The amount outstanding as of December 31st, 2017 for the EIB loan no. 25709 is EUR 19,259,259 and for EIB loan no. 25710 EUR 20,908,120.

The EIB loan agreement no. 25709 includes certain financial provisions: (i) a ratio of EBITDA to interest payments for long-term loans during the year of not less than 4.2; (ii) a ratio of debt to equity of not more than 0.95; (iii) a ratio of total net debt and EBITDA of no more than 3.5.
Loan no. 25710 from EIB is guaranteed by CitiBank Europe PLC, Dublin – Romania branch. The contract bears a guarantee commission of 0.46% per annum, computed at 115% of the value of the balance. The guarantee agreement concluded on January 26th, 2011 includes certain financial provisions: (i) a ratio of consolidated EBITDA to consolidated net financial expenses of not less than 4.2; (ii) a ratio of total net debt to equity of not more than 0.95.

h) Loan from ING Bank N.V., Amsterdam (Bucharest branch) and BRD – Groupe Société Générale SA

The loan was granted on July 26th, 2012 by the consortium made up of ING Bank N.V., Amsterdam (Bucharest branch) and BRD – Groupe Société Générale SA. The loan is meant to finance the following investments: refurbishment of the Lacu Sarat 400/200/110/20 kV substation, refurbishment of the Mintia 220/110 kV substation, integrated security systems in substations and replacement of autotransformers and transformers in electrical substations. The repayment period is of 84 months with a grace period of 24 months, with equal instalments payable every semester starting from August 2014. The loan bears a variable rate of 6 month EURIBOR, plus a margin of 2.75%.The loan is 100% guaranteed through assignment of receivables. The total amount outstanding as of December 31st, 2017 is EUR 12,600,000.

The loan agreement includes certain financial provisions: (i) a ratio of EBITDA to financial expenses of no less than 4.2; (ii) a ratio of total net debt to EBITDA of no more than 3.5.

i) Bonds issue

The Extraordinary General Assembly of Shareholders of CNTEE Transelectrica SA approved, through Decision no. 7 of 30.09.2013, a limit of RON 900 million for the issue of corporate bonds during 2013 – 2017, from which RON 200,000,000 were issued during December 11th, 2013 – December 18th, 2013 through an initial public offering on the internal capital market. The bonds are unsecured and are not convertible into shares. The interest rate of the bonds issued is of 6.1% per annum, the interest being paid on an annual basis in December 2014, December 2015, December 2016, December 2017 and December 2018. The bonds are due on December 19th, 2018.

Following the consent given by the Council of the Bucharest Stock Exchange on January 14th, 2014, starting with January 16th, 2014, the corporate bonds of the Company are being traded on the Bucharest Stock Exchange, within the sector Securities – third category Corporate bonds under the symbol TEL 18.

During the entire period in which the bonds are not redeemed in full, the Company undertakes to comply with certain financial indicators: (i) Interest Cover Ratio to be at least equal to 4.2; (ii) the Debt/Equity Ratio to be equal or less than 0.95.

As of December 31st, 2017, the financial indicators corresponding to loan agreements, including from bonds issue, were met.

The long-term portion of loans will be repaid as follows:

	December 31st, 2017	**December 31st, 2016**
Between 1 and 2 years	51,449,375	311,711,992
Between 2 and 5 years	68,912,530	95,401,520
Over 5 years	74,824,029	94,816,486
Total	**195,185,934**	**501,929,998**

The company did not perform activities related to hedging its foreign currency obligations or to exposure to interest rate risks.

All the long-term loans, except for EIB 25709 and EIB 25710 and Bonds, bear a variable interest rate and consequently, the fair value of the long-term loans is similar to their book value.

As of December 31st, 2017, the long-term loans guaranteed by the Romanian Government through the Ministry of Public Finances are: BIRD 7181, NIB PIL 03/5, NIB PIL 02/18 and NIB PIL 02/37.

The loan from ING and BRD was initially guaranteed by assignment of receivables from SC E.On Energie Romania SA, SC E-Distributie Muntenia SA, SC Alpiq Romindustries SRL, SC Electromagnetica SA, SC Met Romania Energy Marketing SRL and through the real movable security over the investment accounts opened with ING and one investment account opened with BRD SMCC.

From November 2016, the loan is secured by the assignment of the receivables that the Company has to collect only from SC EON Energie Romania SA and SC Enel Distributie Muntenia SA and by the real movable security over the investment accounts opened with ING and an investment account opened with BRD SMCC.

The guarantee agreement concluded with CitiBank Europe PLC is secured by assignment of receivables that the Company has to collect from SC Enel Energie Muntenia SA.

Short-term loans

The short-term Loans are detailed as follows:

	December 31st, 2017	December 31st, 2016
Current portion of long-term loans	314,169,245	134,624,060
Interest on long and short-term loans	2,460,222	3,140,317
Interest on bonds	434,521	440,555
Total short-term loans	**317,063,988**	**138,204,932**

Loans contracted for the current activity

Transelectrica has contracted a credit line in February 2017 from BRD GROUP SOCIETE GENERALE SA, the Large Corporates Branch, for a period of 12 months for financing the bonus type support scheme for high efficiency cogeneration, in the form of overdraft amounting to 150,000,000, with an interest calculated according to the ROBOR 1M reference rate, plus a negative margin of 0.10%. In the event that the value of the ROBOR 1M reference rate is smaller than 0.10%, the interest rate applied shall be of 0%.

This was guaranteed by:

- movable mortgage on the account opened at the bank;
- movable mortgage on receivables resulted from contracts regarding the contribution for high efficiency cogeneration, concluded with Cez Vanzare S.A., E.ON Energie Romania S.A., Tinmar Energy S.A.

On December 31st, 2017, the credit line is not used.

15. OBLIGATIONS REGARDING EMPLOYEE BENEFITS

According to Government Decisions no. 1041/2003 and no. 1461/2003, the Company provides in-kind benefits in the form of free electricity to the employees who retired from the predecessor entity.

Also, according to the collective labor agreement, the Company provides long-term benefits to both employees – depending on the length of service and seniority within the Company – and to former employees after retirement. The benefits awarded to management personnel are included in Note 28, under *Remuneration of the Company's management.*

The long-term benefits granted by the Company include the following:

- retiree premiums ranging from 1 to 5 gross monthly base salaries, depending on the number of years of seniority within the Company on the date of retirement;
- anniversary premiums between 1 and 5 gross monthly base salaries, depending on the number of years of seniority within the Company;
- free electricity paid after retirement of 1,800 kWh/year, paid according to the collective labor agreement.

The actuarial calculations referring to the post-employment benefits and other long-term benefits were made by an authorized actuary, based on the service agreement concluded with Mr. Daniel Ghervase.

The obligations regarding employee benefits are as follows:

	December 31st, 2017	December 31st, 2016
Anniversary premiums	24,339,697	20,697,649
Retiree premiums	12,010,992	11,482,723
Free energy provided to current and retired employees	16,296,217	11,033,095
Benefits for the employment contract termination	-	78,385
Maternity premiums	-	13,123
Total	**52,646,906**	**43,304,975**

As of December 31st, 2017 and December 31st, 2016, the Company has an obligation regarding long-term employee benefits, amounting to 52,646,906 and 43,304,975. The estimation of these obligations was made taking into account the following:

- electricity price at December 31st, 2017 and the price expected for future periods. The price estimated for the following periods is calculated as a forecast based on previous observed data for energy price;
- base salary at December 31st, 2017 and base salaries for future periods estimated by the actuary (a salary increase was taken into consideration, depending on the future development of the consumer price index);
- number of employees as of December 31st, 2017 and estimated annual number of Company employees based on projected rates of departure from the Company and statistical data on population mortality provided by INS;

- discount rate estimated by the actuary is based on the target level of inflation for the eurozone and an investment rate of return lower than 2%, a value which is considered desirable because it allows a long-term balance of financial markets.

15. OBLIGATIONS REGARDING EMPLOYEE BENEFITS (continued)

	December 31st, 2016	Interest cost	Cost of current service	Payments from provisions	Actuarial loss for the period	December 31st, 2017
Benefits pertaining to anniversary premiums to be granted to current employees	20,697,649	291,633	689,558	1,597,678	4,258,535	24,339,697
Benefits pertaining to maternity premiums to be granted to current employees	13,123	-	-	-	(13,123)	-
Benefits pertaining to retiree premiums of current employees	11,482,723	126,861	422,554	1,144,725	1,123,580	12,010,992
Benefits pertaining to premiums granted for the labor agreement termination	78,385	-	-	-	(78,385)	-
Benefits pertaining to the counter value of electricity to be paid to current employees after retirement	6,678,368	105,443	332,554	0	919,529	8,035,894
Benefits pertaining to the counter value of electricity paid to current retirees	4,354,727	105,154	-	579,834	4,379,826	8,260,323
	43,304,975	**629,091**	**1,444,666**	**3,321,787**	**10,589,962**	**52,646,906**

The main assumptions considered in the actuarial calculation are as follows:

	December 31st, 2017	December 31st, 2016
Discount rate	Values in the range 3.5% - 4.6% set based on the government	the interest curve in lei, without adjustments,
	urities transactions on the interest curve in lei, without adjustments,	December 0.975%; 1.393%; 1.799%; 2.197%; 2.565%
For the first 5 years	secondary market and correlated with the development of the inflation target level set by NBR for the following years. A long-term inflation of 2% per annum and a real return of 1.86%	the interest curve in lei, without adjustments, supplied by EIOPA for December 2016, with a peak of 4.587% for 25 years and dropping to 4.358% for 85 years
For more than 5 years		4% in the first 3 years, 3% in the 4th year and 2% in the remaining years
Salary increase	The wages follow the inflation rate development.	

16. TRADE AND OTHER PAYABLES

On December 31st, 2017 and December 31st, 2016, trade payables and other payables are presented as follows:

	December 31st, 2017	December 31st, 2016
Providers - electricity market	538.923.244	591,678,777
Asset providers	62.898.568	76,404,309
Providers of other activities	27.782.443	27,546,104
Amounts due to the employees	5.866.258	5,291,891
Other liabilities	64.466.306	173,027,119
Total	**699.936.819**	**873,948,200**

- On December 31st, 2017 and December 31st, 2016, outstanding debts on the energy market amounted to 538,923,244 and 591,678,777respectively, and presented the following structure:

	December 31st, 2017	December 31st, 2016
Suppliers on the electricity market, out of which:		
- suppliers – operational activity – energy	110,803,907	122,864,250
- suppliers - balancing market	204,980,467	286,774,831
- suppliers in the bonus support scheme for the promotion of high-efficiency cogeneration		
	223,201,870	182,039,696
Total	**538,923,244**	**591,678,777**

- The decrease of liabilities to suppliers from the operational activity – energy came as a result of the payment of outstanding obligations on the electricity market as of December 31st, 2016.

- The decrease of liabilities to suppliers on the balancing market was due to the decrease of the amount of transactions on the balancing market in December 2017 compared to December 2016, causing an increase of liabilities to suppliers on this market, outstanding as of December 31st, 2017 compared to December 31st, 2016.

The providers on the electricity market are represented mainly by: SC Hidroelectrica SA, Electrocentrale Bucuresti, RAAN, Complex Energetic Oltenia, Mavir, Complex Energetic Hunedoara, Romgaz SA, OMV Petrom. On December 31st, 2017, their share was ca. 88% in the total number of energy suppliers.

- The increase in debts related to the support scheme towards the suppliers (producers) was determined by withholding from payment the cogeneration bonus and the ante-overcompensation owed to producers in the account of the Company's receivables not collected from the same producers in the support scheme, represented by the overcompensation of the period 2011-2013, 2015 and 2016 by applying the provisions of Art. 17 (5) of Order no. 116/2013 of the ANRE Chairman.

On December 31st, 2017, payment obligations were registered towards suppliers (producers) in the amount of 111,233,189 (Electrocentrale Bucuresti – 56,680,387, RAAN – 51,183,836, CET Govora SA – 3,368,966), representing the cogeneration bonus and ante-overcompensation for the years 2014 and 2015, as well as the bonus not granted for the years 2015 and 2016. The amounts representing the debts of the Company regarding the support scheme towards Electrocentrale Bucuresti, RAAN and CET Govora have been retained from payment on the grounds of Article 17 (5) of the Order of the ANRE Chairman no. 116 / 2013, because the suppliers (producers) registered payment obligations towards the Company regarding the bonus type support scheme.

The Company requested the agreement of the producers (suppliers of the Company) who did not pay for the overcompensation invoices and the undue bonus, to compensate the reciprocal debts at their minimum level via the Management and Informatics Institute (IMI), entity that unitedly manages all information received from tax-payers, according to the provisions of GD no. 685/1999.
RAAN and Electrocentrale Bucuresti have not agreed to this method of discharging the reciprocal receivables and debts, and therefore the Company has applied and continues to apply the provisions of Article 17 (5) of the Order of ANRE Chairman no. 116/2013 for approving the Regulation on determining the way to collect the contribution for high efficiency cogeneration and payment of bonus for electricity produced in high efficiency cogeneration: "if the manufacturer did not make the payment in full to the administrator of the support scheme for its obligations resulted in accordance with the provisions of this Regulation, the administrator of the support scheme pays to the producer the difference between the invoices issued by the producer and the payment obligations of the producer on the support scheme with explicit mention on the payment document of the respective amounts" and detained from payment the amounts due related to the corresponding support scheme.

16. TRADE AND OTHER PAYABLES (continued)

CNTEE Transelectrica SA has concluded an agreement with CET Govora on compensation and rescheduling of payments for the amounts representing the equivalent receivables from the counter value of the overcompensation for the timeframe 2011-2013 and of the undue bonus for 2014 (Agreement no. C 135/June 30th, 2015 and Addendum no. 1/August 4th, 2015). The period of the Agreement was 1 year (timeframe July 2015 - August 2016) and stipulated the Company's right to calculate and collect payment penalties over the installment period.

According to the Agreement, the Company's receivables to be collected from CET Govora SA were compensated with the debts to CET Govora SA, represented by the cogeneration bonus for the period May 2014 - October 2015 detained pursuant to the Art. 17 (5) from the Order of the ANRE Chairman no. 116/2013 and the provisions of the Agreement, in the amount of 40,507,669.

Following the suspension in court, by Civil sentence no. 3185/November 27th, 2015, the ANRE Decision no. 738/March 28th, 2014 on setting the overcompensation amount for the timeframe 2011 - 2013, CET Govora SA no longer respected the obligations undertaken according to the Agreement.

Starting with May 9th, 2016, the general insolvency proceedings were opened for CET Govora. To recover its liabilities recorded before the insolvency proceedings, the Company applied the specific procedures provided by the Law no. 85/2014 on Insolvency and requested admission of its liabilities, according to the law.

Given the aforementioned facts, starting with May 9th, 2016, the Company has terminated the enforcement of article 17 (5) from the Order of ANRE Chairman no. 116 / 2013 on approving the Regulation regarding the settlement of the collection procedure of the high efficiency cogeneration contribution and the payment of the bonus for the electricity produced via high efficiency cogeneration, and has paid the cogeneration bonus to CET Govora on a monthly basis.

Via Civil Decision no. 2430/October 5th, 2016, the High Court of Cassation and Justice admitted the appeal declared by ANRE against Civil Ruling no. 3185/November 27th, 2015, has partially cancelled the contested sentence and has rejected the suspension request lodged by CET Govora, the judgement being final. Thus, starting with 05.10.2016, the effects of the ANDRE Decision no. 738/28.03.2014 are no longer suspended, being in full effect.

Under these circumstances, the Company enforces the provisions of article 17 (5) of the ANRE Order no. 116 / 2013 for the reciprocal debts and receivables occurred after the insolvency proceedings, retaining the bonus owed to CET Govora SA up to the amounts unpaid to the Company according to the support scheme.

- The decrease of the balance of asset suppliers on December 31st, 2017 compared to December 31st, 2016 is due to the payment towards the equipment, works and services providers for the investment projects.
- The debts towards suppliers of other activities are mainly represented by the not due debts related to the services provided by third parties, debts which have registered an insignificant decrease compared to December 31st, 2016.

The debts' structure recorded as "other liabilities" is presented as follows:

	December 31st, 2017	December 31st, 2016
Different Creditors	31,958,422	134,201,186
Clients - creditors	20,823,604	29,283,054
Dividends to be paid	2,414,333	1,312,744
Other liabilities	9,269,947	8,230,135
Total	**64,466,306**	**173,027,119**

On December 31st, 2017, the position "different creditors" in the amount of 31,958,422 mainly represents the net position of the support scheme for high-efficiency cogeneration, which on December 31st, 2017 registers a debt position amounting to 30,451,865 (December 31st, 2016: 128,272,529), down from December 31st, 2016 as a result of the decrease in value of the high-efficiency cogeneration contribution.

The net position of the support scheme is the difference between:

- the amount of contributions to be collected from the electricity suppliers, the amount of the overcompensation of the activity of electricity and heat production in high-efficiency cogeneration for 2011-2013, for the years of 2014, 2015 and 2016, the undue bonus for the years of 2014, 2015 and 2016 – to be collected from the producers, according to the ANRE decisions, on the one hand, and
- the cogeneration bonus amount withheld under Article 17 (5) of the Order of ANRE Chairman no. 116/2013, the ante-overcompensation for the years 2014, 2015 and 2016 and the bonus not granted for the years 2014, 2015 and 2016 - to be paid to the high-efficiency cogeneration energy producers, the beneficiaries of the support scheme, on the other hand.

"Customers creditors" on December 31st, 2017 amounted to 20,823,604, out of which 10,276,407 represent amounts collected in advance from MAVIR and 10,407,976 represent amounts collected in advance from OPCOM within the transactions related to the price coupling mechanism.

On December 31st, 2017, the dividends owed and unpaid to the Company's shareholders amount to 2,414,333, out of which the amount of 659,435 is related to dividends distributed from the profit of the year 2016 and the amount of 997,617 is related to dividends distributed from the profit unallocated, highlighted in the account balance "Other Revenues – Own sources of funding from profits" based on the Decision no. 11/16.10.2017 of the General Assemnly of Shareholders.
These amounts are available to the shareholders through the payment agent.
Other debts amounting to 9,269,947 are mainly represented by guarantees for the proper execution of service contracts on the electricity market concluded by CNTEE Transelectrica SA, amounting to 8,400,226.

Provisions

As of December 31st, 2017 and December 31st, 2016, the provisions are as follows:

	December 31st, 2017	December 31st, 2016
Provisions for litigations	2,992,215	3,351,880
Provisions for mandate contracts	38.498.154	42,354,707
Provisions for the shareholding fund for employees' profit	44,799	7,968,215
Other provisions	10,019	126,976
TOTAL	**41,545,187**	**53,801,778**

Provisions in balance on December 31st, 2017 are as follows:

	Provisions for litigations	Share-based payment transactions	Provisions for the shareholding fund for employees' profit	Other provisions
Balance on January 1st, 2017	**3,351,880**	**42,354,707**	**7,968,215**	**126,976**
Additions in provisions (profit and loss account)	6,401		-	7,723
Reversal of provisions (profit and loss account)	(366,066)	(3,856,553)	(7,923,416)	124,680
Additions in provisions (AERG)	-	-	-	-
Reversal of provisions (AERG)	-	-	-	-
Balance on December 31st, 2017	**2,992,215**	**38,498,154**	**44,799**	**10,019**

Provisions for litigations outstanding as of December 31st, 2017 amounting to 2,992,215 consist mainly of provisions created for the litigation with the OPCOM subsidiary amounting to 2,670,029 regarding the fine imposed following the EU investigation.

On November 24th, 2014, the SC OPCOM SA subsidiary summoned CNTEE Transelectrica SA in order to force it to pay the amount of 582,086.31 euro (2,585,161 lei at the NBR exchange rate from November 24th, 2014), representing the amount paid by her as fine, from the total of the fine amounting to 1,031,000 euro applied to the subsidiary OPCOM S.A. by the European Commission, in the context in which the SC OPCOM SA subsidiary paid the entire fine established by the European Commission.
Also, the SC OPCOM SA subsidiary requested the court to order the Company to pay the amount of 84,867 lei as lawful interest related to the period between June 11th, 2014 - November 24th, 2014, plus legal expenses amounting to 37,828 (see Note 26 *iii*).

Other provisions in the amount of 10,020 represent provisions made for unpaid leave.

As of December 31st, 2017, the Company registered a provision of 38,498,154 (42,354,707 as of December 31st, 2016) for the annual variable component owed to the Directorate and Board of Supervisors members (see Note 28).

The provision amounting to 44,799 is mainly represented by the provision created for the employees' profit sharing for the financial years 2013, 2015 and 2016, amounts not granted until December 31st, 2017.

17. INCOME TAX

The income tax for the years 2017 and 2016 is presented as follows:

	2017	2016
Current income tax expense	(24.251.054)	(66,696,654)
Net income from deferred income tax	5.158.723	4,468,243
Total	**(19.092.331)**	**(62,228,411)**

The tax on the current and deferred income of the Company for 2017 and 2016 is determined at a statutory rate of 16% and is applicable for 2017 and 2016.

Reconciliation of the effective tax rate:

	2017		2016
Profit before income tax	**(28.852.692)**	**(28.852.692)**	**(28.852.692)**
Income tax at statutory rate of 16%	(4.616.431)		53,534,393
Effect of non-deductible expenses	50.628.921		21,529,593
Effect of non-taxable income	(22.983.684)		(5,260,670)
Taxable revaluation reserve	3.734.828		4,906,450
Legal reserve	-		(2,712,466)
Income tax exempted	(2.112.173)		(4,625,260)
Other effects	(10.175.561)		(5,143,629)
Total	**(19.092.331)**		**62,228,411**

17. INCOME TAX (continued)

The movement pertaining to deferred taxes during 2017 and 2016 is as follows:

Elements	Balance at January 1st, 2016	Recognized in profit and loss	Recognized directly in AERG	Balance at December 31st, 2016	Recognized in profit and loss	Recognized directly in AERG	Balance at December 31st, 2017
Property, plant and equipment – useful life	3,036,056	1,283,825	-	4,319,881	487,242	-	4,807,123
Property, plant and equipment – revaluation reserves	42,096,791	(4,520,670)	-	37,576,121	(3,605,915)	-	33,970,206
Property, plant and equipment financed by subsidies	(1,043,042)	(563,157)	-	(1,606,199)	(509,471)	-	(2,115,670)
Obligations regarding employee benefits	(3,986,704)	1,914,306	-	(2,072,398)	(1,013,028)	-	(3,085,426)
Interconnection estimate	(1,233,010)	(12,639)	-	(1,245,649)	(507,551)	-	(1,763,200)
Provisions	(4,206,845)	(2,569,908)	-	(6,776,753)	-	-	(6,776,753)
Tax (assets)/liabilities	**34,663,246**	**(4,468,243)**	**-**	**30,195,003**	**5.158.723)**	**-**	**25,036,280**

Deferred tax consists of:

	Asset		Liability		Net	
	31-dec-17	31-dec-16	31-dec-17	31-dec-16	31-dec-17	31-dec-16
Property, plant and equipment – useful life	(1,244,583)	(854,269)	6,061,706	5,174,150	4,807,123	4,319,881
Property, plant and equipment – revaluation reserves	(3,605,916)	(4,520,669)	37,576,121	42,096,790	33,970,205	37,576,121
Property, plant and equipment financed by subsidies	(2,140,227)	(1,610,928)	24,557	4,729	(2,115,670)	(1,606,199)
Obligations regarding employee benefits	(3,085,426)	(2,072,398)	-	-	(3,085,426)	(2,072,398)
Interconnection estimate	(1,763,200)	(1,245,649)	-	-	(1,763,200)	(1,245,649)
Provisions	(6.776.752)	(6,776,753)	-	-	(6,776,753)	(6,776,753)
Net tax (assets)/liabilities	**(18.616.104)**	**(17,080,666)**	**43.652.384**	**47,275,669**	**25,036,280**	**30,195,003**

18. EARNINGS PER SHARE

As of December 31st, 2017 and December 31st, 2016, the earnings per share is as follows:

	2017	2016
Result for the period	**(47,950,491)**	**272,361,543**
Number of ordinary shares at the beginning and at the end of the period	73,303,142	73,303,142
Basic and diluted earnings per share (lei/share)	**-0.6540**	**3.7155**

19. OTHER TAX AND SOCIAL SECURITY LIABILITIES

On December 31st, 2017 and December 31st, 2016, other taxes and social insurance obligations included:

	December 31st, 2017	December 31st, 2016
Contribution to social insurance funds	5,097,678	4,981,239
Payroll tax	1,913,700	1,928,808
Other taxes to pay	1,676,814	1,701,162
Total	**8,688,192**	**8,611,209**

On December 31st, 2017, the Company registered payment obligations for contributions to social insurance funds, payroll tax and other taxes that were paid in the month of January 2018.
Furthermore, on December 31st, 2017, the Company also registered taxes on dividends amounting to 90,586, taxes due in January 2018.

20. OPERATING REVENUES

Operating revenues include revenues from the transmission and system services provided by the Company on the electricity market, as well as the allocation of interconnection capacity, balancing market operating services and other revenues.

The average tariffs approved by ANRE for services provided on the electricity market are presented as follows:

	Average Price for the transmission service	Average Tariff for technological system services	Average Price for the functional system services
Order no. 48/2017 for the period July 1st – December 31st, 2017	16.86	9.39	1.11
Order no. 27/2016 for the period July 1st 2016 - June 30th, 2017	18.70	11.58	1.30
Order no. 93/2015 for the period July 1st - June 30th, 2016	20.97	12.58	1.17

The average tariff for the electricity transmission has two components: the tariff for the electricity injected into the transmission grid (T_G) and the tariff for the electricity drawn off the transmission grid (T_L).

The zonal tariffs regarding the transmission service for the injection of electricity into the transmission grid (T_G) and for drawing electricity off the transmission grid (T_L) have been approved by ANRE Order no. 48/2017, starting with July 1st, 2017.

The amount of electricity delivered to consumers to whom the prices for services provided on the electricity market were applied, is presented as follows:

	2017	2016
The amount of electricity delivered to consumers (MWh)	54,753,325	53,523,021

The operating revenues earned in 2017 and 2016 are as follows:

	2017	2016
Transmission revenues	970,693,550	1,056,520,255
Revenues from allocating the interconnection capacity	75,726,834	82,232,459
Revenues from reactive energy	6,316,668	6,954,413
Revenues from Inter TSO Compensation (ITC)	1,106,452	253,892
Revenues from Own Technological Consumption (CPT) transactions	785,608	295,781
Transmission Revenues - total	**1,054,629,112**	**1,146,256,800**
Functional System Service Revenues	65,979,920	66,139,093
Revenues from technological system services	582,329,914	648,801,922
Revenues from unplanned shifts on DAM	2,436,720	1,398,572
System Service Revenues - total	**650,746,554**	**716,339,587**
Revenues on the balancing market	1,304,613,489	814,079,670
Other revenues	50,327,846	45,827,232
Total revenues	**3,060,317,001**	**2,722,503,289**

Transmission revenues

Given the rise in the amount of electricity delivered to consumers in 2017 compared to 2016, namely of 2.3% or 1,230,304 MWh, the income from the transmission service has registered a decrease in the amount of 85,826,705, determined by the decrease of the average tariffs approved by ANRE (according to the table on the average tariffs approved by ANRE for the analyzed timeframes, presented above), under the conditions laid down by the transport methodology. Thus, the tariff calculated as an average of the tariffs for the year 2017 - 17.78 lei was lower by 10.34% compared to the tariff calculated as average of the tariffs for the year 2016 - 19.83 lei

Functional system service revenues

In 2017, the revenues from functional system services registered a decrease with the amount of 159,173 compared to 2016, determined by the decrease of the average tariff approved by ANRE for these services (according to the table on the average tariffs approved by ANRE for the analyzed periods, presented above).

Revenues from allocating the interconnection capacity

In 2017, the income from the interconnection capacity allocation has registered a decrease compared to 2016, in the amount of 6,505,625, corresponding to the level of usage of the available interconnection capacity by traders on the electricity market.

The mechanism for the allocation of interconnection capacity consists in organizing annual, monthly, daily and intra-daily auctions. The annual, monthly and intra-daily are explicit - only the transmission capacity is bid on, and the daily ones with Hungary are implicit - are allocated simultaneously with the energy and capacity via the coupling mechanism.

The incorporation of the regional energy exchange by Romania, Hungary, the Czech Republic and Slovakia on November 19th, 2014 requires that these four countries have a unique price of electricity traded on the spot markets. The capacity allocation between Romania and Hungary, the only country of the 3 with which Romania has a border, is made by the carriers: Transelectrica and MAVIR, through the common mechanism, based on a bilateral agreement.

Starting with 2016, the UIOSI principle has been implemented at the border with Bulgaria, and starting with 2017 at the border with Serbia as well. According to this principle the participants not using the capacity won at the annual and monthly auctions, are compensated (by Transelectrica) for that capacity. The spare capacity is subsequently sold in the daily auctions. On the Hungarian border the direction is reversed, meaning that MAVIR compensates the participants for the unused capacities.

The market for interconnection capacity allocation is fluctuating, the prices evolve depending on demand and the need of the participants on the energy market to purchase interconnection capacity.

Using the net incomes from the interconnection capacity allocation is achieved in accordance with Article 22 (4) of the ANRE Order no. 53 / 2013 and Article 16 (6) of the Regulation (EC) no. 714 / 2009, as a source of financing for upgrading and development of the interconnection capacity with the neighboring systems.

Revenues from technological system services

The revenues from technological system services have registered a decrease in 2017 compared to 2016 in the amount of 66,472,008, mainly determined by the decrease of the average tariff approved by ANRE for these services (according to the table on the average tariffs approved by ANRE for the analyzed periods, presented above), given that the amount of electricity delivered registered an increase of 2.3%.

The income from the ancillary services gained in 2017 was lower with 78,993,262 compared with the expenditures on the purchase of ancillary services that were achieved, while in 2016, the revenues from technological system services were higher with the amount of 87,774,549. The loss was caused by the unfavorable conditions on the energy market, translated in higher average unit prices in auctions compared to the foreseen unit prices on which the tariff calculation for technological system services was based on, as well as the partial recovery of profits made in the previous year on a zero profit segment.
This amount lowers the gross profit of the Company reported on December 31st, 2017.

Revenues on the balancing market

The income from the balancing market have registered an increase in 2017 compared to 2016, with the amount of 490,533,819, determined by:

- the high degree of unpredictability and volatility of production from renewable sources (especially wind).
- over-contracting / subcontracting on the markets prior to the balancing market (given that PRE s did not have significant notification imbalance values) and reduced participation / trading on the intra-day electricity market. The increasing of the negative imbalance registered at the level of the suppliers of electricity on the balancing market, ie increasing the imbalance between the notified net contractual position and the actually supplied energy;
- the very low temperatures recorded in the first quarter of 2017, which generated the recording of higher values of the electricity consumption in the operation of the NES;
- the increase in electricity consumption amid the severe weather phenomena recorded in July and August 2017 (heat in late July and early August, strong wind with storm in July, so the production in wind power plants varied a lot during the day and with large production variations from one hour to the next);
- Hydraulic evolution (low hidraulicity).
-

Balancing market is an activity with zero profit for the Company.

Other revenues

"Other revenues" earned in 2017, have been higher than the ones earned in 2016. This development was mainly determined by the collection of fines and penalty payments in 2017, amounting to 6,020,590 (Arelco Power SRL with the amount of 3,215,471 and Enol Grup SA with the amount of 2,541,312, etc), compared to the collection of fines and penalty payments in 2016, amounting to 30,833.

21. EXPENSES FOR OPERATING THE SYSTEM AND FROM THE BALANCING MARKET

The system operating and balancing market expenses are as follows in 2017 and 2016:

	2017	2016
Expenses on own technological consumption	206,992,035	182,980,673
Expenses on congestions	241,042	2,931,330
Expenses on electricity consumption in RET substations	14,411,115	15,382,428
Expenses with functional system services	16,336,006	12,687,230
Expenditures on Inter TSO Compensation (ITC)	19,936,533	16,775,121
Total Operational Expenses	**257,916,731**	**230,756,782**
Expenses regarding the technological system services	661,323,176	561,027,373
Expenses on the balancing market	1,304,613,489	814,079,670
Total	**2,223,853,396**	**1,605,863,825**

Expenses on Own Technological Consumption

These represent the acquisition expenses of electricity in the free market of energy for covering its own technological consumption (CPT) in RET.

In 2017, these expenses have increased with the amount of 24,011,362 mil lei compared to the ones registered in 2016, given the reduction of the electricity quantity necessary to cover the OTC in PTG with ca. 4.6% (from 1,014,566 MWh in 2016, down to 968,042 MWh in 2017).

The energy crisis registered in the first quarter of 2017, determined by the very low temperatures, compared to the similar period of the year 2016, in conjunction with the extension of the unavailability of the main power production plants, have determined the sudden increase of prices on the Day-Ahead Market (DAM), Intra-Day Market (IDM) and on the Balancing Market (BM), regarding the purchase of electricity for the own technological consumption.

Thus, in 2017, the electricity for covering the OTC has been purchased on the free energy market, namely on the Centralized Market for Electricity Bilateral Contracts (CMBC), the Day–Ahead Market (DAM), the Balancing Market (BM) and the Intra–Day Market (IDM) at the average purchase price of 213.7 lei/MWh, compared to the average purchase price of 180.3 lei/MWh in 2016.

Expenses on congestions

Congestions (network restrictions) are requests for electricity transmission beyond the technical capacity of the network, requiring corrective actions from the transmission and system operator and occur in the situation in which, in the programming of the operation or the operation in real time, the power flow between two nodes or system areas leads to the non-accomplishment of the safety parameters in the operation of a power system. In 2017, the expenses on congestions have been registered in the amount of 241,042, being lower than the ones registered in 2016, the latter amounting to 2,931,330.

The registered congestion expenses in 2016 amounted to 2,931,330 resulted to a great extent from accidental disconnections as a consequence of bad meteorological conditions recorded in the first part of 2016 (Tariverde – Tulcea Vest 400 kV OHL, in the month of January 2016, Iernut – Gadalin 400 kV OHL, Iernut – Baia Mare III 220 kV OHL, in the month of June 2016).

In order to comply with the safety criterion in the Dobrogea region, the balancing market reduced the values notified by the Dobrogea WPP, which inputs into the 110 kV electricity grid from Dobrogea (except for the Pantelimon WPP and the Cerna WPP) and into the Tariverde 400 kV OHL substation.

Expenses with functional system services

The expenses on the functional system services represent the non-contracted international exchanges of electricity with the neighboring countries and the expenses on unplanned exchanges on the Day-Ahead Market.
These expenditures have registered an increase amounted to 3,648,776 in 2017 compared to 2016, mainly determined by the increase in the expenditures on the balancing market and the day-ahead market regarding the unplanned electricity exchanges (exports) with the neighbouring countries connected to the NPS, due to the rise in prices on the centralized electricity markets.

Expenditures on Inter TSO Compensation (ITC)

ITC expenses, amounting to 19,936,533, represent the monthly payment obligations/rights of collection for each transmission system operator (TSO). They are established within the compensation / settlement mechanism for the effects of using the

electricity transmission grid (RET) for transits of electricity between TSO operators from 35 countries that acceded to this mechanism of the ENTSO-E. In year 2017, these expenditures have increased by 3,161,412 compared to 2016.

Expenses regarding the technological system services

The technological system services are purchased by the Company from producers in order to comply with the operational security limits of the NPS and of the quality of the electricity transmitted at the parameters required by the technical norms in force. The contracting of these services is performed:

- in a regulatory manner, based on Government Decisions and Decisions of the National Energy Regulatory Authority (ANRE);
- through competitive mechanisms.

According to GD no. 138/April 8th, 2013 on the adoption of measures regarding the electricity supply security, in the period April 15th, 2013 - July 1st, 2015, the Company purchased technological system services according to the terms of the regulations issued by ANRE, from SC Complexul Energetic Hunedoara SA, at an electrical power value of at least 400 MW and from SC Complexul Energetic Oltenia SA at an electrical power value of at least 600 MW. According to the provisions of GD no. 941/October 29th, 2014, the enforcement deadline for the provisions of Government Decision no. 138/2013, for SC Complexul Energetic Hunedoara SA, was extended until December 31st, 2017.

For the period January 1st - March 31st, 2017, the purchase of technological system services was conducted in the regulatory regime (slow tertiary reserve) according to GD no. 844/November 9th, 2016, as subsequently amended and supplemented, by which the "Winter Program in the Energy Sector for Assuring the safety and stability of the NES" was approved.

In the timeframe January 1st - June 30th, 2017, the purchase of the technological system services has been conducted under regulated regime from SC Hidroelectrica SA (ANRE Decision no. 1035/June 22th, 2016) and from SC Complexul Energetic Hunedoara SA (ANRE Decision no. 1034/June 22th, 2016).

In the period July 1st - December 31st, 2017, the purchase of technological system services has been conducted under regulated regime from SC Hidroelectrica SA (ANRE Decision no. 906/June 22th, 2017) and from SC Complexul Energetic Hunedoara SA (ANRE Decision no. 907/June 22th, 2017).

In 2017 the technological system services expenses registered an increase compared to 2016 amounting to 100,295,803, generated by the purchase prices for technological system services on the competitive market which were higher than the regulated prices.
A significant influence in the rise of prices for purchasing technological system services on the competitive market was generated by the increase in prices registered on the electricity market in 2017.
An important influence in the increase of the purchasing cost of TSS on the competitive market was also the extremely high level of concentration of the technological system services market by service type (secondary reserve, fast tertiary reserve, slow tertiary reserve). This extreme concentration of the market has created favorable conditions for the manifestation and exercise of power on the market, granted to certain participants by their dominant positions held (Hidroelectrica SA for SR and FTR, Romgaz for STR).

CNTEE Transelectrica SA re-invoices the value of the technological system services purchased from producers, to the electricity suppliers licensed by ANRE, entities who ultimately benefit from these services.

Expenses on the balancing market

The expenses from 2017 related to the balancing market amounted to 1,304,613,489 following the evolution presented in the chapter *Revenues on the balancing market.*

These expenses result from the notifications/achievements of the participants on this market, and are fully covered by the income from the balancing market.

22. EMPLOYEE-RELATED EXPENSES

i) Employee-related expenses

	2017	2016
Expenses on staff wages	127,077,882	123,760,248
Social expenses	6,224,282	6,011,964
Expenses with employee vouchers	8,522,379	9,004,373
Expenses regarding employees' shareholding to the profit of the previous year	6,443,745	6,603,220
Expenses of the mandate contract and other committees, commissions	1,722,908	3,579,344
Expenses for social security and protection	36,753,427	38,384,677
Provisions constituted for expenses with wages and similar expenses	(9,068,671)	23,629,139
Other expenses	899,259	894,401

Total	**178,575,211**	**211,867,366**

The lowering of the employee expenses in 2017 compared to 2016 has been mainly determined by the reduction of expenses pertaining to the constitution of provisions related to mandate contracts and provisions related to other wage and assimilated expenses.

ii) Average number of employees

As of December 31st, 2017 and December 31st, 2016, the average number of employees working under an indefinite individual employment contract is:

	2017	**2016**
Average number of employees	2,063	2,063

23. OTHER OPERATING EXPENSES

	2017	**2016**
Other expenses on third party services	48,979,955	50,087,334
Postage and telecommunications	1,191,817	1,295,971
Rent	8,331,468	7,846,021
Operating expenses related to the impairment of current assets , of which:	13.809.629	21,323,130
- net expense with adjustments for impairment of trade receivables	*22,07,688*	*12,59,534*
- (income)/net expenses with adjustments for impairment of various debtors	*34,976,142*	*6,230,412*
- net expenses with adjustments for impairment of inventories	*1,203,735*	*2,501,184*
Other expenses, of which:	188.372.642	53,167,911
- taxes and levies (tax on natural monopoly, other local taxes and levies)	17,584,603	21,616,404
- provisions for other operating expenses	1,164,391	3,929,041
- travel expenses	5,265,843	6,369,871
- international contributions	3,121,617	3,012,478
- commodities	3,093,953	2,070,747
- electricity purchased for administrative consumption	2,189,564	2,333,148
- late interest owed to the state budget, of which:	99,927,934	22
- - banking and similar services - employees' travels		0
- natural gas purchased - studies and research	1,290,710	
- disasters and other subsequent events (registered with ST Constanta and ST Craiova)	1,022,807	1,355,695
- other operating expenses	953,959	1,137,217
	760,566	984,042
	562,711	1,210,352
		140,723
	6.991.048	*9,008,171*
Total	**260,685,511**	**133,720,367**

Note:

- between 14.12.2011-30.06.2017 the ANAF-DGAMC control regarding the 2005-2010 time period took place. Following the inspection, a tax inspection report was issued , concluded with the Tax Decision no. F-MC 439 / 30.06.2017, supplemented with additional notes on the date of 12.07.2017.

- the amount of 99,890,556 consists of 99,013,399 (according to the Decision mentioned above) to which accessories in the amount of 877,157, for the period 01.07.2017-26.09.2017, the date of extinguishment of the obligation to ANAF-DGAMC have been added.

- the amount of 99,013,399 consists of the amount of 35,105,092 representing additional debts (incometax and value added tax) and the amount of 63,908,307 representing additional tax liabilities (interest / increases and late payment penalties).

The additional tax liability structure in the amount of 35,105,092 is shown in the table below:

Reference year	**2005****	**2006****	**2007****	**2008**	**2009**	**2010**	**Total**
Income Tax	231,455	13,577,528	5,224,020	809,383	1,978,892	1,671,303	23,492,582
VAT	-	76,356	6,199,591	772,708	2,416,904	2,146,952	11,612,510
	231,455	**13,653,884**	**11,423,611**	**1,582,091**	**4,395,795**	**3,818,255**	**35,105,092**

**Note:
1) Period 1: September2005 - November 2007: 123 missing invoices, justified by the Company as being burned in the fire that occurred on the night of June 26t^{h} -27th, 2009, at the Millennium Business Center building working point in. 2-4 Armand Calinescu street, sector 2;
2) Period 2: December 2006 - May 2007: 349 invoices found missing in the same fire
3) The VAT for the period 1 for a number of 123 invoices and that is not found in the above amounts, being detained in another fiscal inspection report (FIR) issued in 2011, litigation lost by the Company on 30.04.2014 and definitively on 01.03.2017. For the amount paid by the Company (44,443) adjustments for the receivables impairment has been registered in 2012 and 2014. In 2017, the receivable loss expense was recorded simultaneously with the reversal of the impairment adjustment, with zero effect.
4) Income tax for the 123 burned invoices: 13,735,055
5) Income tax for the 349 burned invoices: 4,787,225
6) VAT collected for the 349 burned invoices: 5,694,636
Amounts highlighted under 4), 5) and 6) represent the amounts of the FIR ended on 30.06.2017.

Interests / increases and penalties for late payment pfrom the beginning of the period up to the date of execution are shown below:

	***Amounts for 2005-2016	Amounts for 2017	**Total**
Interest/ delay increases and penalties for Income Tax	47,210,635	1,703,980	48,914,615
Interest/ delay increases and penalties for for VAT	14.583.302	362.325	14,945,627
	61,793,937	**2,066,305**	**63,860,242**

*** Note:
1) Accessories for the 123 burnt invoices: 31,428,658
2) Accessories related to 349 burned invoices: 22,590,804

Apart from the details presented in the previous Notes the ANAF-DGAMC findings for the 2005-2010 period include both additional liabilities and accessories corresponding to the unrealized technological system services provided in the framework agreements approved by ANRE, for which Transelectrica records revenues from penalties. At the same time, the ANAF-DGAMC detained additional liabilities and accessories corresponding to the Court of Auditors findings regarding the expenses that were not aimed at the continuous training of the employees, and which are not forms of professional training and for which the Court of Auditors Decision no. 14/2011 was issued.

In 2017, the Company challenged the ANAF Taxation Decision and, given that until March 13, 2018, the ANAF-DGAMC had failed to resolve the appeal, it requested the annulment of the Decision by the Court of Appeal of Bucharest file No 1802/2/2018.
Thus, by eliminating from the Other Expenses the amount of 97,824,251 related to the debts and interest / increases and delay penalties from the ANAF Decision, the recalculated operating profit is as follows:

	2017	**2016**
Revenues		
Transmission revenues	1,054,629,112	1,146,256,800
Revenues from system services	650,746,554	716,339,587
Balancing market	1,304,613,489	814,079,670
Other revenues	50,327,846	45,827,232
Total revenues	**3,060,317,001**	**2,722,503,289**

Operating expenses		
System operating expenses	(257,916,731)	(230,756,782)
Expenses on the balancing market	(1,304,613,489)	(814,079,670)
Expenses regarding the technological system services	(661,323,176)	(561,027,373)
Depreciation	(311,853,273)	(323,363,219)
Personnel expenses	(178,575,211)	(211,867,366)
Expenses for repair and maintenance	(84,765,211)	(88,394,391)
Expenses for materials and consumables	(8,316,853)	(7,675,889)
Other operating expenses - revised	(162,861,260)	(133,720,367)
Total Operating Expenses -revised	**(2,970,225,204)**	**(2,370,885,057)**
Operating profit- revised	**90,091,797**	**351,618,232**

The Company considered that the tax base was not reasonably determined by ANAF, depending on the fully regulated nature of the activity on the electricity market, this being determined in proportionally to the number and value of the invoices issued in the period under review. Transelectrica has been entitled to bring court action because it believes that ANAF did not consider all data and documents relevant to the estimate as required by the Fiscal Procedure Code applicable at that time. Thus, the Company sued ANAF at the Bucharest Court of Appeal in August 2012 for the recovery of the sum and requested in the probationary case to be admitted the proof sample and the evidence with the judicial expertise.

On September 18th, 2013 the report of expertise was issued and submitted to the case file on the 20 September 2013 term, On the 18 October 2013 term the parties expressed objections to the judiciary expertise report, which were admitted by the Appeal Court on the 15 November 2013 term and were notified to the designated expert, On the 7 March 2014 term the expert submitted the answer to the Company's objections, As against the revenues taken into account by ANAF, used by ANAF when estimating the collected value added tax amounting to 16,303,174 the judiciary accounting expertise report found unjustified revenues in sum of 551,013 to which sum the value added tax and accessories to it should have been calculated, The hearing was deferred in order to acknowledge the answer to the objections made to the expertise report.

On the hearing date 30,04,2014 the settlement pronounced by the first instance, the Appeal Court Bucharest, Section VIII of Administrative and Fiscal Disputes (Ruling 1356/2014) in File 6657/2/2012 was: "Denies the request of claimant CNTEE Transelectrica SA (Contestation against the Administrative fiscal deed of ANAF)".

The Company filed appeal by requesting to be set within the term submitted in this file, with hearing term set on 07,04,2016, session that took place in the High Court of Cassation and Justice, Administrative and Fiscal Disputes Section, On 07,04,2016 a new term was set on 02,06,2016 for absence of procedure, term when the instance deferred pronouncement on 16,06,2016.

On this term the High Court of Cassation and Justice, Administrative and Fiscal Disputes Section pronounced ruling 1945/16,06,2016, stipulating as follows: "Admits the request and resets the recurrent-claimant within the appeal filing term, Denies as groundless the appeal filed by the National Power Grid Company Transelectrica against Sentence 1365 of 30 April 2014 of the Appeal Court Bucharest, Section VIII of administrative and fiscal disputes section, Irrevocable, Pronounced at public hearing today, 16 June 2016", Ruling 1945/16,06,2016 pronounced by the High Court of Cassation and Justice was notified to the Company by photocopy.

Contest for annulment was filed against the ruling 1945/16,06,2016 submitted to the High Court of Cassation and Justice, On 01,03,2017 the High Court of Cassation and Justice decided in ruling 779 as follows: "denies the exception of inadmissibility of contestation for cancellation filed by contender Transelectrica SA, invoked by statement by the respondent in appeal General Directorate Administrating Large Tax Payers, Denies as groundless the contestation for cancellation filed by contender Transelectrica SA against civil ruling 1945 of 16 June 2016 of the High Court of Cassation and Justice, Section of administrative and fiscal disputes, pronounced in file 6657/2/2012, Irrevocable", Until the elaboration date of these financial statements the Company has not received the printed ruling 779/01,03,2017.

The additional payable liabilities set by ANAF-DGAMC under the taxation decision 62/2011 were registered under "other operational expenses" by including the provision constituted in the financial years 2012 and 2014 into revenues:

- Recording within the indicator "operational expenses regarding depreciation allowances for current assets" the depreciation allowances for:
  - Elcomex IEA SA in the amount of 31,868,316;
  - Arelco Power SRL in the amount of 18,782,312;
  - other uncertain clients and various debtors amounting to 7,602,937 (Elsaco Energy SRL, Eva Energy, Enol Grup SA, CET Govora SA, PetProd SRL, etc,),

24. NET FINANCIAL RESULT

	2017	2016
Interest revenues	5,428,137	5,666,055
Revenues from exchange rate differences	11,430,141	21,157,006
Other financial revenue	2,240,682	3,136,969
Total financial revenue	**19,098,960**	**29,960,030**
Expenses on interest	(21,560,125)	(23,995,214)
Expenses from exchange rate differences	(18,659,073)	(22,407,867)
Other financial expenses	0	(585,227)
Total financial expenses	**(40,219,198)**	**(46,988,308)**
Net financial result	**(21,120,238)**	**(17,028,278)**

The decrease of the net financial result regarding the exchange rate differences in 2017 compared to 2016, amounting to 4.091.960, was negatively influenced by the evolution of the exchange rate of the national currency in relation to foreign currencies in which the Company has contracted bank loans for financing the investment programs (Euros, Dollars), which made that the decrease in exchange-rate income to be only partly offset by exchange and interest rate fluctuations, amid a 30% decrease in the Other Financial Income position.

The average exchange rate of the national currency registered in 2017, compared with the one registered in 2016 is as follows:

Currency	2017	2016
Lei / Euros	4.5681	4.4908
Lei / US Dollars	4.0525	4.0592

25. LEGISLATIVE AND FISCAL FRAMEWORK

The legislative and fiscal environment in Romania and its implementation into practice changes regularly and is subject to different interpretations by various control bodies. Income tax declarations are subject to review and correction by the tax authorities, generally for a period of five years after their submission. Management believes that it has adequately provided for tax liabilities in the accompanying financial statements; however, the risk remains that tax authorities could take differing positions with regards to the interpretation of these issues. Their impact cannot be estimated at this time.

26. COMMITMENTS AND CONTINGENCIES

i) Commitments

As of December 31st, 2017 and December 31st, 2016, the Company had commitments amounting to 1,121,769,861 and 1,036,117,363 mainly representing ongoing contracts related to the investment program for the modernization and upgrading of the transmission grid.

ii) Land plots used by the Company

As per the Company policy, the financial statements include only the value of the land for which certificates authenticating the ownership rights have been obtained as of the date of the financial statements.

According to Law No. 99/1999, in case the Company obtains the certificate authenticating the ownership rights for land plots after privatization, the land will be considered as contribution in kind of the Romanian State. These land plots are initially recognized in other reserves. In this respect, the Company will increase the share capital in line with the value of the land plots, and the beneficiary of this increase will be the Romanian State. In accordance with Art. 130 of Law 297/2004 regarding the capital market, "the increase in the share capital of a listed company on a regulated market will be made with the possibility for the other shareholders to maintain their percentage in the share capital of that company".

As of the date of the issuance of these financial statements, the external legal opinion received by the management of the Company following the acquisition of legal consultancy, assistance and/or representation services needed for the share capital increase states that in the absence of other changes or clarifications in the legal framework, the general legal provisions applicable to the companies are contradictory with regards to the increase provisions for companies regulated by the privatization law. Taking into consideration the steps undertaken by the Company for the share capital increase by the value of the land plots for which certificates authenticating the ownership rights have been obtained, O.P.S.P.I. has communicated to the Company that in their opinion, the share capital increase should be performed after the changes in the legal framework.

iii) Pending disputes

The management regularly analyses the ongoing litigations, and after consulting with its legal representatives decides the need to create provisions for the amounts involved or of their presentation in the financial reports.

Taking into account the existing information, the Company's Management believes that there are no significant ongoing litigations in which the Company has the quality of defendant, except for the following disputes:

• Pending with the Mehedinti Court – Section II Civil, Administrative and Fiscal Litigation Section, the **file no. 3616/101/2014** was recorded, involving the "claims in the amount of 1,090,831.70, counter value of invoice no. 1300215/31.12.2013", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN.

By civil sentence no. 127 ruled on October 10th, 2014, the Mehedinti Court admitted the request lodged by plaintiff RAAN and ordered CNTEE Transelectrica SA to pay the amount of 1,090,831.70 lei, the counter value of invoice no. 1300215/31.12.2013.

The amount requested for payment represents penalties calculated by RAAN for the bonus due from the support scheme and withheld from payment by the Company, in its capacity as Administrator of the support scheme, who enforced the provisions of Article 17 (5) of ANRE's Order no. 116 / 2013 (see Note 9).

The amount was enforced by RAAN on July 15th, 2016, as per the Decision issued by the Bankruptcy Receiver Office Ailiesei si Guta in the enforcement file no. 12105/2016.

By civil decision no. 843/2015, the Craiova Court of Appeal rejected the appeal filed by CNTEE Transelectrica SA against civil sentence no. 127/10.10.2014, as lacking interest.

Against the decision no. 843/May 11th, 2015 of the Court of Appeal Craiova - Section II Civil, pronounced in the public hearing from May 11th, 2015, in file no. 3616/101/2014, as well as against the decision no. 127/2014 of the Mehedinti Court-Section II Civil, Administrative and Fiscal Litigation, pronounced in the public hearing from October 10th, 2014, in file no. 3616/101/2014, as well as against the Decision no. 1/2015 of the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation, pronounced in the public hearing from January 9th, 2015, in file no. 3616/101/2014, CNTEE Transelectrica SA filed an appeal asking the court to allow the appeal as it was filed and to reverse the judgment and sentences under appeal and to refer the case to the trial court in the territorial jurisdiction for judgement, and to declare the compliance with the requirements of Articles 1616 and 1617 of the Civil Code, reason for which it is being required to declare the intervention of the compensation of mutual debts, and their redemption up to the amount of the smallest of them, namely the total amount requested by the plaintiff in the application for summons, ordering the appellee - plaintiff to pay the expenses occurred with this appeal.

The appeal was registered on the docket of the High Court of Cassation and Justice who decided to reverse decision no. 843/2015 and to remand the case for retrial to the same court, the Court of Appeal Craiova.

By decision no. 124/2017, the Court of Appeal Craiova admitted the appeal declared by Transelectrica and remanded sentence no. 127/2014 pronounced by the Mehedinti Court, and the case was remanded for retrial to the Bucharest Court – Section VI Civil.On the docket of the Bucharest Court, the case was registered under no. 40444/3/2017 who, via civil sentence no. 4406/04.12.2017, admitted the request lodged by RAAN and ordered Transelectrica to pay the amount of 1,090,831.70 lei. The decision is subject to appeal in higher court.

In the period 2014 - 2015, the Company has retained the due support scheme bonus from payment to RAAN, pursuant to the provisions of the ANRE regulations, namely the Article 17 (5) of ANRE Chairman's Order no. 116/2013.

Under these conditions, RAAN calculated penalties for late payment of the due cogeneration bonus in the amount of 3,496,914, withheld from the payment by the Company in the account of non-cashed receivables. The amount of 3,496,914 was refused for payment by the Company and was not registered as a liability in the support scheme.

• Pending with the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigations, the **file no. 9089/101/2013/a138** was recorded, involving the "presidential ordinance", a file in which the Company is the defendant, the plaintiff being the

Autonomous Authority for Nuclear Activities - RAAN – debtor in insolvency.
Through the sentence no. 63/2016, the court ordered the defendant to continue the electricity transmission and system services necessary for continuing the activity throughout the judicial reorganization of the RAAN.
Transelectrica filed an appeal against that decision.

On May 10th, 2016, the Craiova Court of Appeal delivered its judgment no. 457/05.10.2016, which ordered the following: "Dismisses the appeal. Rejects the appeal as ill-founded. Final."

Also, the hearing of the appeal declared by RAAN against the decision of starting the bankruptcy proceedings, subject of file no. **9089/101/2013/a137** before the Court of Appeal Craiova, was postponed until May 31st, 2016, when the case was taken for judgement.

Through the Decision no. 563/June 14th, 2016, the Court of Appeal Craiova - Section II Civil rejected the appeals lodged against interim decision no. 10/January 28th, 2016, ruled by the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section.

• Pending with the Mehedinti Court – Section II Civil, Administrative and Fiscal Litigation Section, the file no. **1284/101/2015** was recorded, involving the "claims in the amount of 11,637,440 ", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN.

By the application for summons filed by the plaintiff, they asked Transelectrica SA to pay the amount of 11,637,439.66 lei.

On May 22th, 2015, the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section, ruled the sentence no. 41/2015, by which it ordered the following: 'Admits the exception for lacking territorial jurisdiction. Declines jurisdiction in favor of Bucharest Court, Section VI Civil. With no means of appeal." The file was registered to the Bucharest Court - Section VI Civil, under no. 24206 / 3 / 2015.

The applicant RAAN filed a request to amend the amount of the alleged right, seeking the increased amount of 17,805,680.17 lei from Transelectrica SA.

On November 3rd, 2015, the Bucharest Court, Section VI Civil delivered the sentence no. 6075 / 2015, by which it ordered the following: 'Upholds the application in the way it was completed. Orders the defendant to pay the plaintiff the amount of 17,805,680.lei, representing the equivalent value of the bonus and penalties. Dismisses the application for granting legal expenses, lodged by the plaintiff, as ill-founded. With appeal within 30 days from communication. The appeal is lodged at the Bucharest Court - Section VI Civil."

The ruling was communicated on July 4th, 2016, according to the registration entry stamp of the correspondence with Transelectrica SA. An appeal was lodged against the sentence. By Hearing protocol from January 12th, 2017, pronounced in the file no. 24206/3/2015, the Court of Appeal Bucharest ordered the postponement of the hearing of the appeal until the final settlement of the file no. 9089/101/2013/a152 on the docket of the Mehedinti Court, on the grounds of Article 413 (1) (1) of the New Civil Procedure Code. With appeal throughout the suspension.

The Court of Appeal Bucharest decided the suspension of the judgement of the case, considering that its settlement depends on the decision that shall be pronounced in file no. 9089/101/2013/a 152 on the docket of the High Court of Cassation and Justice, involving the challenge of the additional receivables table of the Autonomous Authority for Nuclear Activities SA.

• Pending with the Bucharest Court – Section VI Civil the **file no. 26024/3/2015** was recorded, involving the "claims", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN.

By the application for summons filed by the applicant, they asked Transelectrica SA to pay the amount of 10,274,679.11.

The court reserved judgement on June 13th, 2016, postponing the ruling until June 27th, 2016 when, by hearing protocol, it ordered the redocking of the case in order to discuss the administration of additional evidence to establish mutual debts and compensation invoked by the defendant, to date, setting the next hearing on November 28th, 2016.

By Hearing protocol from November 28th, 2016, the Bucharest Court has suspended the cause according to Article 413 (1) of the New Civil Procedure Code, in conjunction with Article 411 (1) of the New Civil Procedure Code. With appeal throughout the suspension.

The Court of Bucharest decided the suspension of the judgement of the case, considering that its settlement depends on the decision to be ruled in file no. 3014/2/2014 on the docket of the High Court of Cassation and Justice, involving appeal - annulment of the Decision of the ANRE Chairman no. 743/2014.

• Pending with the Bucharest Court – Section VI Civil the file no. **3694/3/2016** was recorded, involving the "claims", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN.

By application for summons filed by the plaintiff, they asked Transelectrica SA to pay the amount of 15,698,722.lei.

On the grounds of Article 413 (1) (1) of the Civil Procedure Code, on October 20th, 2016, the Bucharest Court ordered the suspension of judgement until the final settlement of the file no. 3014/2/2014 on the docket of the High Court of Cassation and Justice, involving appeal – annulment of the Decision of the ANRE Chairman no. 743/2014. With appeal throughout the suspension.

• Pending with the Mehedinti Court – Section II Civil, Administrative and Fiscal Litigation Section, the **file no. 9089/101/2013/a140** was recorded, involving the "claims in the amount of 86,513,431", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN.

By application for summons filed by the plaintiff, they asked Transelectrica SA to pay the amount of 86,513,431lei.

On May 19th, 2016, the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section, pronounced a hearing protocol by which it ordered the following: "on the grounds of Article 413 (1) of the Civil Procedure Code, suspends the case until the settlement of the file no. 3014/2/2014 on the docket of the High Court of Cassation and Justice. With appeal throughout the suspension. Pronounced today, May 19th, 2016, in open court."

• We also mention the fact that, by the protocol dated on September 18th, 2013, ruled by the Mehedinti Court in file no. 9089/101/2013, the opening of the general insolvency proceedings has been ordered against the debtor Autonomous Administration for Nuclear Activities R.A. (R.A.A.N.)

Through the sentence no. 387/March 20th, 2014, the Mehedinti Court confirmed the reorganization plan of the debtor Autonomous Administration for Nuclear Activities, proposed by the insolvency administrator Tudor & Partners SPRL and voted on by the General Assembly of Creditors according to the minutes of February 28th, 2014.

By interim decision no. 10/January 28th, 2016, pronounced by the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation, the liquidator ordered the commencement of the bankruptcy procedure for the debtor pursuant to Article 107 (1) C of Law. no. 85/2006, and the dissolution of the debtor and cancellation of the debtor's right to administer.

Through the Decision no. 563/June 14th, 2016, the Court of Appeal Craiova - Section II Civil rejected the appeals lodged against interim decision no. 10/January 28th, 2016, ruled by the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section.

By the hearing protocol of June 30th, 2016, Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section set the new procedural time limit as follows: "Sets the deadline for the submission of claims arising in the proceedings to August 13rd, 2016. Sets the deadline for the verification of claims arising during the procedure, preparation, display and communication of additional table of receivables on September 29th, 2016. Sets the deadline for filing objections against receivables arising in the proceedings on October 9th, 2016 and for resolving the objections against receivables arising in the proceedings on October 20th, 2016. Sets the deadline for the preparation and display of the consolidated final table on November 10th, 2016."

Together with filing the receivables declaration in the bankruptcy proceedings of RAAN, Transelectrica SA may invoke the provisions of Article 52 of Law no. 85/2006, applicable to the bankruptcy proceedings for RAAN, provisions taken from Article 90 of Law no. 85/2014 concerning the creditor's right to invoke the compensation of his receivable with the one of the debtor, when the legal provisions on compensation in legal proceedings are completed on the date of commencement of the procedure.Transelectrica SA has been registered in the table of debtor RAAN with the amount of 11,264,777.30 lei under the category of receivables resulting from the continuation of the debtor's activity, the amount requested by our company being equal to 89,360,986.06 lei, our amount of 78,096,208.76 lei not being registered in the preliminary table because "this is not listed as owed in RAAN's accounting records." Moreover, the liquidator considered that the request regarding the registration in the table of the amount equal to 78,096,208.76 lei is tardily filed, being related to the timeframe 2011 – 2013, reason for which the receivable declaration should have been filed at the moment of commencement of the insolvency proceedings, namely on September 18th, 2013. Objection was filed against the Table. The Mehedinti Court approved the evidence with the audit expertise. The parties lodged objections against the audit expertise report, which were admitted by the court who set the hearing on February 22nd, 2018.

• Following a verification conducted in 2013, the Court of Auditors issued several measures to be implemented by the Company as a result of a series of deficits identified within this verification. The decision and protocol issued by the Court of Auditors have been appealed before the Court of Appeal Bucharest, the file no. 1658/2/2014 being constituted.

At the hearing from January 20th, 2016, the court postponed the case so that the appointed accounting expert can express his point of view regarding the objections of the plaintiff against the expert report concerned and so that the technical expert can perform the expertise. On June 29th, 2016, the court postponed the case so that the technical expertise report may be finished. The next hearing was set on October 26th, 2016, and until the date of drafting this report, no other changes have been registered.

At the hearing from February 8th, 2017, the objections against the expert report have been notified. Hearing: 22.03.2017

• CNTEE Transelectrica SA filed a complaint against the Order of the ANRE Chairman no. 51/June 26th, 2014, registered at ANRE under no. 47714/August 4th, 2014, and an appeal before the Court of Appeal Bucharest, subject of the file no. 4921/2/2014, requesting either the amendment of the aforementioned Order, or the issuance of a new order, which should recalculate the RRR value at the level of 9.87% (recalculated with a (β) coefficient of 1.0359, according to the internal analyses conducted by Transelectrica) or, should this request be rejected, using the same percentage of 8.52% set by ANRE for the year of 2013 and for the first semester of 2014.

On June 26th, 2014, the ANRE Order no. 51 was issued, published in the Official Journal under no. 474/June 27th, 2014 on the approval of the average tariff for the transmission service, the tariff for the system service and the zonal tariffs for the transmission service, payable to the National Power Grid Company "Transelectrica" - SA, and the repealing of Addendum no. 1 of the ANRE Chairman's Order no. 96/2013 regarding the approval of the average tariff for the transmission service, the tariff for the system service, the zonal tariffs for the transmission service and the tariffs for the reactive electrical energy, payable to economic agents from the electricity sector.

The values taken into consideration for calculating the Regulated Rate on Return (RRR[1]) by ANRE, according to the Methodology on establishing the tariffs for the electricity transmission service, approved by ANRE Order no. 53/2013 ("the Methodology") have determined a RRR value of 7.7%.

CNTEE Transelectrica SA considers that the enforcement of the provisions of Article 51 of the Methodology on establishing the Beta (β) parameter at the value of 0.432 shall determine the financial damage of the company by decreasing the rentability with an estimated value of 138.4 mil. lei[3], having a significant impact on the financial interests of the company.

At the hearing from February 9th, 2016, the court admitted the evidence with the audit expertise - specialization financial investments and other entities of movable goods, extended the discussion on the technical evidence discussion – electro-energetic specialization, after administering the evidence with the audit expertise - specialization financial investments and other entities of movable goods.

At the hearings from March 25th, 2016, April 22nd, 2016, June 10th, 2016 and March 3rd, 2017, the court postponed the judgement of the cause because of the missing technical expertise report. The next hearing was set for February 13th, 2018.

• On March 4th, 2014, the European Commission issued a communication stating that it has imposed a fine of 1,031,000 EUR to the subsidiary of SC OPCOM S.A. for the abuse of dominant position on the Romanian market in order to facilitate the trading of electricity on the spot market, in breach of the EU antitrust rules. The Company was included in the trial acting as parent company to the subsidiary SC OPCOM S.A., being jointly responsible for paying the fine.

The General Assembly of the subsidiary SC OPCOM SA shareholders, at the meeting from June 10th, 2014, decided upon full payment of the fine amounting to 1,031,000 euro imposed by the Directorate General for Competition – European Commission for breaching of Article 102 of the Treaty on the Functioning of the European Union, according to the Decision no. AT 39984 in the antitrust case. The subsidiary SC OPCOM SA has made full payment of the fine set by the European Commission.

On November 24th, 2014, the subsidiary SC OPCOM SA summoned CNTEE Transelectrica SA in order to force it to pay the amount of 582,086.31 euro (2,585,161.72 lei at the National Bank of Romania exchange rate from November 24th, 2014), representing the amount paid by her as fine, from the total of the fine amounting to 1,031,000 euro.

Also, the subsidiary SC OPCOM SA requested the court to order the Company to pay the amount of 84,867.67 lei as lawful interest related to the period between June 11th, 2014 - November 24th, 2014, plus legal expenses amounting to 37,828.08.

The action filed by the subsidiary SC OPCOM SA is subject of the **file no. 40814/3/2014** on the docket of the Bucharest Court, Section VI Civil, involving claims, litigation with professionals matter. CNTEE Transelectrica SA has lodged counterclaim against the application for summons in this case, invoking exceptions and defenses on the main issue of the matter regarding the unfounded and unlawful character of the action.

On July 24th, 2015, the Bucharest Court ruled the judgement no. 4275/2015, by which it ordered the following: "Admits the application for summons filed by plaintiff Romanian Gas and Electricity Market Operator - OPCOM S.A. against defendant National Power Grid Company "Transelectrica" S.A. Orders the defendant to pay the plaintiff the amount of 582,086.31 euro, representing the amount paid by the plaintiff in the defendant's stead from the fine in the amount of 1,031,000 euro, imposed by the Decision of the European Commission on March 5th, 2014 in the case no. AT.39984 and of the lawful interest related to

[1] RRR - Regulated Rate on Return is presented in the technical literature as WACC – Weighted Average Cost of Capital – translated as Weighted Average Cost of Capital, the equation of both indicators being similar: RRR = WACC = CCP + Kp/(1 – T) + CCI x Ki
[2] The value that caused the decrease of the RRR to 7.7%
[3] Calculated value compared to the RRR of 8.52%

the amount of 582,086.31 euro, calculated on June 11th, 2014 and up until de day of the actual payment. Orders the defendant to pay the plaintiff the amount of 37,828.08 lei, as legal expenses. With right of appeal within 30 days from notification. The request for appeal shall be lodged before the Bucharest Court – Section VI Civil."

Against sentence no. 4275/2015, pronounced in the aforementioned file, Transelectrica SA filed an appeal, which was registered on the docket of the Court of Appeal Bucharest. The resolution of the Court of Appeal is the following: Admits the appeal. Changes the appealed civil sentence completely, meaning that it rejects the application for summons as ill-founded. Orders the appellee - plaintiff to pay the trial expenses to the appellant - defendant amounting to 16,129, representing legal stamp duty. With appeal within 30 days from notification. Ruled in open court today, October 10th, 2016. Document: Decision 1517/2016 from October 10th, 2016.

OPCOM S.A. filed a second appeal. The High Court of Cassation and Justice decided the following: Grants, in principle, the appellant-plaintiff Operatorul Pieței de Energie Electrică și Gaze Naturale – OPCOM S.A. motion against decision no. 1517/10.10.2016, ruled by the Bucharest Court of Appeal – Section V Civil. Sets the hearing for solving the appeal on March 13th, 2018. The parties will be summoned. Ruled in open court today, December 5th, 2017.

In 2014, the company recorded a provision amounting to 2,670,029 for the litigation with the subsidiary SC OPCOM SA.

• In 2013, Conaid Company SRL took legal actions against CNTEE Transelectrica for the unjustified refusal of the latter to sign an addendum to the connection agreement or to sign a new connection agreement, and requested the compensation for costs incurred up to that time, amounted to 17,419,508 lei and loss of profit for the period 2013 - 2033 amounting to EUR 722,756,000. So far, the Company did not conclude an addendum to the connection agreement because the suspensive provisions included therein have not been met by Conaid Company SRL. A new connection agreement would have had to be concluded by March 11th, 2014, the date on which the technical connection permit has expired. On the date of these financial statements, the amounts claimed by Conaid Company SRL were regarded as contingent liabilities as it is unlikely to settle this obligation, there will be necessary outflows of resources embodying economic benefits and the value of obligation cannot be evaluated with sufficient reliability. **The file no. 5302/2/2013** was on the docket of the High Court, involving the obligation of issuing of an administrative document, the procedural stage – second appeal, the hearing being on December 9th, 2015. At this hearing, the High Court of Cassation and Justice admitted, in principle, the second appeals and set the hearing, in substance, of the second appeals on April 8th, 2016, Formation 4, summoning the parties. The case trial was postponed for the date of June 17th, 2016, when the court reserved judgement, postponing the judgement until June 29th, 2016, when it pronounced Decision no. 2148/2016, by which it ordered the following: 'Rejects the exceptions invoked by the appellant - plaintiff S.C. Conaid Company S.R.L., via insolvency administrator RVA Insolvency Specialists SPRL, and by the appellant - defendant National Company for Energy Transportation Transelectrica S.A. Admits the second appeal filed by the defendant National Company for Energy Transportation Transelectrica S.A. against the hearing protocol of February 18th, 2014 and the civil sentence no. 1866 of June 11th, 2014, pronounced by the Court of Appeal Bucharest – Section VIII, Administrative and Fiscal Litigation Section. Partially invalidates the contested protocol and judgment and refers the case to the Bucharest Court – Section VI Civil, for settlement of the application of the plaintiff sought against the National Power Grid Company Transelectrica S.A. Maintains the other provisions of the sentence concerning the plaintiff's action against the National Regulatory Authority for Energy. Rejects the second appeals of the plaintiff SC Conaid Company S.R.L. via insolvency administrator RVA Insolvency Specialists SPRL and the intervener S.C. Duro Felguera S.A. against the civil sentence no. 1866 of June 11th, 2014 pronounced by the Bucharest Court of Appeal – Section VIII, Administrative and Fiscal Litigation. Rejects the second appeal filed by the defendant National Power Grid Company Transelectrica S.A. against the hearing protocol from March 25th, 2014, pronounced by the Bucharest Court of Appeal - Section VIII, Administrative and Fiscal Litigation. Final. Ruled in open court today, June 29th, 2016.

On the docket of Bucharest Court – Section VI Civil, the case was registered under no. 12107/3/2017. By civil sentence no. 4364/23.11.2017, the Court admits the exception to the ineligibility of the claim and rejects it as ineligible. It also rejects the motion to intervene in the interest of the plaintiff. With right of appeal within 30 days from notification. The appeal is lodged at the Bucharest Court - Section VI Civil. Sent to the parties via registry today, November 23rd, 2017.

• Following a verification conducted in 2017, the Court of Auditors issued several measures to be implemented by the Company as a result of a series of deficits identified within this verification. CNTEE Transelectrica SA filed a total of 8 objections against the measures ruled by the Romanian Court of Auditors (CCR) via Decision no. 8/27.06.2017 requesting the annulment thereof, as well as the Decision no. 77/03.08.2017 registered with the Company's secretariat under no. 29117/08.08.2017, as well as the Control Report no. 19211/26.05.2017.

- Case file no. 47332/3/2017 on the docket of the Bucharest Court - Section VI Civil, by which the company FF Wind Energy Internațional SRL requests the following against CNTEE Transelectrica SA: - the annulment of the unilateral statement for the termination of the PTG connection agreement no. 85/14.03.2011 issued on March 2nd, 2016 under no. 8295, - ordering the Company to pay the amount of 33 mil. lei as damages following the termination of the agreement and to pay the amount of 45,000,000 euro as the amount of depreciation of the company FF Wind Energy Internațional SRL caused by the impairment of its purpose. Status of the file: in preliminary proceedings for notification of the action and filing statement of defense.

• Also the company is involved in significant litigations in which it has the quality of plaintiff, especially for debt recovery (e.g. Eco Energy SRL , Petprod SRL, Total Electric Oltenia SA, Arcelormittal Galati SA, Regia Autonoma de Activitati Nucleare, Romenergy Industry SRL, Energy Holding SRL, UGM Energy Trading SRL, CET Iasi, CET Bacau, CET Braila, CET Govora, CET Brasov, Elsaco Energy SRL, Elsaco Esco, Arelco Power SRL, Arelco Energy SRL, Inversolar Energy SA). The company recorded adjustments for value losses for the customers and other receivables in litigation and for the customers in bankruptcy. The Company also acted as plaintiff in a dispute with ANAF as shown in Note 9.

At the same time, the Company is also involved in litigation, with former members of the Directorate and the Supervisory Board, regarding the mandate contracts concluded between the Company and them.

The management of the Company considers it is likely that there will be no cases in which an outflow of resources will be required for settling the pending litigation. In addition, there are no other pending litigations which, either by their nature or by their value would deem necessary the presentation of some contingent assets or liabilities significant for the activity of the Company.

iv) Guarantees

As of December 31st, 2017 and December 31st, 2016, the guarantees are presented as follows:

	2017	2016
Guarantees granted, of which:	**381,752,861**	**461,878,512**
- letters of guarantee granted – production	44,554,186	36,325,204
- letters of guarantee granted – investments	183,961,869	238,616,854
- other guarantees granted	153,236,806	186,936,454
Guarantees received, of which:	**497,215,685**	**502,121,541**
- letters of guarantee received – production	184,226,150	220,878,950
- letters of guarantee received – investments	264,728,801	233,729,248
- other guarantees received	48,260,734	47,513,343

Guarantees granted

In accordance with the License no. 161/2000 updated by ANRE Decision no. 802/18.05.2016 regarding the provision of electricity transmission and system services and the administration of the balancing market, the Company has the obligation to establish and maintain a financial guarantee of 1% of the turnover related to the licensed activities, which enables the Company to continue its licensed activities, considering the major risks that may impact these activities and which covers any potential damages that may be incurred according to the concluded contractual clauses. In order to comply with this obligation, the Company concluded a loan agreement for issuance of bank letters of guarantee with EximBank SA, the value of which being 29,422,392 as of December 31st, 2017.

On December 27th, 2017, the Company concluded a loan agreement for issuance of bank letters of guarantee with Banca Comerciala Romana amounting to 26,805,370 and valid between January 1st, 2018 and December 31st, 2018.

The other guarantees granted consist mainly of bank letters of guarantee issued for contracts concluded on the centralized markets administered by OPCOM – the Centralized Market for Bilateral Electricity Contracts for Extended Auction (CMCB-EA), the Day-Ahead Market (DAM) and the Intra-Day Market (IDM), as well as commitments/guarantees granted for investments in relation to pending loan contracts.
Other guarantees granted consist of contracts assigned to secure the credit line contracted for the support scheme.

Guarantees received

The guarantees received consist mainly in bank letters of guarantee for due payment in relation to contracts concluded on the electricity market, the good performance bonds and down payment letters of guarantee in relation to investment contracts and other guarantees received based on contracts funded by the connection tariff.

v) Revaluation reserves as of December 31st, 2017

On December 31st, 2017, the revaluation reserves amount to 533,839,585 (compared to 586,619,248 in December 31st, 2016).

Starting with May 1st, 2009, the reserves from the revaluation of fixed assets, including land plots, recorded after January 1st, 2004, which are deducted when calculating taxable income through tax depreciation expenses or transferred and/or ceased assets expenses, are taxed simultaneously with the tax depreciation deduction, namely when the assets are disposed, as the case may be.

Realized reserves are taxable in the future, in case of changing the destination of the reserves in any form, in case of liquidation, merger of the Company, including using the reserves for covering the Company's losses, except for the transfer of the aforementioned reserves after May 1st, 2009.

vi) Tariffs for electricity transmission and system services

The tariff for electricity transmission is set based on the "revenue cap" methodology. Using this methodology, ANRE sets an initial annual target revenue calculated by summing up the regulated costs and the regulated return of recognized assets. Certain costs included in the base of regulated costs are subject to efficiency requirements limiting the level of expenses that may be recovered through the regulated tariff (controllable operating and maintenance costs, own technological consumption). The annual target revenues calculated for a regulatory period are redirected through a linearization procedure aiming at softening any severe increases/decreases of revenues from one tariff year to the next. The revenues redirected in this way are annually adjusted by the price consumption index.
Certain changes in the tariff mechanism may have a significant impact on the recovery of the regulated depreciation of fixed assets included in the regulated assets base.

The current regulatory period lasts five years (July 1st, 2014 – June 30th, 2019), and comprises five tariff years (the tariff year begins on July 1st and lasts for 12 months). Thus, 2017 was the year of transition from the third tariff year to the fourth tariff year within the current regulatory period (the third tariff year ended June 30th, 2017, the fourth tariff year began July 1st, 2017). For 2017, the tariffs for the transmission and system services were calculated according to the provisions of ANRE Orders no. 53/2013 and 87/2013, as subsequently amended and supplemented. For the first semester of 2017, tariffs for the transmission and system services were approved by ANRE Order no. 27/2016 and for the second semester of 2017 by ANRE Order no. 48/2017.

According to ANRE Order no. 53/2013, as subsequently amended and supplemented, approving the Methodology for determining the tariffs for the electricity transmission service, for the calculation of the regulated revenue for the first tariff period, the competent authority determines the amount related to the efficiency gains (resulted from the reduction of controllable operating costs incurred in a tariff period) above the targets set for prior regulated period and allocates 50% of the surplus to the customers of the transmission service (gain sharing mechanism).

According to ANRE Order no. 87/2013 approving the Methodology for determining the tariffs for the system services, the competent authority determines the amount related to gains obtained by the transmission and system operator through an efficient management of technological system services within a tariff period and allocates 80% thereof to users (gain sharing mechanism). In June 2017, via Order no. 45/2017, ANRE approved the new Methodology for determining the tariffs for the system services, applicable starting with the tariff period July 1st, 2017 - June 30th, 2018 (repealing ANRE Order no. 87/2013). The tariffs for the transmission of electricity and system services are adjusted annually by the total corrections resulting from the previous tariff period's corrections (actual data for 8 months and estimated data for 4 months) and the corrections of the second last tariff period (actual data). By way of exception, the tariff for the technological system services approved for the fourth tariff year has been revised pursuant to the provisions of Art. 45 of ANRE Order no. 45/2017, from 9.39 lei/MWh to 12.06 lei/MWh, applicable starting with January 1st, 2018. The main underlying factor for the tariff increase was represented by the reconsideration of the price assumptions related to Transelectrica's purchase of system reserves on the competitive market.

Service	Tariff applied in the first semester of 2017 (approved by ANRE Order no. 27/2016) lei/MWh	Tariff applied in the second semester of 2017 (approved by ANRE Order no. 48/2017) lei/MWh
Electricity transmission service	18.70	16.86
Functional system services	1.30	1.11
Technological system services	11.58	9.39

vii) Contingencies

The following control measures are ongoing at the Company's headquarters:

Ministry of Public Finance - General Department of Economic and Financial Inspection - an inspection activity that started on 15.09.2017 and which was suspended by Address 243104 / 29.11.2017 on the same date, The objectives undergoing

verification for 2012-2016 are presented below:

- substantiating and executing the revenues and expenses budget;

- compliance with the budgetary, economic, financial and accounting discipline;

- compliance with the legal provisions regarding the public and private property of the state and of the units

administrative-territorial units, held in any form;

- compliance with the provisions of the Government Order no, 64/2001 on the distribution of profits to the national entities,national companies and commercial companies with full or majority state capital, as well as self-governing administrations with subsequent amendments and completions;

- the use of reserve holdings;

- the way of organizing and exercising the compulsory forms of internal / managerial control;

- the way in which the amounts granted from the consolidated general budget were substantiated and justified,

- The Ministry of Economy – Direction for Minister Control Body – the control commenced on January 18th, 2018 – the objectives of the measure are: verifying the observance of legal provisions and internal norms pertaining to the entity's organization and functioning, verifying the way in which the acquisition activity is organized and performed, verifying the way in which consultancy, legal assistance and representation and litigation agreements are concluded and performed, verifying the way in which the sponsorship agreements are concluded and performed, verifying the way in which the transportation expenses are made, analysis of the way in which orders, instructions and other requirements of the Ministry of Economy in the specific field of activity are performed, verifying the completion status of the measures ruled via previous reports, comparative analysis of the entity's economic and financial results in the last three years of activity.

- National Agency for Public Procurement – the control started on February 26th, 2018 – the control aimed at verifying the observance of the rules pertaining to the drafting of technical specifications for the allocation procedure of the agreement for the Technical upgrade of the Turnu Severin Este 220/110 kV substation – procurement notice no. 166637/15.03.2016.

On 31 December 2017 Teletrans SA, a Company subsidiary, was subject to control began on 29.05.2015 by the General Division of Economic–Financial Audit of the Public Finance Ministry, the audited interval being 01.01.2010-31.12.2014 according to Mission orders 82/27.05.2015 and 01.01.2015- to date, according to Mission order 38/31.05.2017; the objectives of the economic-financial audit were:

-fundamentals and execution of the revenue and expense budget;
-compliance with budgetary economic-financial and accounting discipline;
-Ccmpliance with the legal provisions regarding the assets from the state's public and private domain and in that of administrative-territorial units;
-the mode of organisation and exercise of compulsory internal / managerial control;
-verifying the compliance with the provisions of GO 26/2001 with respect to enhancing financial discipline at certain economic operators where the state or administrative-territorial units are single or majority shareholders or hold directly / indirectly some majority participation, from 2015 to date.

On December 31, 2017, Teletrans SA, the subsidiary of the Company, was subject to control by the General Division- for Economic and Financial Inspection of the Ministry of Public Finance regarding the period 2010-2014 and finalized in 2018. The Economic and Financial Inspection Report Draft issued on February 21st , 2018 specifies that, as a result of the leasing of the assets belonging to the public state domain (capacities and infrastructure elements of the public telecommunications network) with disregard by the Company's representatives and Teletrans S.A. of the provisions of art. 14, art. 15 and art. 16 of Law no. 213/1998 on the public property, the state budget would have been damaged in a total amount of 88,778,158 representing sums collected and not paid to the state budget in the period 2006-2016.

In the letter 13443 from26.03.2018 written by Teletrans, it notified Transelectrica of the following:

-In 21.02.2018 – 10.032018 time frame several meetings took place between the representatives of Teletrans and the representatives of the Ministry's audit team, which decided the calculation base used in the draft report was wrong, as it strictly related to the revenues registered without taking into account the expenses made (total amortisement of the procured grid equipment, human resources as well as all indirect costs of such activities) and without fully understanding the commercial and juridical relations between Transelectrica and Teletrans;
-Consequently, the audit team together with the managers of the Economic-Financial Audit Division from the Ministry of Finance provided a new term to Teletrans by which it should submit the reviewed situation and additional explanations for the reviewed time interval, extending the 27,02,2018 term by 30,03,2018.

As regards the operation of the optical fibre excess, the juridical nature of the contractual relation took into account the legal opinion of Bostina&Asociatii according to which the previous contract C45/2006 was deemed a mandate contract without representation about "SC TELETRANS SA concluding in its own name but on account of Transelectrica's public telecommunication network contracts with a view to trade its capacity and infrastructure components". The construction of the juridical deed enabled concluding Covenant C111/2014, while maintaining the nature of juridical relations between the parties.

Until the date of approval of the stand-alone financial statements for the year ended on December 31st, .17, the Company did

not complete the analysis necessary to determine the possible effect of the result of the economic and financial inspection report issued on 21 February 2018 on the separate financial statements of the Company for the year ended on 31 December 2017.

27. RELATED PARTIES

i) Subsidiaries held by the Company

Entity	Home country	December 31st, 2017 % of shares	December 31st, 2016 % of shares
SMART SA *)	Romania	70	70
TELETRANS SA	Romania	100	100
ICEMENERG SA **)	Romania	-	-
OPCOM SA	Romania	100	100
FORMENERG SA	Romania	100	100
ICEMENERG SERVICE SA	Romania	100	100

The total value of the shares held by the Company in its subsidiaries amounted to 78,038,750 on December 31st, 2017 and to 78,038,750 on December 31st, 2016.

The gross value of the Company's holdings in its subsidiaries is as follows:

SC SMART SA

SC SMART SA, with registered office at 33Magheru Blvd., district 1, Bucharest, and head office located at the work point in 246 C Calea Floreasca, "Sky Tower" Building, 20th floor, district 1 Bucharest, has as main activities the provision of maintenance services for the transmission-dispatch system. The subsidiary was incorporated by GD no. 710/July 19th, 2001 on November 1st, 2001. The share capital as of December 31st, 2016 amounted to 55,036,300, of which 38,528,600 is subscribed and fully paid up by the Company.

By Decision no. 14/10.12.2014, the Extraordinary General Assembly of Shareholders of SC Smart SA approved the company's share capital increase by in-kind contribution with the land plots value for which the certificate authenticating the ownership rights was obtained.

On December 30th, 2014, the Trade Registry Office attached to the Bucharest Court settled the application to register the share capital increase of SC Smart SA and, consequently, as of December 31st, 2015, the shareholding of SC Smart SA was the following:

- CNTEE Transelectrica SA - no. of shares 3,852,860
  - shareholding quota in gains and loss: 70.005%
- The Romanian State via the Government Secretariat-General - no. of shares 1,650,770
  - shareholding quota in gains and loss: 29.994%

On January 25th, 2016, the amendment regarding the change of the shareholding structure of SC Smart SA was processed at the National Trade Registry Office, namely the mention regarding the administration of State's assets, amendment required by Art. 10 of GEO no. 86/2014, as amended and revised.

*) On the docket of the courts there was a litigation - file no. 32675/3/2015 - involving the annulment of Resolution of the Designated Person No. 154954/December 30th, 2014, pronounced in file no. 449314/December 23rd, 2014, under which the Trade Register attached to the Bucharest Court has registered the share capital increase of the subsidiary SC Smart SA with contribution in kind and amended the Articles of Association according to Decision no. 12375/December 22nd, 2014 of the Chairman of the Board of Directors of the subsidiary and according to Board Decision no. 19/December 22nd, 2014. The Company also requested the competent court for the annulment of the two aforementioned decisions and the suspension of the enforcement of deeds whose annulment is requested, until the resolution of the promoted action.

In the file no. 32675/3/2015, the Bucharest Court – Section VI Civil pronounced the civil sentence no. 6468/November 16th, 2015, through which it ordered the following: "Admits the exception of inadmissibility. Dismisses the application for summons filed by the plaintiff Transelectrica against the defendants: the subsidiary Company for electricity transmission grid maintenance services SMART SA, the Romanian State and ONRC, as inadmissible. With right of appeal within 30 days from notification. The appeal is lodged with the Bucharest Court Section VI Civil. Pronounced in open court today, November 16th, 2015". CNTEE Transelectrica SA lodged an appeal, which was registered on the docket of the Court of Appeal, the case being settled at the hearing from May 23rd, 2016, when the Court of Appeal Bucharest ruled the civil decision no. 903/23.05.2016,

by which it ordered the following: "Rejects the appeal as ill-founded. Admits the notification of the Constitutional Court. Pursuant to Article 29 (4) of Law no. 47/1992, notifies the Constitutional Court to resolve the exception of unconstitutionality of Article 114 (3) of Law no. 31/1990 in relation to the provisions of Article 16, Article 21 and Article 44 of the Constitution, exception invoked by the appellant. Final."

SC TELETRANS SA

SC TELETRANS SA, with registered office at 16 – 18 Hristo-Botev Blvd., district3, Bucharest, has as main activities process and management IT maintenance services, telecommunication and IT specific services in the PTG, telephony and data transmission. The subsidiary was incorporated as per Decision no. 3/2002 of the General Assembly of Shareholders. The share capital as of December 31st, 2016 amounted to 6,874,430, subscribed and fully paid up.

SC ICEMENERG SA

SC "Filiala Institutul de Cercetări și Modernizări Energetice" – ICEMENERG SA, with registered office at 8 Energeticienilor Blvd., district 3, Bucharest, has as main activities research and development in physical and natural sciences, innovation, studies, development strategies, design, city planning, engineering and other technical services. The subsidiary was incorporated as per GD no. 1065/September 4th, 2003. The share capital as of December 31st, 2016 amounted to 1,083,450, subscribed and fully paid up.

**) On April 7th, 2014 it was accepted by the National Trade Register, the file registration number 121452/April 3rd, 2014 involving the deregistration of the Subsidiary Institute for Energy Research and Modernization – ICEMENERG SA Bucharest. Through the order no. 123/March 13th, 2014 (act of registration and authorization of functioning), was registered at the Trade Register the "National Institute of Research and Development for Energy Bucharest" (GD no. 925/2010). The company filed a complaint against the resolution of ORC director ordering the registration in the trade register of the deregistration of the Subsidiary ICEMENERG SA Bucharest.

Bucharest Court, Civil Section VI, through the sentence no. 3569/July 14th, 2014 pronounced in the file no. 15483/3/2014, in which the company was found in contradiction with the defendants the Subsidiary Institute for Energy Research and Modernization "Icemenerg" S.A. Bucharest and the National Institute of Research and Development for Energy-Icemenerg Bucharest rejected the complaint of the Company, motivated by the fact that GD no. 925/2010 was not abolished until the deregistration at ORC (Trade Register Office). The Court of Appeal has notified on February 24th, 2015 the solution pronounced in the file no. 15483/3/2014 and namely Decision no. 173/2015, which dismissed the appeal of CNTEE Transelectrica SA as ill-founded, the decision being final.

Against the Decision no. 173/2015, pronounced by Bucharest Court of Appeal, Transelectrica SA filed an appeal for annulment, which makes the object of the file no. 1088/2/2015 before the Court of Appeal - Section VI Civil, with hearings on 13th May, 2015. On May 13th, 2015, by Decision no. 777/2015, the Court of Appeal Bucharest dismissed the appeal for annulment as ill-founded, the decision being final.
At the meetings from March 28th, 2016 and August 30th, 2016, the Extraordinary General Assembly did not approve the decrease of the share capital of CNTEE Transelectrica SA with the amount of 1,084,610, representing the share capital subscribed and paid of the ICEMENERG SA Bucharest subsidiary, by decreasing the shareholding of the Romanian State in the share capital of CNTEE Transelectrica SA, for enforcing the provisions of GD no. 925/2010.
In 2015, the Company registered an impairment amounting to 1,083,450 for the shares held by the Institute for Energy Research and Upgrades – ICEMENERG SA Bucharest subsidiary, which was removed from the register.

SC OPCOM SA
SC OPCOM SA with its registered office at 16-18 Hristo Botev Blvd., district 3, Bucharest, with legal personality, has as its main object of activity the organization, administration and supervision of the energy market and was incorporated by GD no. 627/2000. The share capital as of December 31st, 2016 amounted to 30,687,300, subscribed and fully paid up.
In 2016, the share capital of SC OPCOM SA was increased by 22,587,300, by in-kind contribution of shareholder CNTEE Transelectrica SA.
The in-kind contribution consists of intangible assets, namely "OPCOM Electricity Trade Exchange" and "OPCOM Electricity Regional Exchange", self-funded by the Company and from IBRD funds, valued as per Valuation Report no. 786/15.03.2016 issued by JPA Audit & Consultanta SRL.
The amendment of the articles of incorporation of SC OPCOM SA, based on the Decision no. 6/15.06.2016 of the Extraordinary General Assembly of Shareholders, was registered at the Trade Registry Office according to the Certificate for Registration of Specifications of 11.07.2016. As of 31.12.2016, the share capital is registered in the financial statements subject to GAS approval by OPCOM are presented as subscribed and fully paid-up share capital.

SC FORMENERG SA
SC FORMENERG SA with its registered office at 3 Gh. Sincai Blvd., district 4, Bucharest, with legal personality, has as its main object of activity the initial and continuous training of energy personnel and other beneficiaries in all fields of activity and was incorporated by Decision no. 33/2001 of the General Assembly of Shareholders. The share capital as of December 31st, 2016 amounted to 1,948,420, subscribed and fully paid up.

SC ICEMENERG SERVICE SA

SC ICEMENERG SERVICE SA with its registered office in Bucharest, 8 Energeticienilor Blvd., district 3 has as its object of activity the design, manufacturing, implementation, repair, modernization and marketing of machines, equipment and specialized installations inland and abroad. GD no. 2294/09.12.2004 approved the transfer of the package of shares held by subsidiary "Institutul de Cercetari si Modernizari Energetice – ICEMENERG" - S.A. Bucharest in the subsidiary "ICEMENERG-SERVICE" - S.A. Bucharest to the National Power Grid Company "Transelectrica" - S.A. The share capital as of December 31st, 2016 amounted to 493,000, subscribed and fully paid up.

On June 9th, 2017, the Bucharest Court – Section VI Civil pronounced the entering into bankruptcy under the simplified procedure of the debtor subsidiary ICEMENERG SERVICE – SA, and appointed Solvendi SPRL as temporary liquidator.

In 2016, the Company registered an impairment amounting to 493,000 for the shares held by the SC ICEMENERG SERVICE SA subsidiary.

ii) Related parties – main economic and financial indicators obtained by the Company's subsidiaries as of December 31st, 2016

The main economic and financial indicators obtained by the Company's subsidiaries as of December 31st, 2016 (the last financial year for which the financial statements were approved) are as follows:

No.	Indicator name:	SMART	TELETRANS	OPCOM	FORMENERG	ICEMENERG SERVICE
1.	Turnover	73,679,190	39,206,834	28,344,278	3,338,817	980,381
2.	Gross profit/(loss)	(10,500,488)	4,980,340	672,262	(1,510,957)	(3,550,431)
3.	Paid-up share capital	55,036,300	6,874,430	8,100,000	1,948,420	493,000
4.	Paid-up share capital	-	-	22,587,300	-	-
5.	Reserves	4,232,189	17,582,354	8,991,096	1,721,952	12,709
6.	Equity - total	76,466,840	30,463,704	44,471,886	13,267,819	(1,923,521)

27. AFFILIATED PARTIES (continued)

iii) Related parties – transactions with subsidiaries held by the Company

As of December 31st, 2017 and December 31st, 2016, the outstanding balances with subsidiaries are presented as follows:

	Trade receivables		Trade payables	
Related party	**December 31st, 2017**	**December 31st, 2016**	**December 31st, 2017**	**December 31st, 2016**
SC SMART SA	16,884,019	404,257	8,992,426	15,471,838
SC TELETRANS SA	192,966	267,525	7,361,973	6,531,203
SC FORMENERG SA	-	-	-	3,960
SC OPCOM SA	23,995,729	30,921,913	7,442,483	6,747,421
TOTAL	**41,072,714**	**31,593,695**	**23,796,882**	**28,754,422**

The transactions with subsidiaries during 2017 and 2016 are detailed below:

Related party	**Sales**		**Purchases**	
	2017	**2016**	**2017**	**2016**
SC SMART SA	739,124	1,064,431	65,360,069	79,564,566
SC TELETRANS SA	3,174,815	2,879,312	32,164,216	32,619,227
SC FORMENERG SA	-	-	177,072	158,301
SC OPCOM SA	516,466,529	342,103,814	217,836,584	153,759,926
TOTAL	**520,380,468**	**346,047,557**	**315,537,941**	**266,102,020**

In 2017, the Company received dividends from the following subsidiaries:

- SC TELETRANS SA – 2,179,493 (1,819,170 in year 2016);
- SC OPCOM SA – 0 (1,218,069 in year 2016);

iv) Related parties – transactions with other State-owned companies

The Company is a majority State-owned company.

The transfer of the 43,020,309 shares representing 58.69% of the Company's shares, from the Romanian State under the administration of the Secretariat General of the Government to the Romanian State under the administration of the Ministry of Economy, Commerce and Tourism was registered by the Central Depositary in the Company's Shareholders' Registry of February 20th, 2015.

The value of the Company's transaction with State controlled entities or over which the State has significant influence account for an important share of sales and purchases registered in the year ended December 31st, 2017.

As described in Note 1 ("Regulatory environment") the Company's activities are regulated by ANRE. As described in Note 3 (b), according to the concession contract, the Company pays an annual royalty computed as 1/1000 of the total electricity transmission revenues.

During 2017, CNTEE Transelectrica SA collected from the Ministry of Economy the amount of 163,809 lei in order to start the expropriation procedures for the privately owned immovable properties constituting the expropriation corridor for the following works of national interest:
- Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja 400 kV OHL in the Medgidia Sud 400 kV substation - Stage II - Connections in the Medgidia Sud 400 kV OHL d.c. substation;
- Converting the Portile de Fier – Resita – Timisoara – Sacalaz – Arad axis/Portile de Fier – (Anina) – Resita 400 kV OHL to 400 kV;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV / stage I: Extension of the Portile de Fier 400 kV substation, Portile de Fier - Anina - Resita 400 kV OHL, Resita 400/220/110 kV Resita substation;
- Resita-Pancevo 400 kV OHL interconnection;
- Ostrovu Mare 220 kV OHL double circuit – PTG;
- Gutinas – Smardan 400 kV OHL d.c. and
- Cernavoda-Stalpu 400 kV OHL d.c. and connection in the Gura Ialomitei substation.

(see Note 13).

28. REMUNERATION OF COMPANY'S MANAGEMENT

The wages paid to the management employed based on Individual Employment Contracts (IEC) for the services rendered consist primarily of base salary, benefits upon termination of employment and post-employment and the fixed and variable components for the members of the Directorate and the Board of Supervisors. These are detailed as follows:

	2017	2016
Management employed based on IEC		
Short-Term Benefits	9,822,029	10,269,611
Other long-term benefits	121,078	266,803
Members of the Directorate and the Board of Supervisors		
Fixed component	1,611,448	1,566,138
Variable component	0	2,013,206
Total	**11,554,555**	**14,115,758**

In 2013, the 4 year mandate was approved for the members of the Board of Supervisors and the Directorate. The General Assembly of Shareholders of November 6th, 2013 approved the mandate of the Board of Supervisors members and their variable remuneration level starting with the business day immediately following the date of approval of the Administration Plan of CNTEE Transelectrica SA for the period 2013-2017 prepared by the Board of Supervisors, i.e. from 01.10.2013.

Decision no. 1 of 23.03.2015 of the Ordinary General Assembly of Shareholders approved under items 3.3 and 3.4 the setting of the general caps of the fixed remuneration granted to the Board of Supervisors members of CNTEE "Transelectrica" – S.A. and the general caps of the variable component of their remunerations.

As of December 31st, 2017, the number of OAVTs granted to the Board of Supervisors members of Transelectrica is as follows:

Package	No. of OAVTs	Date granted	Due date	Weighted average price for the month prior to granting as per the mandate contract
Package 1 November 15th, 2013	644,545	15.11.2013	15.11.2016	13.1484 (lei/share)
Package 2 November 15th, 2014	571,561	15.11.2014	15.11.2017	26.6040 (lei/share)
Package 3 November 15th, 2015	355,640	15.11.2015	15.11.2018	25.9986 (lei/share)
Package 4 November 15th, 2016	415,274	15.11.2016	15.11.2019	29.0861 (lei/share)

As of December 31st, 2017, as per the certificates issued by the Company, the number of OAVTs granted to the Transelectrica Directorate members is as follows:

Package	No. of OAVTs	Date granted	Due date	Weighted average price for the month prior to granting as per the mandate contract
Package 1 May 15th, 2014	567,978	15.05.2014	15.11.2016	13.1484 lei/share
Package 2 November 15th, 2014	657,973	15.11.2014	15.11.2017	26.6040 lei/share
Package 3 November 15th, 2015	522,418	15.11.2015	15.11.2018	25.9986 lei/share
Package 4 November 15th, 2016	474,837	15.11.2016	15.11.2019	29.0861 (lei/share)

28. REMUNERATION OF COMPANY'S MANAGEMENT (continued)

Details pertaining to OAVT calculation model:

	Package 1	Package 2	Package 3	Package 4
Validity	3 years	3 years	3 years	3 years
Way of exerting	1/3 of the package granted yearly			
Weighted average price for the month prior	13.1484 lei/ share	26.6040 lei/ share	25.9986 lei/ share	29.0861 lei/ share

Thus, as of December 31st, 2017, the Company recorded a provision amounting to 38,498,154 (42,354,707 as of December 31st, 2016) for the annual variable component owed to the Directorate and Board of Supervisors members for the fair value of the virtual shares of the Company as of the end of the financial year.

29. FINANCIAL INSTRUMENTS

Financial risk management

The Company is exposed to the following risks that arise from financial instruments: market risk (interest rate risk and currency risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to mitigate potentially adverse effects on the Company's financial performance. Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's revenues or the value of its holdings of financial instruments.

The Company does not have formal arrangements to mitigate financial risks. However, the financial risks are monitored by management focusing on the needs of the Company in order to make sure that the opportunities and threats are matched efficiently.

This note presents information about the Company's exposure to each of the aforementioned risks, the Company's objectives, policies and processes for risk measurement and management, and the Company's management of capital.

Interest rate risk

The Company's operating cash flows are affected by changes in interest rates, mainly due to the foreign currency long-term borrowings with variable interest rates contracted from external financing banks. The Company has significant long-term borrowings with variable interest rates that expose it to significant cash flow risk.

At the reporting date, the ratio of the Company's financial instruments with fixed interest rate to the ones with variable interest rate is presented as follows:

	December 31st, 2017	December 31st, 2016
Fixed interest rate instruments		
Financial liabilities	389,449,493	478,649,422
Variable interest rate instruments		
Financial liabilities	122,800,429	161,485,508

The cash flow risk determined by the interest rate is the risk of fluctuation over time of the interest and consequently, the expense therewith. The Company has significant long-term borrowings, with variable interest rates, which may expose it to cash flow risk.

29. FINANCIAL INSTRUMENTS (continued)

Sensitivity analysis of interest rate

As of the reporting date, a 100% appreciation of the interest rate for the borrowings with variable interest rates date would have decreased the gross profit for the period by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	Loss 2017	Loss 2016
RON	-	(5,323)
EUR	(19,980)	(1,325,060)
USD	(1,696)	(21,266)
Total	**(21,676)**	**(1,351,649)**

As of the reporting date, a 100% depreciation of the interest rate for the borrowings with variable interest rates date would have increased the gross profit for the period by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	Profit 2017	Profit 2016
RON	-	5,323
EUR	19,980	1,325,600
USD	1,696	21,266
Total	**21,676**	**1,351,649**

The Company did not conclude any hedging contracts regarding the debts in foreign currencies or the exposure to the interest rate risk.

Exchange rate risk

The Company may be exposed to the foreign exchange rates fluctuations through cash and cash equivalents, long-term borrowings and commercial debts denominated in foreign currencies.

The Company's functional currency is the Romanian Leu. The Company is exposed to foreign currency risk on cash and cash equivalents, purchases and borrowings that are denominated in a currency other than the functional currency. The currencies giving rise to this risk are primarily EUR, USD and JPY. The long-term loans and other liabilities denominated in foreign currencies are subsequently recalculated in lei at the prevailing exchange rate at each balance sheet date, as communicated by Romanian National Bank. The resulting differences are included in the profit and loss account, but do not affect cash flows until the settlement of the debt.

The Company's exposure to foreign currency risk, expressed in RON, is as follows:

December 31st, 2017	**Value**	**RON**	**EUR**	**USD**
Monetary assets				
Cash and cash equivalents	520,746,500	465,835,289	54,895,551	15,660
Other financial assets	-	-	-	-
Receivables	818,039,300	752,891,505	65,147,795	-
Gross exposure	**1,338,785,800**	**1,218,726,794**	**120,043,346**	**15,660**
Monetary liabilities				
Suppliers and other liabilities	708,625,011	642,775,953	65,849,058	-
Loans	512,249,922	200,434,521	308,380,208	3.435.193
Gross exposure	**1,220,874,933**	**843,210,474**	**374,229,265**	**3.435.193**
Net balance sheet exposure	**117,910,867**	**375,516,320**	**(254,185,920)**	**(3.419.533)**

29. FINANCIAL INSTRUMENTS (continued)

December 31st, 2016	**Value**	**RON**	**EUR**	**USD**
Monetary assets				
Cash and cash equivalents	933,661,193	893,637,035	40,019,176	4,983
Other financial assets	135,090,000	135,090,000	-	-
Receivables	861,746,642	818,493,527	43,253,115	-
Gross exposure	**1,930,497,835**	**1,847,220,562**	**83,272,290**	**4,983**
Monetary liabilities				
Asset providers	882,559,409	801,770,284	80,789,125	-
Loans	640,134,730	200,000,000	428,797,572	11,337,158
Gross exposure	**1,522,694,139**	**1,001,770,284**	**509,586,697**	**11,337,158**
Net balance sheet exposure	**407,803,696**	**845,450,278**	**(426,314,407)**	**(11,332,175)**

Trade and other receivables, suppliers and other liabilities, except suppliers of non-current assets are only denominated in RON.

The following significant exchange rates were used:

	Average exchange rate		**Exchange rate as of**	
	2017	**2016**	**December 31st, 2017**	**December 31st, 2016**
RON/ EURO	4.5682	4.4908	4.6597	4.5411
RON/ USD	4.0524	4.0592	3.8915	4.3033

Sensitivity analysis of exchange rate risk

A 10% appreciation of the RON against the following currencies as of December 31st, 2017 and December 31st, 2016 would have increased the gross profit by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit 2017	**Profit 2016**
EUR	25,418,592	42,631,441
USD	341,953	1,133,218
JPY	-	-
Total	**25,760,545**	**43,764,658**

A 10% depreciation of the RON against the following currencies as of December 31st, 2017 and December 31st, 2016 would have had the equal but opposite effect on the above currencies to the amounts shown above, assuming that all other variables remain constant.

	Loss 2017	**Loss 2016**
EUR	(25,418,592)	(42,631,441)
USD	(341,953)	(1,133,218)
JPY	-	-
Total	**(25,760,545)**	**(43,764,658)**

29. FINANCIAL INSTRUMENTS (continued)

Credit risk

The credit risk is the risk in which the Company bears a financial loss following the non-fulfilment of contractual obligations by a customer or counterparty to a financial instrument. This risk results mainly from trade receivables and the cash and cash equivalents.

The treatment of counterparty risk is based on internal and external factors of success of the Company. The external factors of success – which have an effect upon the systematic reduction of the risk, are: decentralizing the energy sector in which the production, transmission, distribution and supply are separate activities and the customer interface is represented by the supplier, the electricity trading on the Romanian market on two market segments: the regulated market and the competitive market. The internal factors of success in the treatment of counterparty risk include: diversifying the client portfolio and diversifying the number of services on the electricity market.

Financial assets that may submit the Company to the risk of collection are mainly the trade receivables and the cash and cash equivalents. The company has enforced a series of policies that ensure that the sale of services is performed towards the customers with an appropriate collection by including in their commercial contracts of their obligation to provide financial guarantees. The value of receivables, net of the adjustments for value losses, represents the maximum amount exposed at the risk of collection.

The risk of collection related to such receivables is limited, as these amounts are mainly owed by the state-owned companies.

The cash is placed in financial institutions, which are considered as having minimal risk. The deposits are placed with Banca Comeciala Romana, BRD – Groupe Societe Generale, Credit Europe Bank, Garanti Bank, Alpha Bank, Banca Transilvania, Exim Bank, ING Bank and CITI Bank.

At the date of reporting, the maximum exposure to the risk of collection was:

	December 31st, 2017	December 31st, 2016
Financial Assets		
Net trade receivables	724,176,710	764,760,133
Other net receivables	35,759,726	87,211,550
VAT to be recovered	47,005,991	28,432,828
Cash and cash equivalents	520,746,500	933,661,193
Other financial assets	-	135,090,000
Total	**1,327,688,927**	**1,949,155,704**

The situation of receivables' seniority on the date of drafting the financial position report was:

	Gross value December 31st, 2017	Provision December 31st, 2017	Gross value December 31st, 2016	Provision December 31st, 2016
Not due	557,134,751	1,268,176	639,151,930	4,568,505
Due date exceeded by 1 to 30 days	1,649	2,345	12,638,227	-
Due date exceeded by 31 to 90 days	2,780,207	2,853,477	5,519,233	-
Due date exceeded by 90 to 180 days	(322,245)	-	836,994	359,345
Due date exceeded by 180 to 270 days	58,688,984	1,618,294	27,274,940	7,725,361
Due date exceeded by 270 to 365 days	25,856,404	21,850,588	6,206,328	-
Due date exceeded by more than a year	202,687,679	95,057,839	173,710,511	87,924,820
Total	**846,827,429**	**122,650,719**	**865,338,164**	**100,578,031**

29. FINANCIAL INSTRUMENTS (continued)

The situation of other receivables' seniority on the date of drafting the financial position report was:

	Gross value December 31st, 2017	Provision December 31st, 2017	Gross value December 31st, 2016	Provision December 31st, 2016
Not due	69.822.161	2,525,896	64,477,570	323,854
Due date exceeded by 1 to 30 days	55,235	0	15,861	8,810
Due date exceeded by 31 to 90 days	63,007	57,063	56,503	30,487
Due date exceeded by 90 to 180 days	34,644,875	34,533,556	6,064,159	4,791,499
Due date exceeded by 180 to 270 days	2,954,880	2,925,623	2,317,148	669,292
Due date exceeded by 270 to 365 days	179,445	112,945	3,159,723	594,621
Due date exceeded by more than a year	66,439,763	40,136,225	101,200,666	83,661,517
Total	**174.159.366**	**80,291,308**	**177,291,630**	**90,080,080**

The Company's policy is to record impairment adjustments for value loss of 100% for clients in litigation, insolvency and bankruptcy, and 100% of trade receivables and other receivables not re paid in more than 180 days, except for outstanding claims generated by the support scheme. The Company also carries out an individual analysis for trade receivables and other uncollected receivables.

The highest impairment adjustments as of 31st December 2017, calculated for trade receivables and related penalties were recorded for SC Eco Energy SRL (24,736,066), SC Petprod SRL (23,539,650), Arelco Power (17,359,453), SC Total Electric Oltenia SA (14,185,577), Romenergy Industry (13,512,997), Elsaco Energy (9,293,972), RAAN (8,516,707), Elsaco Energy (7,177,167), CET Brasov (4,664,627), OPCOM (4,517,460). In order to recover the receivablesadjusted for impairment, the Company took the following measures: court action, enrollment at creditor table, requesting clarifications from ANAF (for VAT to be collected from Opcom), etc.

At the same time, the Company has registered an impairment adjustment of the amount of 44,442,936 due to the total liabilities paid to ANAF. (see Note 9).

The evolution of adjustments for impairment of receivables is presented as follows:

	December 31st, 2017	December 31st, 2016
Balance on the 1st of January	**100,578,031**	**87,986,497**
Recognition of adjustments for impairment	36,575,509	21,129,610
Reversal of adjustments for impairment	14,502,821	(8,538,076)
Balance at the end of the period	**122,650,719**	**100,578,031**

The evolution of impairment adjustments for other receivables is presented as follows:

	December 31st, 2017	December 31st, 2016
Balance on the 1st of January	**90,080,080**	**84,159,760**
Recognition of adjustments for impairment	38,009,855	7,501,245
Reversal of adjustments for impairment	47,798,627	(1,580,925)
Balance at the end of the period	**80,291,308**	**90,080,080**

Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulties in fulfilling the obligations associated with financial liabilities that are settled in cash or by another financial asset's transfer.

A prudent policy regarding liquidity risk management implies maintaining sufficient cash and cash equivalents and the

availability of funding through adequate credit facilities.

29. FINANCIAL INSTRUMENTS (continued)

	December 31st, 2017	December 31st, 2016
Assets		
Monetary assets in RON	1,218,732,263	1,847,220,562
Monetary assets in foreign currency	120,059,006	83,277,273
	1,338,791,269	**1,930,497,835**
Liabilities		
Monetary liabilities in RON	(843,210,474)	(1,001,770,284)
Monetary liabilities in foreign currency	(377,664,459)	(520,923,855)
	(1,220,874,933)	**(1,522,694,139)**
Net monetary position in RON	**375,521,789**	**845,450,278**
Net monetary position in foreign currency	**(257,605,453)**	**(437,646,582)**

The Company's policy on liquidity is to maintain sufficient liquid resources to meet the obligations as they mature.

29. FINANCIAL INSTRUMENTS (continued)

The following table illustrates the contractual maturities of financial liabilities, including interest payments:

December 31st, 2017	Net value	Contractual value	<12 months	1 – 2 years	2 – 5 years	> 5 years
Financial liabilities						
Suppliers and other liabilities	(699,936,819)	(699,936,819)	(686,485,795)	(12,613,029)	(837,995)	
Other tax and social security liabilities	(8,688,192)	(8,688,192)	(8,688,192)	-	-	
Loans	(512,249,922)	(1,271,507,524)	(317,063,988)	(51,449,375)	(68,912,530)	(74,824,029)
Total	**(1,220,874,933)**	**(1,980,132,535)**	**(1,012,237,975)**	**(64,062,404)**	**(69,750,525)**	**(74,824,029)**

December 31st, 2016	Net value	Contractual value	<12 months	1 – 2 years	2 – 5 years	> 5 years
Financial liabilities						
Suppliers and other liabilities	(873,948,200)	(873,948,200)	(873,948,200)	-	-	-
Other tax and social security liabilities	(8,611,209)	(8,611,209)	(8,611,209)	-	-	-
Loans	(640,134,730)	(1,622,599,794)	(138,204,894)	(311,711,992)	(95,401,520)	(94,816,486)
Total	**(1,522,694,139)**	**(2,505,159,203)**	**(1,020,764,303)**	**(311,711,992)**	**(95,401,520)**	**(94,816,486)**

29. FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments

The fair value is the amount at which the financial instrument can be exchanged in current transactions by willing parties in an arm's length transaction, other than determined through liquidation or forced sale. The fair values are obtained from quoted market prices or through cash flows models, as appropriate. As of December 31st, 2017 and December 31st, 2016, management believes that the fair values of cash and cash equivalents, trade and other receivables, trade payables, loans and other short-term liabilities approximates their carrying value. The carrying amount of the loan is the depreciated cost.

December 31st, 2017	**Book value**	**Fair value**	**Level**
Financial assets			
Net trade receivables	724,176,710	724,176,710	Level 1
Other net receivables	46,862,068	46,862,068	Level 1
VAT to be recovered	47,005,991	47,005,991	Level 1
Cash and cash equivalents	520,746,500	520,746,500	Level 1
Other financial assets	-	-	Level 1
	1,338,791,269	**1,338,791,269**	

December 31st, 2017	**Book value**	**Fair value**	**Level**
Non-current financial liabilities			
Loans, less bonds	195,185,934	195,185,934	Level 1
Bonds	-		Level 1
	195,185,934	**195,185,934**	
Current financial liabilities			
Trade payables and suppliers of non-current assets	699,936,819	699,936,819	Level 1
Loans	117,063,988	117,063,988	Level 2
Bonds	200,000,000	200,000,000	Level 1
Liabilities towards employees and other liabilities	8,688,192	8,688,192	Level 1
	1,025,688,999	**1,025,688,999**	

December 31st, 2016	**Book value**	**Fair value**	**Level**
Financial assets			
Trade receivables	764,760,133	764,760,133	Level 1
Other net receivables	87,211,550	87,211,550	Level 1
Cash and cash equivalents	933,661,193	933,661,193	Level 1
Non-reimbursable funds to be received	135,090,000	135,090,000	Level 1
	1,951,132,524	**1,951,132,524**	

December 31st, 2016	**Book value**	**Fair value**	**Level**
Non-current financial liabilities			
Loans, less bonds	301,929,798	440,134,730	Level 1
Bonds	200,000,000	200,000,000	Level 1
	501,929,798	**640,134,730**	
Current financial liabilities			
Trade payables and suppliers of non-current assets	873,948,200	776,167,704	Level 1
Loans	138,204,932	167,362,306	Level 2
Liabilities towards employees and other liabilities	8,611,209	6,763,363	Level 1
	1,020,764,341	**950,293,373**	

29. FINANCIAL INSTRUMENTS (continued)

Categories of financial assets

	December 31st, 2017	December 31st, 2016
Financial assets		
Cash and bank balances	520,746,500	1,068,751,193
Receivables	818.044.769	861,746,642
Financial liabilities		
Depreciated cost	1,220,874,933	1,522,694,139

Personnel risk and the salary scheme

As of December 31st, 2017, the average age of the Company's personnel is quite high. It is likely that in the nearest future, the Company will face a lack of personnel due to natural causes.

The Company could also face the risk that highly qualified employees leave for private companies which may offer more attractive salary packages than those offered by the Company.

The salary policy imposed by the State on companies in which it is the majority shareholder may lead to a major fluctuation within the specialized work force.

Capital risk management

The Company's policy is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to sustain the future business development.

Debt ratio indicator

	December 31st, 2017	December 31st, 2016
Short and long-term loans	512,249,922	640,134,930
Cash and bank balances	(520,746,500)	(933,661,193)
Other financial assets	-	(135,090,000)
	(8,496,578)	**(428,616,263)**
Shareholders' equity	2.,717,146,656	3,107,714,414
Debt ratio	-	-

30. FEES CHARGED BY EACH STATUTORY AUDITOR OR AUDIT FIRM

The total fees charged by each statutory auditor or audit firm for the statutory audit of the annual financial statements and the total fees charged by each statutory auditor or audit firm for other assurance services, for tax consultancy services and for non-audit services according to Art. 38 of Annex no. 1 to the Order no. 2844/2016 of the Ministry of Public Finances, as subsequently amended and supplemented, related to the year 2017, are as follows:

- **SC Deloitte Audit SRL -** Contract no. C210/30.10.2017 – audit services for the stand-alone and consolidated financial statements, issuance of the report on the conformity of the Directorate's Report with the stand-alone and consolidated financial statements, audit services regarding the fulfillment of the financial conditions specified in the loan agreements concluded with Commercial Banks/International Financial Institutions, in bond issuance contracts, audit report in compliance with Art. 113 letter G paragraph (6) of Regulation no. 1/2006 issued by the National Securities Commission – fees for 2017 – 200,000, to which VAT is added;
- **SC PKF Finconta SRL –** Contract no. C75/11.04.2016 – tax consultancy services – fees for 2017 – 36,700, to which VAT is added.

- **SC Econsulting SRL –** Contract no. C266/03.12.2015 – audit services for the project called "Studies regarding the new 400 kV OHL d.c between the Smardan and Gutinas substations", financed via European Funds within the TEN-E program for the period April 1st, 2011 - January 27th, 2017 - fees for 2017 - 2,569;
- **SC Deloitte Audit SRL –** Contract no. C166/04.09.2017 – Independent report for limited assurance of information included in current reports drafted by the company as per provisions of Law no. 297/2004 and Regulation no. 1/2006 - fees for 2017 – 4,500, to which VAT is added;

31. SUBSEQUENT EVENTS

Acceptance of mandate for interim member of the Supervisory Board

According to the Decision no 1 of Ordinary General Shareholders'Meeting from January 9, 2018, Mr. Constantin DUMITRU was appointed as a temporary member of the Supervisory Board, with a term of office until March 30, 2018.
The appointment of Mr. Constantin DUMITRU became effective starting with January 15, 2018, the date of signing before the public notary of the statement of acceptance of the mandate as an interim member of the Supervisory Board of the National Power Grid Company "Transelectrica" S.A.

Extension of the directorate mandate

In the meeting on January 15th, 2018, the Supervisory Board decided to extend through an addendum, the Mandate Contract of the interim members of the Directorate for a period of 2 months, respectively until March 16th, 2018. Therefore, the composition of the Directorate is as follows:
1. Georgeta - Corina POPESCU 2. Andreea - Georgiana FLOREA 3. Dan - Valeriu ARDELEAN 4. Mircea - Toma MODRAN 5. Florin - Cristian TĂTARU.

Grant approval in the amount of 27,085,000 euro

On January 25, 2018, the European Commission approved a grant of € 27,085,000 for the construction of the Cernavoda-Stalpu 400 kVpower line. The Cernavodă - Stâlpu airline will contribute to increasing interconnection capacity between Romania and Bulgaria and to the integration of wind energy in the Dobrogea area.
The Cernavodă-Stâlpu 400 kV line will be about 160 km long and for its commissioning it is necessary to build the 400 kV Stâlpu station and to expand the Cernavoda and Gura Ialomiţei stations. According to the 10-year Development Plan of CNTEE Transelectrica SA, 400kV Cernavoda-Stâlpu OHL will be completed in 2020.
The Cernavoda-Stalpu Line Project, part of the Black Sea Corridor Cluster, is one of the six major investment objectives of the National Power Grid Company Transelectrica SA, which is on the third list of projects of common interest (PCI) on energy infrastructure adopted in November 2017 by the European Commission. The total value of the six investments is about one billion lei. All of these projects contribute to the achievement of the 400kV national ring, an objective included in the governance program, which leads to an increase in the operational safety of NPSs and the achievement of an economical operating regime for the PTGs.

Loans for current activity

Transelectrica signed the credit contract no. C55 / 01.03.2018 with Raiffeisen Bank for a period of 12 months for the financing of the high efficiency cogeneration bonus scheme, in the form of an overdraft facility amounting to 100,000,000, at an interest rate calculated according to the refereance rate ROBOR 1M, plus a negative margin of 0.35%. If the reference rate is less than 0.35%, the interest rate applied is 0%. This was guaranteed by:

- Mortgage on the bank account opened at the bank
- Mortgage on the receivables resulting from the High Efficiency Contribution Contribution Agreements concluded with CES Sale S.A., E.ON Energie Romania S.A .

Appointment of interim Directoratw Members

As the term of office of the current members of the Directorate ceases on March 16, 2018, the Board of Supervisors, as of March 17, 2018, appointed the following persons as interim members of the Board of Directors as of March 17, 2018:
1. Georgeta – Corina POPESCU

2. Andreea – Georgiana FLOREA
3. Dan – Valeriu ARDELEAN
4. Florin - Cristian TĂTARU

The mandate is granted for a period of 4 months with the possibility of extending the mandate, for solid reasons, for further two months. The term of office shall not exceed the date of finalization of the selection procedure of the members of the Directorate of the National Power Grid Company "Transelectrica" SA in the conditions of art. 642 of G.E.O. no. 109/2011 if the procedure is completed within this interval. In accordance with Art. 18 par. (4) of the Constitutive Act of the National Power Grid Company "Transelectrica" -SA, the Supervisory Board elects as the Chairman of the Executive Board, alternatively Chief Executive Officer or Chief Executive Officer - "CEO" - of the Company) of the National Company of Power Transmission "Transelectrica" SA, starting with March 17, 2018, Ms Georgeta - Corina POPESCU. The appointment of the above-mentioned Directors will become effective on the date of signing before the public notary of the declaration of acceptance of the mandate of the Director of the National Power Grid Company "Transelectrica" SA.

Mandate Acceptance – Imterim Directorate Members

The interim members of the Executive Board, appointed on March 14, 2018 by the Supervisory Board, signed the declaration of acceptance of the mandates on March 15, 2018, their appointment becoming effective as of March 17, 2018, according to the declaration of acceptance of the mandates .

The accompanying consolidated financial statements were approved by the management on March 26, 2018 and signed on its behalf by:

Directorate

Georgeta - Corina	**Andreea Georgiana**	**Dan - Valeriu**	**Florin - Cristian**
POPESCU	**FLOREA**	**ARDELEAN**	**TATARU**
Chairman	**Member**	**Member**	**Member**

Cristina STOIAN
Economics and Financial Strategy Department
Director

Cristiana ZIRNOVAN
Budgeting and Management Reporting Department

CNTEE Transelectrica SA
Two-Tier Company

Consolidated Financial Statements
on the date and for the financial year concluded on December 31st, 2017

Drafted according to the
International Financial Reporting Standards
with subsequent amendments and additions

(free translation)

	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	**5**	3,085,762	3,254,345
Intangible assets	**6**	15,612	14,775
Other investments		32,636	32,636
Long-term receivables	**7**	-	9,775
Total non-current assets		**3,134,010**	**3,311,531**
Current assets			
Inventories	**8**	50,106	45,475
Trade and other receivables	**9**	825,464	864,332
Other financial assets	**10**	-	135,090
Cash and cash equivalents	**11**	553,875	960,489
Total current assets		**1,429,445**	**2,005,386**
Total assets		**4,563,455**	**5,316,917**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		733,031	733,031
Share premium		49,843	49,843
Legal reserves		116,552	116,552
Other reserves		57,627	57,627
Revaluation reserves		408,899	458,184
Retained earnings		1,369,052	1,714,462
Equity attributable to the owners of the Group	**12**	**2,735,004**	**3,129,699**
Non-controlling interests		4,065	5,484
Total equity		**2,739,069**	**3,135,183**
Non-current liabilities			
Deferred income	**13**	412,866	433,692
Borrowings	**14**	195,186	501,930
Deferred tax liability		27,263	32,565
Employee benefits obligations	**15**	62,513	58,050
Total non-current liabilities		**697,828**	**1,026,237**

	Note	31 December 2017	31 December 2016
Current liabilities			
Trade and other liabilities	**16**	693,349	877,058
Provisions	**17**	42,921	55,274
Other tax and social security liabilities	**20**	11,225	12,291
Borrowings	**14**	338,183	155,548
Deferred income	**13**	40,881	38,025
Income tax payable		-	17,301
Total current liabilities		**1,126,558**	**1,155,497**
Total liabilities		**1,824,386**	**2,181,734**
Total shareholders' equity and liabilities		**4,563,455**	**5,316,917**

The accompanying consolidated financial statements were approved by the management on March 28th, 2018 and signed on its behalf by:

Directorate,

Georgeta - Corina POPESCU	**Andreea Georgiana FLOREA**	**Dan - Valeriu ARDELEAN**	**Florin - Cristian TATARU**
Chairman	Member	Member	Member

Cristina STOIAN
Economics and Financial Strategy Department Director

Cristiana ZIRNOVAN
Budgeting and Management Reporting Department Manager

	Note	2017	2016
Revenues			
Transmission revenues		1,054,629	1,146,257
System services revenues		650,747	716,340
Balancing market revenues		1,304,613	814,080
Other revenues		58,015	61,411
Total revenues	**21**	**3,068,004**	**2,738,088**
Operating expenses			
System operating expenses	**22**	(257,917)	(230,757)
Balancing market expenses	**22**	(1,304,613)	(814,080)
Technological system services expenses	**22**	(661,323)	(561,027)
Depreciation and amortization		(321,027)	(331,433)
Personnel expenses		(237,262)	(271,938)
Repairs and maintenance expenses		(52,383)	(28,913)
Consumables		(22,206)	(27,741)
Fines and penalties National Agency for Fiscal Administration control		(99,891)	-
Other operating expenses	**23**	(122,963)	(130,483)
Total operating expenses		**(3,079,586)**	**(2,396,372)**
Operating result		**(11,582)**	**341,716**
Financial revenues		17,229	28,676
Financial expenses		(40,854)	(48,520)
Net financial result	**24**	**(23,625)**	**(19,844)**
Result before income tax		**(35,207)**	**321,872**
Income tax expense	**18**	(19,581)	(62,878)
Result for the year from continuing operations		**(54,788)**	**258,994**
RESULT FOR THE YEAR			
Attributable to:			
Owners of the Group		(53,370)	265,155
Non-controlling interests		(1,419)	(6,161)
Basic and diluted lost/earnings per share (lei/share)	**19**	**(0.75)**	**3.53**

The accompanying consolidated financial statements were approved by the management on March 28th, 2018 and signed on its behalf by:

Directorate,

Georgeta - Corina POPESCU	**Andreea Georgiana FLOREA**	**Dan - Valeriu ARDELEAN**	**Florin - Cristian TATARU**
Chairman	Member	Member	Member

Cristina STOIAN
Economics and Financial Strategy Department Director

Cristiana ZIRNOVAN
Budgeting and Management Reporting Department Manager

	Note	2017	2016
Result of the financial year		**(54,788)**	**258,994**
Other comprehensive income			
Elements which will not be reclassified in the profit and loss account, out of which:			
- Effect of taxation on revaluation reserve			
- Surplus from the revaluation of tangible assets			
- Actuarial losses on defined benefit plans	**14**	(5,035)	(3,318)
Other comprehensive income		**(5,035)**	**(3,318)**
Total comprehensive income for the year		**(59,823)**	**255,676**
Attributable to:			
Owners of the Group		(53,370)	265,155
Non-controlling interests		(1,419)	(6,161)

The accompanying consolidated financial statements were approved by the management on March 28th, 2018 and signed on its behalf by:

Directorate,

Georgeta - Corina POPESCU	**Andreea Georgiana FLOREA**	**Dan - Valeriu ARDELEAN**	**Florin - Cristian TATARU**
Chairman	Member	Member	Member

Cristina STOIAN
Economics and Financial Strategy Department Director

Cristiana ZIRNOVAN
Budgeting and Management Reporting Department Manager

CNTEE TRANSELECTRICA SA
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts are in "thousand LEI", unless stated otherwise)

	Share Capital	Share premium	Legal reserve	Revaluation reserve	Other reserves	Retained earnings	Attributable to the owners of the group	Non-controlling interests	Total
Balance on January 1st, 2017	**733,031**	**49,843**	**116,552**	**458,184**	**57,627**	**1,714,462**	**3,129,699**	**5,484**	**3,135,183**
Comprehensive income for the year									
Result for the year	-	-	-	-	-	(54,788)	(54,788)	-	**(54,**788)
Other comprehensive income	-	-	-	-	-	-	-	-	-
Defined benefit plan actuarial loss	-	-	-	-	-	(5,035)	(5,035)	-	**(5,035)**
Surplus from revaluation of tangible assets	-	-	-	-	-	-	-	-	-
Deferred tax liability generated by revaluation reserve	-	-	-	-	-	-	-	-	-
Total other comprehensive income	**-**	**-**	**-**	**-**	**-**	**(5,035)**	**(5,035)**	**-**	**(5,035)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**(59,823)**	**(59,823)**	**-**	**(59,823)**
Legal reserve	-	-	-	-	-	-	-	-	-
Transfer of revaluation reserve to retained earnings	-	-	-	(49,285)	-	49,285	-	-	-
Fixed assets obtained through public funds	-	-	-	-	-	-	-	-	-
Adjustments of fixed assets obtained through public funds	-	-	-	-	-	-	-	-	-
Adjustment for inflation of share capital to cover losses resulted from applying IAS 29	-	-	-	-	-	-	-	-	-
Non-controlling interests arising from decrease of ownership in SMART SA	-	-	-	-	-	1,419	1,419	(1,419)	-
Total other elements	**-**	**-**	**-**	(49,285)	**-**	**48,108**	**1,419**	**(1,419)**	**-**
Contributions by and distributions to owners									
Land derecognision	-	-	-	-	-	(50)	(50)	-	**(50)**
Dividends distributed from the profit of 2016	-	-	-	-	-	(165,445)	(165,445)	-	**(165,445)**
Special dividends according to GO 29/2017	-	-	-	-	-	(170,796)	(170,796)	-	**(170,796)**
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	(336,291)	(336,291)	**-**	**(336,291)**
Balance as at 31 December 2017	**733,031**	**49,843**	**116,552**	**408,899**	**57,627**	**1,369,052**	**2,735,004**	**4,065**	**2,739,069**

The accompanying consolidated financial statements were approved by the management on March 28th, 2018 and signed on its behalf by:

Directorate,

Georgeta - Corina POPESCU	**Andreea Georgiana FLOREA**	**Dan – Valeriu ARDELEAN**	**Florin - Cristian TATARU**		
				Cristina STOIAN	**Cristiana ZIRNOVAN**
Chairman	Member	Member	Member	Economics and Financial Strategy Department Director	Budgeting and Management Reporting Department Manager

The accompanying notes form an integral part of these consolidated financial statements.
The above translation of the consolidated IFRS EU financial statements of CN Transelectrica SA is provided as a free translation from Romanian which is the official and binding version.

CNTEE TRANSELECTRICA SA
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts are in "thousand LEI", unless stated otherwise)

	Share Capital	Share premium	Legal reserve	Revaluation reserve	Other reserves	Retained earnings	Attributable to the owners of the group	Non-controlling interests	Total
Balance on January 1st2016	**733,031**	**49,843**	**99,599**	**512,781**	**56,368**	**1,608,506**	**3,060,128**	**11,645**	**3,071,773**
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	**258,994**	**258,994**	-	**258,994**
Other comprehensive income	-	-	-	-	-	-	-	-	-
Defined benefit plan actuarial loss	-	-	-	-	-	**(3,318)**	**(3,318)**	-	**(3,318)**
Surplus from revaluation of tangible assets	-	-	-	-	-	-	-	-	-
Deferred tax liability generated by revaluation reserve	-	-	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	**(3,318)**	**(3,318)**	-	**(3,318)**
Total comprehensive income for the year	-	-	-	-	-	**255,676**	**255,676**	-	**255,676**
Legal reserve	-	-	**16,953**	-	-	**(16,953)**	-	-	-
Transfer of revaluation reserve to retained earnings	-	-	-	**(54,597)**	-	**54,597**	-	-	-
Fixed assets obtained through public funds	-	-	-	-	-	-	-	-	-
Adjustments of fixed assets obtained through	-	-	-	-	-	-	-	-	-
Adjustment for inflation of share capital to cover losses resulted from applying IAS 29	-	-	-	-	-	-	-	-	-
Non-controlling interests arising from decrease of ownership in SMART SA	-	-	-	-	-	**6,161**	**6,161**	**(6,161)**	-
Other elements	-	-	-	-	-	**743**	**743**	-	**743**
Total other elements	-	-	**16,953**	**(54,597)**	-	**44,548**	**6,904**	**(6,161)**	**743**
Contributions by and distributions to owners									
Grants related with property assets	-	-	-	-	**1,259**	-	**1,259**	-	**1,259**
Dividends distributed	-	-	-	-	-	**(194,268)**	**(194,268)**	-	**(194,268)**
Total transactions with owners	-	-	-	-	**1,259**	**(194,268)**	**(194,268)**	-	**(194,268)**
Balance as at 31 December 2016	**733,031**	**49,843**	**116,552**	**458,184**	**57,627**	**1,714,462**	**3,129,699**	**5,484**	**3,135,183**

The accompanying consolidated financial statements were approved by the management on March 28th, 2018 and signed on its behalf by:

Directorate,

Georgeta - Corina POPESCU	**Andreea Georgiana FLOREA**		**Dan – Valeriu ARDELEAN**	**Florin - Cristian TATARU**		
					Cristina STOIAN	**Cristiana ZIRNOVAN**
Chairman	Member	Member	Member	Member	Economics and Financial Strategy Division Director	Budgeting and reporting Department Manager

The accompanying notes form an integral part of these consolidated financial statements.
The above translation of the consolidated IFRS EU financial statements of CN Transelectrica SA is provided as a free translation from Romanian which is the official and binding version.

Cash flows from operating activities	**2017**	**2016**
Result for the year	**(54,788)**	**258,994**
Adjustments for:		
Income tax expense	19,581	62,878
Depreciation expenses	321,027	331,433
Expenses on provisions for impairment of trade receivables and other receivables	74,586	32,739
Losses from various debtors	45,081	-
Income from reversal of value losses for trade receivables and other receivables	(61,874)	(11,324)
Net expenses for adjustments for inventory impairment	1,612	-
Loss from disposal of intangible assets, net	838	273
Financial expenses regarding the adjustments for impairment of fixed assets	2,867	411
Value adjustments for property, plant and equipment	382	18,805
Value adjustments for provisions	(12,884)	19,100
Interest expense, interest income and unrealized foreign exchange gains	21,484	19,844
	357,913	**733,152**
Changes in:		
Trade and other receivables	(6,243)	308
Inventories	(10,859)	(156,359)
Trade and other liabilities	(80,663)	51,861
Other tax and social security liabilities	(1,066)	3,597
Liabilities paid according to NAFA tax decision	(99,891)	-
Deferred income	(17,970)	(29,640)
Cash generated from operating activities	**141,123**	**602,919**
Interest paid	(22,246)	(25,390)
Income tax paid	(8,861)	(66,538)
Net cash from operating activities	**107,015**	**510,992**
Cash flows used in investing activities		
Purchase of property, plant and equipment and of intangible assets	(191,801)	(142,730)
Other financial assets	135,090	(65,005)
Dividends received	-	1,219
Interest received	5,991	5,880
Cashing from the sale of property, plant and equipment	26	-
Net cash used in investing activities	**(50,694)**	**(200,636)**
Cash flows used in financing activities		
Proceeds from long term borrowings		
Repayments of long term borrowings	(134,372)	(162,486)
Repayments of short term borrowings	3,776	4,133
Dividends paid	(165,541)	(194,342)
Special dividends acordingly with GD 29/2017	(169,799)	-
Net cash used in financing activities	**(465,935)**	**(352,695)**

	2017	2016
Cash flows from operating activities		
Net increase in cash and cash equivalents	(465,935)	(42,339)
Cash and cash equivalents as at 1 January (see Note 11)	**960,489**	**1,002,829**
Cash and cash equivalents at the end of the period (see Note 11)	**553,875**	**960,489**

The accompanying consolidated financial statements were approved by the management on March 28th, 2018 and signed on its behalf by:

Directorate

Georgeta - Corina POPESCU	**Andreea Georgiana FLOREA**	**Dan - Valeriu ARDELEAN**	**Florin - Cristian TATARU**
Chairman	**Member**	**Member**	**Member**

Cristina STOIAN
Economics and Financial Strategy Department Director

Cristiana ZIRNOVAN
Budgeting and Management Reporting Department

1. DESCRIPTION OF ACTIVITY AND GENERAL INFORMATION

The main activity of CNTEE Transelectrica SA ("the Company") and its subsidiaries (collectively with the Company, "the Group") consists of: the electricity transmission services and of the system service, operator of the balancing market, administrator of the bonus type support scheme, other related activities. These activities take place according to the provisions of the business license no. 161/2000 issued by ANRE, updated through the Decision ANRE no. 270/February 4th, 2015, of the general Conditions associated to the license approved through the ANRE Order no. 104/2014 and of the final certification of the Company as a transport operator and system of the National Electroenergetic System according to the model of separating the property ("ownership unbundling").

The registered headquarters is located in: 33 General Gheorghe Magheru Blvd., Bucharest, district 1. Currently, the activity of the Company's executive takes place at the place of operations in 2-4 Olteni Street, district 3, Bucharest.

The Group's consolidated financial statements as at December 31, 2017 prepared in accordance with the International Financial Reporting Standards adopted by the European Union are available at the Company's working point located at Str. Olteni nr. 2 – 4, sector 3, Bucharest.

Starting with August 2006, the Company's shares are traded on the Bucharest Stock Exchange, under the symbol TEL.

According to the Decision of the Extraordinary General Assembly of Shareholders from July 18th, 2012, the Company switched from one-tier to two-tier Company in order to perform a clear separation of the management activities from the controlling activities. Thus, the Company is managed by a Directorate under the supervision of a Board of Supervisors.

Establishment of the Company

In accordance with Government Decision ("GD") no. 627 on the reorganization of the National Power Company - SA (the "Predecessor Entity") issued on July 31st, 2000 by the Government of Romania, the National Power Company was split into four newly created legal entities ("Successor Entities"). The sole shareholder of the Successor Entities was the Romanian State, through the Ministry of Economy ("ME"). CNTEE Transelectrica SA was established as a result of this reorganization as a joint-stock company which has as main activity the electricity transmission, dispatching of electricity, organization and management of the electricity market.

As described in Note 12, as of December 31st, 2017, the shareholders of the Company are: the Romanian State via the Ministry of Economy, Commerce and Tourism, which holds 43,020,309 shares (58.69%), DEDEMAN SRL with 4,192,363 (5.72%), other legal entity shareholders which hold 20,689,339 shares (28.22%) and other natural person shareholders which hold 5,401,131 shares (7.37%).

According to GEO no. 86/17.12.2014 "on the establishment of reorganization measures at the level of the central public administration and to amend and supplement certain legal acts", the Ministry of Economy, Commerce and Tourism exercises the rights, as of December 17th, 2014, and fulfills the obligations arising from its capacity as State shareholder in the National Power Grid Company "Transelectrica" - S.A.

GD no. 47/2013 on the organization and operation of the Ministry of Economy was amended and supplemented accordingly by GD no. 41/2015.

To enforce the provisions of GEO no. 86/2014, on February 20, 2015, Depozitarul Central SA recorded the transfer of 43,020,309 shares (representing 58.68% of the share capital) issued by CNTEE Transelectrica SA, from the account of the Romanian State represented by the Government through the General Secretariat of the Government into the account of the Romanian State through the Ministry of Ministry of Economy, Commerce and Tourism.

Based on the provisions of art. 2 of GEO no. 55/November 19th, 2015 on establishing reorganization measures in the central public administration and amending certain legal acts, the Ministry of Economy, Commerce and Relations with the Business Environment was established, by reorganizing and taking over the activities of the Ministry of Economy, Commerce and Tourism, which was closed, and by taking over the activity and structures of small and medium-sized enterprises from the Ministry of Energy, Small and Medium-Sized Enterprises and the Business Environment.

The mission of the Group

The mission of the Group is to ensure safety and security in the functioning of the National Power System (NPS) by complying with the standards and the performance stipulated by the technical regulations in force, providing a public service for all users of the electricity transmission grids, ensuring transparency, non-discrimination and fairness for all the market participants.

1. DESCRIPTION OF ACTIVITY AND GENERAL INFORMATION (continued)

Other information relating to the Group's activity

CNTEE Transelectrica SA became a member of the Union for the Coordination of Transmission of Electricity ("UCTE") in October 2004, and from November 2004 became a member of the European Electricity Systems Operators Association ("ETSO"). As of July 2009, ENTSO-E was created by joining ETSO, UCTE and other four European Transmission System Operators ("TSO") associations have been fully integrated into the European Network of Transmission System Operators for Electricity ("ENTSO-E"), joining 42 TSOs from 35 countries. The activity of ENTSO-E is regulated by the European legislation in force (Regulation 714/2009).

CNTEE Transelectrica SA is an affiliate member to the following international organizations:

- ENTSO – E - European Network of Transmission System Operators for Electricity
- CIGRE - International Council on Large Electric Systems
- LWA - Live Work Association;

The Group is responsible for the secure, reliable and efficient functioning of the NPS, by carrying out the provisions of Directive (EU) no. 54/2003, Art. 9.

On May 23, 2017, Moody's Investors Service's credit rating agency published its updated credit rating, assessing Transelectrica's current and future ability to meet its payment obligations to creditors.
The credit rating of Moody's Investors Service credit rating agency maintained the Company's rating at the level of the previous year, respectively Ba1.

Starting January 2017, the Company has signed a contract with Fitch Ratings International Credit Company.
On July 5, 2017, Fitch grants the Company a stable BBB rating, as a recognition of the Company's efforts to achieve operational excellence and a responsible approach to the business environment in which it operates. On Oct. 11, 2017, Fitch maintains the BBB rating, stable outlook, rating one step above the country's rating (BBB- / stable outlook) for the Company.

Legislative environment

The activity in the energy sector is regulated by the Romanian Energy Regulatory Authority ("ANRE"), an autonomous public institution whose object of activity is to design, approve and monitor the application of all the regulations mandatory at national level necessary for the efficient operation of the electricity, heat and gas sectors and markets, observing the competition, transparency and consumer protection rules.

ANRE has the following main responsibilities in the field of electricity and heat produced in cogeneration: to grant, suspend or revoke the permits and licenses, to set up and approve the methodologies and criteria for the calculation of tariffs and regulated prices, to approve tariffs and regulated prices, prepare framework contracts, approve commercial and technical regulations etc.

ANRE establishes the tariffs for electricity transmission and system services. Consequently, the decisions made by ANRE can have significant effects on the Company's activity.

The Company's operating activity has been carried out according to License no. 161/2000 for electricity transmission and provision of system services issued by ANRE, valid until 2025, revised by ANRE Decision no. 802/18.05.2016 and the General Conditions associated to the license approved by ANRE Order no. 104/2014, as subsequently amended and supplemented.

Taking into account that the Group's operations and revenues are regulated by ANRE, the most important risks arising from this aspect are:

- the regulatory framework is relatively new and constantly prone to changes, which may affect the Company's performances;
- ANRE decisions regarding future tariffs may affect the Company's activity;
- the volume risk, namely the decrease in the amount of tariffable energy that may adversely affect the Company's financial situation. In 2017, according to ANRE Decision no. 71/2017, a simulation of two-tier tariffs has been performed by inserting a tariff for grid capacity reservation (the tariff component – fixed – for power) additional to the tariff for the energy distributed in the grid (the tariff component – variable – for energy). The application of two-tier tariffs aims at better reflecting the costs of use of the electricity transmission grid (by applying the fixed tariff component), optimizing investments in the electricity transmission grid and protecting the revenues of the transmission operator through the stability offered by the fixed tariff component.

1. DESCRIPTION OF ACTIVITY AND GENERAL INFORMATION (continued)

Final certification of Transelectrica as TSO of the NPS, according to the ownership unbundling model

In accordance with the provisions of Law no. 123/2012 regarding electricity and natural gas, with the subsequent amendments, the Romanian Energy Regulatory Authority (ANRE) approved by Order no. 164/07.12.2015 the certification of the Company as transmission and system operator of the National Power System according to the ownership unbundling model.

The ownership unbundling model has become available to the Company based on Law no. 123/2012 regarding electricity and natural gas which transposes Directive 2009/72/EC.

ANRE Order no. 164/07.12.2015 accompanied by European Commission Approval no. C (2015) 7053 final/12.10.2015, as integral part of the Order, was published in Official Journal no. 908/08.12.2015 and together with the Approval Report thereof is communicated by ANRE to the European Commission.

This order enforces the provisions of the European Union and the national legislation regarding the certification of transmission and system operators.

The certification notification was sent to the European Union, which published it in the Official Journal of the EU of 08.01.2016, in accordance with Art. 10 paragraph (2) of Directive 2009/72/EC.

Tariffs for electricity transmission and system service

Electricity transmission is a general interest activity in the field of electricity, authorized and monitored by a public authority (public service), in the form of natural monopoly. The tariffs charged by the Company for transmission and system services are established and approved by ANRE (see Note 20).

Regulated assets base ("RAB")

The transmission tariff is set, among others, based on the regulated asset base. The regulated asset base includes the carrying amount of property, plant and equipment and intangible assets which correspond to the private patrimony of the Company and the carrying amount of the State's public patrimony assets that were financed through the Company's sources, recognized by ANRE and used in providing the electricity transmission service.

Assets resulting from additional investments made with the approval of the regulatory authority, due to exceptional circumstances as compared to the investment program initially approved at the beginning of the regulatory period are inserted in the RAB in the specific period if in the regulation period savings amounts were registered and only within the limits thereof, or will be included in the RAB at the beginning of the next regulatory period, by the amount remaining depreciated if a valuable saving was not made.

The current regulatory period lasts five years (July 1st, 2014 – June 30th, 2019), and comprises five tariff years (the tariff year begins on July 1st and lasts for 12 months). Thus, 2017 was the year of transition from the third tariff year to the fourth tariff year within the current regulatory period (the third tariff year ended June 30th, 2017, the fourth tariff year began July 1st, 2017).

The regulated return on assets in 2017 for the electricity transmission activity is 7.7%, a value determined ANRE for the current regulatory period.

Inclusion of Transelectrica in the local and international stock exchange indexes

Starting from 29.08.2006, CNTEE Transelectrica SA shares are traded on the regulated market managed by the BSE, in category I under the symbol TEL. The Transelectrica shares are part of the BET index [which reflects the evolution of the 10 most traded companies on the BSE Regulated Market, excluding financial investment companies (SIFs)], with a share of 2.21% as of December 31st, 2017 (December 31st, 2016: 4.11%), with a stock exchange capitalization of 1,799,592,136 as of December 31st, 2017 (December 31st, 2016: 2,140,451,746).

Transelectrica is also included in the local stock exchange indexes BET-XT, BET-NG, BET-XT-TR, BET Plus, BET-TR, BET-BK, ROTX and in the international indexes Dow Jones Wilshire Global Indexes (Dow Jones Wilshire Global Total Market Index SM; Dow Jones Wilshire Romania Index SM; Dow Jones Wilshire Electricity Index SM). Starting with January 5th, 2015, the Company was included in the Premium category of the regulated market managed by the BSE.

1. DESCRIPTION OF ACTIVITY AND GENERAL INFORMATION (continued)

Group's revenues

The main revenue generating activities for the Group are:

- Electricity transmission service;
- System services (the technical operational management of the NPS);
- Balancing market operator.

Electricity transmission service

The transmission service consists in ensuring the electricity transmission between two or more points of the power transmission grid ("PTG"), under conditions of efficiency and safety, whilst observing the applicable performance standards.

The Group ensures the non-discriminatory access to the transmission grid of all electricity market participants. The transmission activity is carried out through eight branches located in Bucharest, Bacau, Cluj, Craiova, Constanta, Pitesti, Sibiu and Timisoara.
The transmission service provided by Transelectrica consists in ensuring the technical conditions and maintaining the PTG parameters during the injection/extraction of energy in/from PTG.

System services

The Group's responsibility is to maintain the National Power System operating uninterruptedly under safe conditions while complying with the quality standards provided in the technical code of the electricity transmission grid. To this effect, the Group uses its own resources called functional system services and purchases technological system services from electricity producers.

The Company provides this service by using dispatch management systems under a tariff regulated and approved by ANRE, which is applied to the same base - electricity delivered to consumers - and includes:

tariff for system services, of which:

tariff for functional system services.

Technological system services are purchased from energy producers at the request of the Company pursuant to a procedure regulated by ANRE for maintaining the operational safety of the NPS as well as the quality of electricity transmitted at the parameters required by the applicable legislation. The Company re-invoices the entire amount of system services purchased from producers (except for the active energy component which covers the PTG losses) to electricity suppliers licensed by ANRE which are the end beneficiaries of such services.

The functional system services pertain to the dispatch services provided by CNTEE Transelectrica SA and consist of planning and operationally managing the NPS, as well as the other activities of CNTEE Transelectrica SA in order to balance production against consumption in real time, in order to safely cover the electricity consumption at minimum costs whilst maintaining the operational safety level of the NPS.

Balancing market operator

In accordance with the provisions of the Commercial Code of the Wholesale Electricity Market, the balancing market was introduced and started functioning in Romania in July 2005. The purpose of this market is to maintain the balance between production and consumption in real time, using resources offered in a competitive system.

CNTEE Transelectrica SA is the balancing market operator which, based on procedures and regulations approved by ANRE, must approve all the participants on the balancing market, collect, verify and process all the bids and perform the clearing procedures.

High-efficiency cogeneration

Starting with April 1st, 2011, the Company is the administrator of the support scheme for high-efficiency cogeneration. The purpose of this support scheme is to promote highly efficient systems cogenerating heat and power, with the advantage of a more environmentally friendly electricity production. It aims to provide easy access on the market for electricity produced in high-efficiency cogeneration plants via a cogeneration bonus granted if the total electricity and heat

DESCRIPTION OF ACTIVITY AND GENERAL INFORMATION (continued)

production costs generated by such cogeneration plants exceed the market prices of the two types of energy. The support scheme targets electricity and heat producers owning or operating high-efficiency power plants, so as to encourage new investments in cogeneration, as well as the refurbishment of existing facilities.
Government Decision no. 1215/2009 establishes the legal framework according to the European Union regulations necessary for implementing the bonus support scheme for promoting high-efficiency cogeneration based on the demand for thermal energy, in order to cover the difference between high-efficiency cogeneration production costs and sale prices. ANRE approved the reference bonus values per megawatt an hour ("MWh") of electricity produced and delivered in the grid from high-efficiency cogeneration plants. The beneficiaries of the scheme are the producers that meet certain criteria established by ANRE.
According to provisions of article 14 of Government Resolution no. 1215/2009, the Company is designated as being responsible for the administration of the support scheme. The main tasks of the Company as the administrator of the support scheme are to collect the contribution from the suppliers of the electricity consumers in a bank account distinct from the core activity and by the payment of the bonus to the producers of electricity and heat in high-efficiency cogeneration; to conclude contracts with the contribution collectors and with the producers that will be the beneficiaries of the scheme; to verify the total value of the contribution collected; to issue invoices to suppliers; to refund the contribution to the suppliers for the energy imported and produced in cogeneration in other member states; to monitor and report to ANRE the way of administration of the support scheme; to pay the bonus to energy producers beneficiaries of the scheme; to pay late penalties to the producers for not paying the bonus on the due date.

The Company acts as an agent of the State in collecting the cogeneration contribution on a monthly basis and paying the bonus on a monthly basis. Under such circumstances, the operations associated to the support scheme do no influence the income and expense accounts, except for the own administration costs recognized by ANRE to run the support scheme, which are self-invoiced.

On December 8th, 2016, by Government Decision no. 925, the amendment and supplement have been adopted for GD no. 1215/2009 on setting the necessary criteria and conditions to implement the support scheme for promoting the high efficiency cogeneration based on the effective heat demand. The main amendments refer to the following:

- to receive the bonus, produces are requested not to generate liabilities to the administrator of the support scheme or to conclude conventions for the settlement of liabilities and receivables;
- the over-compensation is recovered according to the national legislation and the legislation of the European Union in the field of State aid;
- the undue over-compensation/bonus remaining to be paid by producers, for which all the legal actions have been taken, will be recovered by including the amount in the cogeneration contribution, according to the methodology issued by ANRE;
- the ANRE decisions regarding the amount of the over-compensation and/or the undue bonus are mandatory for producers and are enforced for recovering the amount by issuing a decision by the scheme administrator in accordance with the legislation in the field of State aid;
- the financial closing of the support scheme is made in the first semester of 2024, according to the regulatory framework drawn up by ANRE.

Electricity markets price coupling mechanism

On November 19, 2014, the „4M Market Coupling" project became operational, which provides the connection of Day Ahead electricity markets (Day Ahead Market) in Romania, Hungary, The Czech Republic and Slovakia.

In terms of the internal regulatory framework,, the roles and responsibilities of the operators involved, i.e., the Company and SC OPCOM SA as well as the operations carried out within the market coupling processes are provided in the Regulation for the Organization and Operation of the Day-Ahead Electricity Market, approved by ANRE Order no. 82/2014 (the Regulation), by observing the price coupling mechanism of markets and amending certain legal acts that regulate the day-ahead electricity market.

The target model for the day ahead market, based on the principle of price coupling of regions (PCR - Price Coupling of Regions) uses a single algorithm to correlate bids and set the price.

If coupling is not possible on the 4M MC market, the TSOs in Romania, Hungary, the Czech Republic, and Slovakia will apply the fallback procedures, by which cross-border capacity is allocated.

Art. 138 of the Regulation provides that, during post-coupling, Transmission and System Operators (TSOs) act as agents that transfer the electricity resulting from the coupling algorithm as being transferred between two adjacent bidding zones.

DESCRIPTION OF ACTIVITY AND GENERAL INFORMATION (continued)

Within the price coupling mechanism of day-ahead markets, the electricity exchanges correlate, based on auctions, the day-ahead electricity trades depending on the interconnection capacity made available by TSOs through which it is implicitly allocated.

CNTEE Transelectrica SA, acting as TSO, transfers the electricity both in physical and commercial terms to the neighboring TSOs (MAVIR-Hungary) and manages the congestion income on the respective interconnection (Article 139 from ANRE Order no. 82/2014), while in relation to SC OPCOM SA it acts as Implicit Participant on the Day-Ahead Market.

As a Shipping Agent and Implicit Participant, the Company has the commercial task to settle the power traded between SC OPCOM SA and MAVIR.

Thus, within the price coupling mechanism of regional markets, the Company:

- fulfils the role of implicit participant on the DAM and acts as shipping agent;
- provides the interconnection capacity for the physical supply of electricity traded on the DAM, namely the transfer of power from one bidding zone to another through the interconnection lines, limited to the available transfer capacity of such lines.

Congestion income is divided on a monthly basis between transmission and system operators and foreign exchange differences are withheld or covered by TSOs, as the case may be.

The Company approved that the transactions related to the price coupling mechanism of regional markets will not influence the income and expense accounts, except for income from congestion management across interconnection lines, for income/expenses from foreign exchange differences and for expenses with bank fees resulting from clearing transactions carried out by the Company as shipping agent.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements ("financial statements") were drafted according to the Order of the Ministry of Public Finances no. 2844/2016 approving the Accounting arrangements pursuant to the International Financial Reporting Standards with subsequent amendments and additions ("OMFP no. 2844/2016"). Within the meaning of Order no. 2844/2016, the International Financial Reporting Standards mean the standards adopted according to the procedure provided by Regulation (EC) no. 1.606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards ("EU IFRS").

The Group applies International Financial Reporting Standards as endorsed by the European Union upon the preparation of the separate financial statements for 2016 in accordance with MoPFO no. 881/2012 as subsequently amended and supplemented.

Basis of assessment

The financial statements are prepared at historical cost, except for property, plant and equipment other than the ones in progress, which are assessed at revaluated value, while the liabilities related to cash settled share-based payment transactions are assessed at fair value.

Functional and presentation currency

The financial statements are presented in Romanian Lei ("LEI" or "RON") according to the applicable accounting regulations, which is the Group's functional currency.

Use of estimates and judgements

The preparation of consolidated financial statements in accordance with EU IFRS requires management to use professional judgment, estimates and assumptions that impact the application of accounting policies and the recognized value of assets, liabilities, income and expenses, assumptions regarding the fair value (see Note 4), commitments and contingencies (see Note 26), the recognition of non-refundable funds to be received (see Note 13), the provision for impairment of receivables (see Note 9), the liabilities related to cash settled share-based payment transaction (Note 28) and the liabilities for defined benefit plans (Note 15).

Actual results may differ from these estimates. Estimates and assumptions are revised periodically. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future impacted periods.

Information about assumptions and estimates due to significant uncertainties are included in the following notes:

Note 13 – the Company's management estimate related to the existence of a reasonable assurance that the conditions regarding non-refundable funds will be fulfilled and the funds will be received;

Note 15 – assessment of liabilities for defined benefit plans;

Note 26 – recognition and assessment of provisions, commitments and contingencies; key assumptions regarding the probability and magnitude of an outflow of resources;

Note 28 – assessment of liabilities related to cash settled share-based payment transactions.

Information regarding the critical professional judgement applied to the accounting policy regarding the service concession agreements is presented in the following paragraphs.

In 2004, the Group (operator) concluded a service concession agreement with the Ministry of Economy (grantor) according to which the Company has the right to use public patrimony assets which mainly include the electricity transmission grid and the land on which it is located, in exchange for providing electricity transmission services (see Note 3 (b)). Taking into consideration that the majority of the Company's shares are held by the State, the Company's management considers it to be a public-sector company and therefore out of the scope of IFRIC 12 "Service Concession Arrangements". With no other specific international financial reporting standard pertaining to service concession agreements, the Company considered whether IFRIC 12 should nevertheless be applied, based on the hierarchy set out in IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", which requires to first consider the requirements of other IFRSs dealing with similar issues.

2. BASIS OF PREPARATION (continued)

In determining if IFRIC 12 is applicable, the Group considered whether the following features of a public-private service concession agreement are to be applied to the concession agreement it had entered into with ME, as at the date at which IFRIC 12 is required to be adopted:

- The grantor controls or regulates what services the operator must provide within the infrastructure, to whom it must provide them, and at what price;
- The grantor controls - through ownership - the beneficial entitlement or otherwise-any significant residual interest in the infrastructure at the end of the term of the agreement; 49 years;
- The contractual agreement would include the same terms if entered into with a private-sector company.

The analysis of the characteristics of the concession agreements of public-private services reveals as follows:

- the services provided by the Group are regulated by ANRE, therefore the grantor – the competent ministry – does not control or regulate the type of services that the Group must supply;
- at the end of the contractual period, the residual interest in infrastructure is approximately nil, and most of the goods belonging to the State public domain are completely depreciated;
- there are currently are no other similar contracts, the Company holds the monopoly in the electricity transmission sector..

The concluded that accounting for the concession agreement under IFRIC 12 would not reflect the economic substance of the transaction, as the Company pays an annual fee as royalty for the use of the assets under the concession agreement of 1/1000 of the total annual revenue from electricity transmission services, computed based on the actual transmitted quantity, a fee that is significantly lower than the amount of the depreciation that the Company would have recorded for these assets, had the concession agreement not been signed. As a result, IFRIC 12 is not applicable, and the Company applied the accounting policies as explained in Notes 3 (a) and (b).

3. ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for those aspects disclosed in Note 3 letter (x) which discloses the changes in accounting policies.

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Loss of control

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

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Property, plant and equipment

Owned assets

Property, plant and equipment, except for the ones in progress, are stated at their revalued value, less any accumulated depreciation and accumulated impairment losses. Property, plant and equipment in progress is stated at cost. The cost of

3. ACCOUNTING POLICIES (continued)

assets built by the Company includes cost of materials, direct salaries, initial estimate, where applicable, of costs with dismantling and relocating items and restoring the site, plus a share of indirect costs.

Recognition

Property, plant and equipment is initially valued at cost.

The cost includes the costs that are directly attributable to the acquisition. The cost of constructed assets by the entity includes:

- cost of materials and direct staff costs;
- other costs directly attributable to bringing the asset to the location and condition/stage necessary for the intended use; and
- capitalized loan costs.

Impairment allowances for the idle or obsolete tangible assets,

Subsequent expenditure

The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognized in the income statement as occurred.

Depreciation

Property, plant and equipment items are depreciated using the straight-line method over their useful lives, as follows:

	Normal useful life (years)
Buildings and special installations	40-60
Machinery and equipment	15-40
Control and measurement devices	7-12
Vehicles	5-8
Other property, plant and equipment	3-5

Land is not depreciated. Where parts of an item of property, plant and equipment have different useful lives, these are accounted for as separate items of property, plant and equipment (major components). Depreciation methods, useful lives and residual values are revised and adjusted, if the case, at the end of each reporting period.

Revaluation

The Group chose to disclose property, plant and equipment at revalued amount, except for advances and construction in progress presented at historical cost.

Revaluations are performed by independent appraisers, with sufficient regularity so that the book value does not differ significantly from the value which can be determined based on the fair value as at the reporting date.

(c) Public patrimony assets

As stipulated by Law no. 213/1998, the electricity transmission grids are State's public patrimony goods.

Government Resolution no. 627/2000 establishes in Annex no. 8 the State public patrimony fixed assets which are under the Company's administration since August 1st, 2000, and which are subject to inventory count and are updated whenever necessary, through legal act (GD).

Prior to signing the concession agreement described below in this note, public patrimony assets were treated as assets contributed by the Romanian state through its representative, the Ministry of Economy, as the Group did not have to pay any tax for using the assets.

3. ACCOUNTING POLICIES (continued)

In November 1998, Law no. 213/1998 was issued, which regulates the status of public patrimony. The law stipulates that the State or local authorities have ownership of the State public patrimony and that they can rent or grant use of such patrimony. According to the provisions of Law no. 213/1998 and Law no. 219/1998, the Ministry of Economy has signed, on behalf of the State, a concession agreement pertaining to the energy transmission grid (high voltage electricity lines and electrical substations) and the land on which they are built. Concession agreement no. 1 was concluded on June 29th, 2004 between the Ministry of Economy and the Company for all public patrimony tangible assets in balance as of December 31st, 2003 and is in effect for 49 years.

Following the execution of the concession agreement with the Ministry of Economy on behalf of the Romanian State, on June 29th, 2004, the nature of the relationship between the Ministry and the Company changed and thus the Company derecognized public patrimony assets, including the public patrimony reserve included in equity. Subsequent to the conclusion of the concession agreement, the Company accounts as operating lease the assets over which it has been granted a right of use. The payments for the concession agreement (royalty) are accounted for by the Company as expenses in the profit or loss account during the year.

Concession agreement no. 1/2004 was published in the Official Journal of Romania no. 298 bis of April 30th, 2015.

Between 2005 and 2013, seven addenda were concluded to the concession contract. Therefore, assets from the public patrimony obtained out of the development fee after June 29, 2004 have been derecognized.

Taking into account Government Resolution no. 1009/2012 and Government Resolution no. 984/2012 through which was approved the modification of Appendix no. 7 to Government Resolution no. 1705/2006 approving the centralized stock take of the assets from the public patrimony that were transferred to the Company under concession, and following the inventory procedure of the assets part of the public patrimony in 2012 and the revaluation/valuation of these goods, on 14.02.2013, Addendum no. 7 to Concession contract no. 1/29.06.2004 was signed with the Ministry of Economy.

Government Decision no. 1032 from December 11th, 2013, published in the Official Journal no. 22 from January 13th, 2014, approved the amendment and supplementing of Addendum no. 7 to Government Decision no. 1705/2006 approving the centralized inventory of the assets under public patrimony, following the 2012 inventory of the assets under public patrimony.

The main terms of the concession contract are as follows:

- The Ministry of Economy has legal ownership over the assets within the scope of the agreement;
- The Company has the right of use over these assets for a period of 49 years from June 1st, 2004 until May 31st, 2053;
- The annual fee paid by the Company in the form of royalty for use of the assets is set by the Ministry of Economy and represents 1/1000 of the total revenue gained from the electricity transmission services, based on the actual capacity transmitted;
- The assets will be returned to the Ministry of Economy upon termination or expiration of the agreement; the contract can be unilaterally terminated by either party;
- The Company has the obligation to use the assets according to the provisions of the concession agreement and pursuant to the operating license.

The amount that the Company paid under the concession agreement for the period January 1st – December 31st, 2014 is significantly lower than the amount of the depreciation that the Company would have recorded for such assets had the concession agreement not been concluded. However, the Company has not recorded into the financial statements any amount related to this potential benefit, as the Company is unable to determine the amount that a third party would pay for the use of the assets in an arm's length transaction.

Self-funded investments made by the Company regarding the assets from the concession contract are capitalized and depreciated over the remaining useful life of the assets. After the depreciation of the investment if recovered, they will be included in the inventory of goods belonging to the State's public domain.

In the case of assets representing self-funded finished non-current assets, they will be included in the inventory of goods belonging to the State's public domain after recovering the depreciation of the investment, namely upon the expiry of the normal period of utilization, of the concession or lease contract, according to the legal provisions in force, based on a normative act adopted in this regard.

3. ACCOUNTING POLICIES (continued)

(d) Intangible assets

The intangible assets by the Group are stated at cost less any accumulated amortization and accumulated impairment losses. The amortization is recognized in the income statement on a straight-line basis over the estimated useful life of the intangible asset. Intangible assets consist mainly of intangibles in progress and customized software, which are amortized on a straight-line basis over 3 years.

Asset depreciation methods and useful lives are revised and adjusted, if necessary, at the end of each reporting period.

Subsequent expenditures

Subsequent expenditures are capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(e) Foreign currency transactions

Transactions in foreign currencies are converted to LEI by applying the exchange rates applicable at the date of the transaction. Monetary assets and liabilities expressed in foreign currencies at the end of the period are converted to LEI at the exchange rates applicable on that date. Exchange gains and losses, realized or unrealized, are included in the profit and loss account for that year. The exchange rates at December 31st, 2017 and December 31st, 2016 are as follows:

The exchange rates at December 31, 2017 and December 31, 2016 are as follows:

Currency	December 31, 2017	December 31, 2016
1 EUR	4.6597	4.5411
1 USD	3.8957	4.3033

Non-monetary assets and liabilities denominated in foreign currencies are measured at fair value, at the exchange rate at the date of the transaction.

(f) Receivables

Trade receivables are initially recognized at fair value and subsequently assessed using the effective interest method, less the value losses. A value loss is established when there is clear evidence that the Company will not be able to collect all amounts due within the agreed deadline. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganization and late payments (over 180 days) are considered indications that these trade receivables might be impaired.

A value loss corresponding to an asset is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced via the use of a value loss, and the amount of the loss is recognized in profit or loss account under "Other operating expenses".

(g) Inventories

Inventories consist of:

- raw materials, materials, spare parts that do not meet the definition of PPE and other consumables that are to be used during the performance of the basic activity of the Company;
- security and intervention stock needed for fast repairs of the failures occurred in the PTG installations in order to assure the safe functioning of the NPS. These materials are recorded as inventories when purchased and then expensed when consumed or capitalized, as the case may be.

Inventories are assessed at the lowest value between the cost and net realizable value. The cost of inventories consumed is determined based on the FIFO method and includes expenditures with acquisition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion, if any, and selling expenses.

The Company's policy is to write off a loss of value of 100% for current inventories older than 365 days and that are not expected to be used in the future.

3. ACCOUNTING POLICIES (continued)

(h) Cash and cash equivalents

Cash and cash equivalents include cash on hand, in current accounts and bank deposits with original maturities of 3 months or less that are subject to an insignificant risk of change in fair value.

(i) Revaluation reserves

After the recognition as an asset, an item of property, plants and equipment whose fair value can be measured reliably is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the balance sheet date.

(h) Revaluation reserves (continued)

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

If the carrying amount of property, plant and equipment decreases as a result of a revaluation, such decrease is recognized the in profit or loss account. However, the decrease is made by decreasing revaluation reserves, if there is any credit balance existing in the revaluation surplus in respect of such property, plant and equipment.

Revaluation reserve included in equity related to an item of property and equipment is transferred directly to retained earnings as the revaluated item is depreciated and when the item is derecognized.

Starting with May 1st, 2009, the reserves from the revaluation of property, plant and equipment, including land plots, recorded after January 1st, 2004, which are deducted when calculating taxable income through tax depreciation expenses or transferred and/or ceased assets expenses, are taxed simultaneously with the tax depreciation deduction, namely when the assets are disposed, as the case may be.

The Group registered deferred tax for the liability with reserves from the revaluation of fixed assets, including land plots, recorded after January 1st, 2004.

Reserves from the revaluation of property, plant and equipment, including land plots, recorded before December 31st, 2003, as well as the portion of the revaluation performed after January 1st, 2004 and related to the period before April 30th, 2009 will not be taxed when transferred to retained earnings.

The Group did not register deferred tax for the liability pertaining to the reserves from the revaluation of fixed assets, including land plots, recorded until December 31st, 2003.

Reserves from the revaluation of property, plant and equipment are taxable in the future, in case of changing the destination of reserves in any form, in case of liquidation, merger of the Company, including using the reserves for covering the Group's losses, except for the transfer in the retained earnings after May 1st, 2009 of revaluation reserves when the revaluation was performed after January 1st, 2004, which are taxed at the same time with the deduction of tax depreciation.

(j) Impairment of non-financial assets

The carrying amount of the Company's non-financial assets, other than inventories and deferred tax assets, are revised at each reporting date to determine whether there is any indication of impairment. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

The recoverable amount of an asset or cash generating unit is the greater value between the value of use and the fair value less selling costs. In assessing the value of use, the estimated future cash flows are updated in order to determine the presented value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. ACCOUNTING POLICIES (continued)

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continued and use that are largely independent of the cash inflows of other assets or groups of assets ("cash generating unit").

Impairment losses are recognized in the profit or loss account. Impairment losses recognized in respect of cash generating units are primarily allocated to reduce the carrying amount of the goodwill allocated to cash generating units (group of cash generating units), as the case may be, and then to reduce the carrying amount of other assets in the cash generating unit (group of cash generating units) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, the impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

(k) Share capital

Ordinary shares are classified as part of equity. Incremental costs directly attributable to the issue of new shares and shares options are recognized as a deduction in equity at the value net from tax effects.

(l) Dividends

Dividends are recognized as a liability when the shareholder's right to payment is established.

(m) Trade and other payables

Trade accounts payables and other payables are recorded at depreciated cost and include the value of invoices issued by suppliers of goods, executed works and provided services.

(n) Interest-bearing loans

Interest-bearing loans are initially recognized at fair value net of attributable transaction costs. Subsequent to the initial recognition, interest-bearing loans are recorded at depreciated cost with any difference between cost and redemption value being recognized in the profit and loss account over the period of the loan based on the effective interest rate.

(o) Recognition and de-recognition of the non-derivative financial instruments

Non-derivative financial assets

The Group initially recognizes receivables on the date when they originated. All other financial assets are initially recognized on the trading date when the Company becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset upon the expiry of the contractual rights on the cash flows generated by the asset, or upon the transfer of the rights to collect the contractual cash flows generated by the financial asset in a transaction in which all the risks and rewards associated with the ownership of the financial asset are significantly transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

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

The Group's non-derivative financial assets are mainly represented by trade and other receivables and cash and cash equivalents.

Non-derivative financial liabilities

The Group initially recognizes debt securities issued and subordinated liabilities on the date they originated. All other liabilities (including liabilities designated at fair value through the profit or loss account) are initially recognized on the trade date when the Company becomes a party to the contractual provisions of the instrument.

3. ACCOUNTING POLICIES (continued)

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire. The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise loans, trade and other payables.

(p) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in the profit or loss account except for the extent that it relates to a business combination or items directly recognized in equity or in other elements of comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the fiscal profit or loss for the current year, using tax rates enacted or substantively enacted at the reporting date, as well as any adjustment to income tax payable in respect of previous years. Current income tax also includes any tax liability arising from declared dividends.

(ii) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base used for taxation purposes.

(o) Income tax (continued)

(ii) Deferred tax (continued)

Deferred tax is not recognized for:

- temporary differences that occur at the initial recognition of assets and liabilities in a transaction that is not a business combination and that impact neither accounting nor fiscal profit or loss;
- temporary differences related to investments in subsidiaries or jointly controlled entities to the extent that it is probable that they will not be reversed in the foreseeable future; and
- temporary differences occurring at the initial recognition of goodwill.

The assessment of deferred tax reflects the tax consequence that would ensue from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is calculated based on the tax rates that are expected to be applied to temporary differences at the moment of their reversal, pursuant to the enacted legislation or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset current tax liabilities and assets, and if they relate to taxes levied by the same tax authority for the same taxable entity, or for different tax entities which intend to settle current tax assets and liabilities with the current tax on a net basis or whose tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused fiscal losses, tax credits and deductible temporary differences, only to the extent that it is probable that future taxable profits are possible to be used for covering the fiscal loss. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related fiscal benefit will be realized.

(iii) Income tax exposure

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities may affect tax expense in the period when such determination is made.

3. ACCOUNTING POLICIES (continued)

(q) Employee benefits

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits, other than pension plans, is the value of future benefits that employees have earned in return for their service in the current and prior periods. Such benefit is updated to determine its fair value, and the fair value of any related asset is deducted. Such benefits are estimated using the projected unit credit method. Any actuarial gains or losses are recognized in other elements of the comprehensive income in the period in which they arise. Other long-term employee benefits are represented by anniversary premiums.

Cash settled share-based payment transactions

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities over the period during which employees become unconditionally entitled to payment. Until the liability settlement date, the Company must reassess the fait value of the liability at each reporting date and at the settlement date, and any changes in the fair value are recognized in the profit or loss account of the period.

As the employees render their service, the Company recognizes the services received and a liability to pay for those services. Certain share appreciation rights vest immediately and the employees are therefore not required to complete a specified period of service in order to become entitled to the cash payment. In such cases, the Company recognizes the entire value of the right as an expense, at the date of granting.

Short-term employee benefits

Short-term employee benefit obligations are assessed on an un-updated basis and are recognized as the related service is provided. A provision is recognized for the amount estimated to be paid for short-term benefits as premiums or profit sharing plans only if the Company has a present legal or implicit obligation to pay this amount as a result of past service provided by employees and the obligation can be reliably estimated. The short-term employee benefits are represented mainly by salaries.

The Company, in the normal course of business, makes payments to the pension funds on behalf of its employees. All employees of the Company are members of the Romanian State pension plan. These payments are expensed as the related services are provided by the employees.

(r) Revenues

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable and the associated costs can be estimated reliably. Revenues comprise mainly the value of electricity transmission service, system service and balancing market computed based on the volume of energy supplied to consumers. The tariffs for transmission and system services are regulated by ANRE. Revenues include also the transactions on the balancing market as described in Note 1.

The Romanian State, via ANRE, regulates the prices charged by the Group for electricity transmission and system operator services. The Romanian State has a number of roles to fulfil, apart from being the majority shareholder, and might thus have broader goals and objectives than an investor, whose main concern is return on investment.

As mentioned in Note 1, the Company is also the administrator of the bonus support scheme for promoting high-efficiency cogeneration. The Company acts as agent because it is involved in the collection and distribution of money.

In addition, the Company and SC OPCOM SA are involved in the price coupling mechanism of regional markets based on ANRE Order no. 82/2014 (see Note 1).

Thus, within the mechanism of price coupling of regional markets, the Group:

- fulfils the role of implicit participant on the DAM and acts as shipping agent;

- provides the interconnection capacity for the physical supply of electricity traded on the DAM, namely the transfer of power from one bidding zone to another through the interconnection lines, limited to the available transfer capacity of such lines.

3. ACCOUNTING POLICIES (continued)

IFRIC 18 "Transfers of Assets from Customers" applies to contracts with customers in which the Company receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant or equipment and the Company must then use the item of property, plant or equipment to connect customers to the network.

According to Art. 25(1) of Law no. 123/2012 on electricity and natural gas, as subsequently amended and supplemented, the "access to power grids of public interest shall be a mandatory service provided under regulated conditions, which the transmission and system operator, as well as the distribution operator, must ensure".

The connection tariff is a regulated fee which represents the expense incurred by a network operator to perform the works for connecting a demand and/or production facility of a user to the power grid.

If the connection of a customer to the power transmission grid does not represent a separate component of the connection contract, then the connection tariffs are recognized in the profit and loss account on a systematic basis throughout the useful life of the asset.

The Group recognizes the cash received from the connection tariff as a credit under the account "Deferred income" in the statement of financial position in order to subsequently reverse it under "Other income" in the profit and loss account on a systematic basis over the useful life of the asset.

(s) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, except for borrowings costs capitalized to qualifying assets, dividend income, foreign exchange gains and losses, commitment fees and risk commissions.

In accordance with revised IAS 23 "Borrowing Costs", invoking the optional exception from the retrospective application according to IFRS 1 "First-time adoption of IFRS" the Group capitalizes the borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale for which financing was obtained after January 1, 2011, the date of transition to IFRS.

Interest revenues are recognized in the income statement as they accrue, using the effective interest method. Dividend revenues are recognized in the income statement as at the date when the Group's right to receive dividends is recognized.

(t) Subsidies

Subsidies pertaining to assets are initially recognized as "deferred income" at fair value when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the subsidies, and then the subsidies shall be recognized in the profit and loss account as other operating revenues over the useful life of the asset. Non-refundable funds are recognized as assets when there is reasonable assurance that they will be received and the conditions corresponding will be met.

(u) Provisions

A provision is recognized when, and only when the following conditions are met: the Group has a current obligation (legal or implicit) as a result of a past event; it is probable (i.e. more likely than not) that an outflow of resources representing economic benefits will be required to settle the obligation; a reliable estimate for the value of the obligation can be made. Where the effect of the time value of money is significant, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

(v) Earnings per share

Pursuant to SIC 33, "Earnings per share", the earnings per share are calculated by dividing the profit or loss allocated to the Company's shareholders by the weighted average of ordinary shares outstanding during the period.

The weighted average number of ordinary shares outstanding during the period is the number of shares outstanding at the beginning of the period, adjusted by the number of shares issued during the period multiplied by the number of months when the shares were outstanding during the year.

3. ACCOUNTING POLICIES (continued)

Dilution is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, or that ordinary shares are issued upon the satisfaction of specified conditions. The objective of diluted earnings per share is consistent with that of basic earnings per share, namely to provide a measure of the interest of each ordinary share in the performance of an entity.

(w) Contingencies

Contingent liabilities are not recognized in the accompanying financial statements. They are disclosed only when an outflow of resources embodying economic benefits is possible, but not probable.

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

(x) Operating segments

An operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which distinct financial information is available.

The Group's activities are taking place in different parts of Romania with each location being involved in both transmission and dispatch activities. The management of the Group considers all activities together, as "a single segment".

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments.

(y) Implications of the New International Financial Reporting Standards (EU IFRS)

Initial application of the new amendments to existing standards in force for the current reporting period

The following amendments to the existing standards and the new interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) have entered into force for the current period:

Amendments to IAS 7 "Statement of cash flows" – Disclosure initiative (applicable for annual periods starting with or after January 1st, 2017),

Amendments to IAS 12 "Income taxes" – Recognition of deferred tax assets for unrealized losses (applicable for annual periods starting with or after January 1st, 2017),

Amendments to IFRS 12 following the "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) with the primary objective to remove inconsistencies and clarify wording (amendments to IFRS 12 are applicable to annual periods starting with or after January 1st, 2017, and amendments to IFRS 1 and IAS 28 are applicable to annual periods starting with or after January 1st, 2018),

The adoption of such amendments to the existing standards has not changed the Group's accounting policies.

Amendments to standards issued by IASB and adopted by the EU, not yet entered into force

IFRS 9 "Financial Instruments" – adopted by the EU on November 22nd, 2016 (applicable for annual periods starting with or after January 1st, 2018),

IFRS 15 "Revenue from contracts with customers" with the subsequent amendments and the amendments to IFRS 15 "Effective date of IFRS 15" – adopted by the EU on September 22nd, 2016 (applicable for annual periods starting with or after January 1st, 2018).

3. ACCOUNTING POLICIES (continued)

IFRS 16 "Leasing" - adopted by the EU on 31 October 2017 (applicable for annual periods beginning on or after 1 January 2019),

Amendments to IFRS 4 "Insurance contracts" – Applying IFRS 9 financial instruments with IFRS 4 Insurance contracts (applicable for annual periods starting with or after January 1st, 2018 or when IFRS 9 "Financial instruments" is applied for first time),

Amendments to IFRS 15" Revenue from contracts with customers" – Clarifications to IFRS 15 Revenues from contracts with customers - adopted by the EU on 31st,October 2017 (applicable for annual periods beginning on or after 1 January 2018),

Amendments to IFRS 1 and IAS 28 following the "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) with the primary objective to remove inconsistencies and clarify wording – adopted by the EU on February 7 th, 2018(amendments to IFRS 12 are applicable to annual periods starting with or after January 1st, 2018).

The Group chose not to adopt these new standards and amendments to existing standards prior to the effective dates of entry into force .The Group predicts that the adoption of these standards and amendments to existing standards will not have a significant impact on the Group's financial statements during the initial period of application.

New Standards and interpretations issued by IASB but not yet adopted by the EU

At the time of authorization of these financial statements, IFRS as adopted by the EU do not significantly differ from regulations adopted by IASB, except for the following standards, amendments and interpretations which were not endorsed for use in EU as of the date of authorization of these financial statements:

IFRS 14 "Regulatory deferral accounts" (applicable for annual periods starting with or after January 1st, 2016) – the European Commission has decided not to launch the approval process of this interim standard, but to wait for the issuance of the final standard,

IFRS 17 "Insurance Contracts" (applicable for annual periods beginning on or after January 1st,2021),

Amendments to IFRS 2 "Share-based payment" – Classification and measurement of share-based payment transactions (applicable for annual periods starting with or after January 1st, 2018,

Amendments to IFRS 9 "Financial Instruments" - advance payment charges with negative compensation (applicable for annual periods beginning on or after January 1st, 2019),

Amendments to IFRS 10 "Consolidated financial statements" and IAS 28 "Investments in associates and joint ventures" – Sale or contribution of assets between an investor and its associate or joint venture and further amendments (effective date deferred indefinitely until the research project on the equity method is concluded),

Amendments to IAS 19 "Employee Benefits" - Change, reduction or settlement of a plan (applicable for annual periods beginning on or after January 1st, 2019),

Amendments to IAS 28 "Investments in associates and joint ventures" - Long-term interests in associates and joint ventures (applicable for annual periods beginning on or after January 1st, 2019),

Amendments to IAS 40 "Investment property" - Real estate investment transfers (applicable for annual periods beginning on or afterJanuary 1st,2018),

Amendments to various Standards following the "IFRS Improvements (Cycle 2015-2017)" resulting from the annual IFRS Improvement Project (IFRS 3, IFRS 11, IAS 12 and IAS 23) with the primary aim of eliminating inconsistencies and clarifying certain formulations (applicable for annual periods beginning on or after January 1st, 2019),

IFRIC 22 "Foreign currency transactions and advances" (applicable for annual periods beginning on or after January1st)

IFRIC 23 "Income Tax Treatment Uncertainty" (applicable for annual periods beginning on or after January 1st, 2019).

TheGroup predicts that the adoption of these standards and amendments to existing standards will not have a significant impact on the Group's financial statements during the initial period of application.

4. DETERMINATION OF FAIR VALUE

Certain accounting policies and information disclosures of the Group require the measurement of fair values, for both financial and nonfinancial assets and liabilities. When measuring the fair value of an asset or liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques, as follows:

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

The fair values were determined in order to measure and / or disclose information based on the methods described below:

Property, plant and equipment

The fair value of items of property, plant and equipment are based primarily on the cost method considering the particularities of the Group's property, plant and equipment, except for assets in progress, which are accounted for under the cost model.

5. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment between January 1, 2017 and December 31, 2016 are as follows:

	Freehold land and land improvements	Buildings and special installations	Machinery and equipment	Control devices	Vehicles	Other fixed assets	Construction in progress	Total
COST								
Balance on January 1st, 2017	**55,015**	**1,370,623**	**3,063,346**	**459,864**	**60,740**	**272,489**		**5,772,906**
Additions	-	10	3	-	-	17	156,323	156,352
Transfers from capital assets in progress	-	37,621	107,321	36,796	3,360	16,844	(201,941)	-
Reclass between assets accounts	-	-	-	-	-	-	(2,182)	(2,182)
Disposals	(59)	(277)	(15,092)	(909)	(612)	(2,261)	(1,221)	(20,431)
Balance on December 31st, 2017	**54,956**	**1,407,976**	**3,155,579**	**495,751**	**63,488**	**287,088**	**441,809**	**5,906,646**
Balance on January 1st, 2016	**55,015**	**1,350,150**	**3,019,564**	**452,861**	**53,035**	**269,792**	**406,625**	**5,607,041**
Additions	-	554	745	-	-	-	175,454	176,753
Transfers form capital assets in progress	-	19,717	49,818	8,067	7,985	5,369	(90,956)	-
Reclass between assets accounts	-	444	(437)	(7)	-	-	-	-
Disposals	-	(242)	(6,344)	(1,057)	(280)	(2,672)	(293)	(10,888)
Balance on December 31st, 2016	**55,015**	**1,370,623**	**3,063,346**	**459,864**	**60,740**	**272,489**	**490,830**	**5,772,906**

5. PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold land and land improvements	Buildings and special installations	Machinery and equipment	Control devices	Vehicles	Other fixed assets	Construction in progress	Total
ACCUMULATED DEPRECIATION								
Balance on January 1st, 2017	**138**	**92,428**	**1,822,827**	**347,874**	**42,238**	**181,310**	**-**	**2,486,815**
Depreciation expense	-	91,642	152,844	40,628	3,740	29,935	-	318,789
Accumulated depreciation of disposals	-	(18)	(14,593)	(896)	(604)	(2,169)	-	(18,281)
Reevaluation impact	-	-	-	-	-	-	-	-
Balance on December 31st, 2017	**138**	**184,052**	**1,961,078**	**387,606**	**45,373**	**209,076**	**-**	**2,787,323**
Balance on January 1st, 2016	**138**	**(0)**	**1,653,574**	**319,333**	**41,811**	**153,132**	**-**	**2,167,988**
Depreciation expense	-	92,498	175,370	29,598	707	30,770	-	328,943
Accumulated depreciation of disposals	-	(70)	(6,117)	(1,057)	(280)	(2,592)	-	(10,116)
Reevaluation impact	-	-	-	-	-	-	-	-
Balance on December 31st, 2016	**138**	**92,428**	**1,822,827**	**347,874**	**42,238**	**181,310**	**-**	**2,486,815**
IMPAIRMENT ALLOWANCES								
Balance as at January 1, 2017	**-**	**14,068**	**-**	**-**	**-**	**-**	**17,678**	**31,746**
Impairment allowances	-	368	-	-	(113)	-	1,560	1,815
Balance on December 31st, 2017	**-**	**14,436**	**-**	**-**	**(113)**	**-**	**19,238**	**33,561**
Balance on January 1st, 2016	**-**	**-**	**-**	**-**	**-**	**-**	12,630	**12,630**
Impairment allowances	-	14,068	-	-	-	-	5,048	19,116
Balance on December 31st, 2016	**-**	**14,068**	**-**	**-**	**-**	**-**	**17,678**	**31,746**
CARRYING VALUE								
Balance on December 31st, 2017	**54,818**	**1,209,489**	**1,194,501**	**108,145**	**18,228**	**78,012**	**422,570**	**3,085,762**
Balance on December 31st, 2016	**54,877**	**1,264,127**	**1,240,519**	**111,990**	**18,501**	**91,179**	**473,152**	**3,254,345**

5. PROPERTY, PLANT AND EQUIPMENT (continued)

In 2017, the value of land plots recorded a decrease amounting to 59 by the re-update of the surfaces resulted from measurements and of authentic documentation to declare subdivision into flats, subject to the Protocol no, 8044/2002 of hand over-take over concluded with Teletrans Craiova agency, as follows:
- the ground surface of 1974,21 m^2 pertaining to the land plot situated on 5 Brestei street, Craiova, for which the Certificate authenticating the ownership rights was obtained with series M03/10283 of 07,08,2006, has been decreased with the surface of 39,46 m^2;
- the ground surface of 1325,67 m^2 pertaining to the land plot situated on 22 George Cosbuc street, Tg, Jiu, for which the Certificate authenticating the ownership rights was obtained with series M03/10195 of 08,11,2005, has been decreased with the surface of 15,5 m^2;
- the ground surface of 1849,72 m^2 pertaining to the land plot situated on 422 Tg, Jiului way, Dr, Tr, Severin, for which the Certificate authenticating the ownership rights was obtained with series M03/9762 of 14,12,2004, has been decreased with the surface of 9,6 m^2;

The total net value of tangible assets decreased on December 31st, 2017 compared to December 31st, 2016 due to the corresponding depreciation of 2017, which was registered against the background of increased amounts of tangible assets in progress,

In 2017, the value of tangible assets in progress increased represented mainly by investment works in the high voltage electricity substations and lines, as follows:

- Technical upgrade of the Bradu 400/220/110/20 kV substation – 43,722;
- 400 kV OHL interconnecting Resita (Romania) - Pancevo (Serbia) – 29,160;
- Replacing AT and TRAFO in electrical substations - Stage II – 25,618;
- Upgrading the 400/110/10 kV Cluj Est substation – 12,529;
- Upgrading the Suceava 110 kV and 20 kV substation – 9,985;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - stage I - Portile de fier - (Anina) – Resita 400 kV OHL s,c, – 8,710;
- Upgrading the command-control-protection system of the Sardanesti 220/110/20 kV substation – 5,812;
- Technical upgrade of the Campia Turzii 220/110/20 kV substation – 5,735;
- Integrated security system in electric substations, stage IV - 3,571;
- Urgent repair of the damage to the Iernut - Gadalin 400 kV OHL and the Iernut - Baia Mare 3 220kV OHL – 2,843;
- Upgrading the Tihau 220/110 kV substation - primary equipment – 2,706;
- Technical upgrade of the Tulcea Vest 400/110/20 kV substation - the construction part – 2,625;
- Motor vehicles_2017 – 2,616;
- Deploying an optical fiber line between the Bradu 400/220/110 KV substation and the Stuparei 220/110 KV substation – 1,799;
- Upgrading the SCADA system for the Constanta Nord substation – 1,439;
- Upgrading the hardware and software platforms of the SCADA system in the Slatina 400/220 substation – 1,398;
- Replacing the connectors from electrical substations – 1,149;
- Replacing the 110/20 kV TRAFO, 10 MVA in the Fantanele 220/110/20 kV substation – 1,078;
- Upgrading the 110/6 kV station from the Pestis 220/110/6 kV substation – 1,063;
- Technical upgrade of the Isaccea 400 kV substation - Stage I - replacing the compensation bobbins, the corresponding cells and the Stupina 400 kV cell – 1,005;
- Gutinas – Smardan 400 kV OHL d,c, – 928;
- Creating the coexistence conditions between the Iernut Ungheni 400(220) kV OHL in the 71-72 opening and the Brasov Targu Mures Cluj Oradea Ungheni Ogra highway, km 4+500 km 14+605 – 882;
- Suceava - Balti 400 kV OHL, for the part of the project on Romanian territory - 818;
- Regulating the coexistence between the Mintia-Sibiu 400 kV OHL, in the 6-8 opening, and the Lugoj-Deva highway, 4th lot, Ilia-Deva district, km 77+361 - km 99+500 – 744;
- Movement and protection of the high voltage electrical installations - 220 kV OHL on the route of the Sebes-Turda highway - 4th lot, the Cluj Floresti - Alba Iulia 220 kV OHL (178-179 crossing) – 618;
- Connecting the Isaccea - Varna 400 kV OHL and the Isaccea - Dobrudja 400 kV OHL in the Medgidia Sud 400 kV substation – 584;

5. PROPERTY, PLANT AND EQUIPMENT (continued)

- Upgrading the Dumbrava 220/110 kV substation – 559;
- Technical update of the Turnu Severin Est 220/110 kV substation - 543,

In 2017, the biggest transfers from tangible assets in progress to tangible assets are mainly represented by the startup of the investment objectives, as follows:

- Technical upgrade of the Bradu 400/220/110/20 kV substation – 84,925;
- Technical upgrade of the Campia Turzii 220/110/20 kV substation – 39,631;
- Replacing AT and TRAFO in electrical substations - Stage II – 19,806;
- Integrated security system in electric substations, stage IV: Rosiori 400/220 kV substation, the Oradea Sud 400/110/20 kV station, the Paroseni 220 kV substation, the Iernut 400/220/110/6 kV substation and the Gutinas 400/220/110 kV substation – 17,278;
- Urgent repair of the damage to the Iernut - Gadalin 400 kV OHL and the Iernut - Baia Mare 3 220kV OHL – 8,261;
- Upgrading the Suceava 110 kV and 20 kV substation – 6,584;
- Upgrading the Tihau 220/110 kV substation – primary equipment – 6,413;
- Deploying an optical fiber line between the Bradu 400/220/110 KV substation and the Stuparei 220/110 KV substation – 2,660;
- Motor vehicles_2017 – 2,616;
- Connecting the 147 MW Valea Dacilor WPP to the PTG – 2,401;
- Replacing the 110/20 kV TRAFO, 10MVA in the Fantanele 110/20 kV substation – 1,128;
- Upgrading the SCADA system for the Constanta Nord 400/110/10 kV substation – 986;
- Creating the coexistence conditions between the Iernut Ungheni 400/220 kV OHL in the 71-72 opening and the Brasov-Targu Mures-Cluj-Oradea-Ungheni-Ogra highway, km 4+500 km 14+605 – 882;

- Deposit power transformers for system reserves and isolated passages in the security stock of CNTEE "Transelectrica" - SA in the Sibiu Sud 400 kV substation – 846;
- Upgrading the control building from the Roman Nord 400/110/20 kV substation – 676;
- Special intervention beams, Universally Anchored Portal type for the 220-400 kV tension, including prefabricated foundations – 643;
- Movement and protection of the high voltage electrical installations - 220 kV OHL on the route of the Sebes-Turda highway - 4th lot, the Cluj Floresti - Alba Iulia 220 kV OHL (178-179 crossing) – 618;
- Replacing the connectors from electrical substations – 568,

The balance of tangible assets in progress on December 31st, 2017 is represented by the projects in progress, the most significant being listed below:

- 400 kV OHL interconnecting Resita (Romania) - Pancevo (Serbia) – 98,258;
- PTG connection of the Iveşti 300 MW WPP, Fălciu 1 88 MW WPP and Fălciu 2 18 MW WPP via the new Banca (400)/220/110 kV substation – 46,885;
- Technical upgrade of the Bradu 400/220/110/20 kV substation – 36,794;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - stage I - Portile de fier - (Anina) – Resita 400 kV OHL s,c, – 20,836;
- Extending the services providing business continuity and recovery after disasters – 14,414;
- Upgrading the 400/110/10 kV Cluj Est substation – 13,297;
- Replacing AT and TRAFO in electrical substations - Stage II – 11,640;
- Connecting the Isaccea - Varna 400 kV OHL and the Isaccea - Dobrudja 400 kV OHL in the Medgidia Sud 400 kV station – 10,753;
- Integrated security system in electric substations, stage IV - 10,308;
- Upgrading the Suceava 110 kV and 20 kV substation – 9,656;
- Cernavodă - Stâlpu 400 kV OHL d,c, and connection in Gura Ialomiţei – 8,363;

5. PROPERTY, PLANT AND EQUIPMENT (continued)

- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - stage I - Resita 400/220/110 kV station – 6,572;
- 400 kV HVDC Link (submarine cable Romania - Turkey) – 5,854;
- 400 kV OHL Gadalin - Suceava, including the NPS interconnection - 5,661;
- Upgrading the command-control-protection system of the Sardanesti 220/110/20 kV station – 5,660;
- Suceava - Balti 400 kV OHL, for the part of the project on Romanian territory - 4,431;
- Technical upgrade of the Hasdat 220/110 kV substation – 4,397;
- Reparation of the failure of the 110-120 terminals of the Bucharest Sud - Ghizdaru 220 kV OHL - 4,275;
- Gutinas – Smardan 400 kV OHL d,c, – 3,206;
- Extending the control system with new functions and IT registration of access in the objectives of CNTEE Transelectrica SA - 3,201;
- Converting of the Portile de fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV, stage II - Resita - Timisoara – Sacalaz 400 kV OHL d,c, (Timisoara 220/110 kV substation) - 3,198;
- Connecting the 136 MW wind power plant Platonesti, Ialomita county, to the Grid through constructing a 110 kV cell in the Gura Ialomitei 400/110 kV station – 2,889;
- Assembling the optic fiber and upgrading the system of distance protections on the Tantareni-Turceni 400 kV OHL d,c, and the Urechesti-Rovinari 400 kV OHL s,c, – 2,836;
- Upgrading the Arefu 220/110/20 kV station - 2,828;
- Integrated security system in electric substations, stage III - 2,798;
- Upgrading the Raureni 220/110/20 kV station - 2,754;
- Technical upgrade of the Tulcea Vest 400/110/20 kV substation - the construction part – 2,740;
- By-passing the Cetate 110 kV OHL 1 & 2 in the proximity of the Ostrovul Mare 110/20/6 kV substation - 2,578;
- PTG connection of Dumesti 99 MW WPP and Romanesti 30 MW WPP, Iasi county, through constructing a 110 kV line cell in the FAI 220/110 kV substation – 2,546;
- Security solution for implementing the security measures related to classified information – 2,012;
- Upgrading the 110/6 kV station from the Pestis 220/110/6 kV substation – 1,763;
- Executive - DCBPA/CPA: Consolidation, upgrading and extension of the CNTEE "Transelectrica" headquarters – 1,627;
- Upgrading the hardware and software platforms of the SCADA system in the Slatina 400/220 substation – 1,415;
- Technical upgrade of the Isaccea 400 kV substation - Stage I - replacing the compensation bobbins, the corresponding cells and the Stupina 400 kV cell – 1,243;
- Integrated security system at the new Banca 400/220/110 kV substation – 1,133;
- Deploying an optical fiber line between the Pitesti Sud substation and the remote control and installation supervision center of the Pitesti ST (SF) – 1,075;
- Upgrading the SCADA system for the Constanta Nord substation – 986;
- Upgrading the Dumbrava 220/110 kV substation – 927;
- Connecting the Stupina 400 kV substation to the PTG and connecting the Isaccea-Varna 400 kV OHL – 874;
- Replacing the connectors from electrical stations – 788;
- Ostrovu Mare 220 kV OHL double circuit - PTG – 755;
- Oradea – Beckescsaba 400 kV OHL – 741,

Drafted according to the provisions of Art, 46 of ANRE Order no. 59/2013 approving the Regulation on the consumers' connection to the public power grids, the receipt of the installations resulting from the works performed to build and commission the connection facilities is performed in accordance with the applicable legislation.
For the following projects included in outstanding tangible assets in progress, funded from the connection tariff, the technical conditions to prepare the Commissioning Minutes have not been met:

- Connection to the PTG of the Bogdanesti 56 MW WPP, Deleni 112,5 MW WPP, Viisoara Nord 1 20.8 MW WPP, Viisoara Nord 1 52.8 MW WPP, Viisoara Sud 47.5 MW WPP, in the area of certain localities in Vaslui county, via the new Banca 400/220/110 kV electrical substation – the work is completed, there is minutes upon completion of works no, 34759/14,11,2013; the contract is in force until 31.12.2022; total value of ongoing investment – 48,018;

5. PROPERTY, PLANT AND EQUIPMENT (continued)

- Connection to the PTG of the Dumesti 99 MW WPP and Romanesti 30 MW WPP, in the area of Dumesti and Romanesti localities, Iasi county, through a 110 kV line cell in the 220/110 kV FAI substation, Iasi county, in amount of 2,546, minutes upon completion of works no, 14584/29,04,2014 is concluded in connection with the investment and the contract is in force until 31,12,2018;

Tangible assets were not revalued in 2017, The management concluded that:

- market prices did not change significantly as compared to 2016, when the Company performed the last revaluation, and
- there is no indication of impairment of the assets held by the Company both from internal and external sources.

Land plots have been revalued on December 31st, 2011, based on the market approach, Also, the "Other tangible assets" group was revalued on December 31st, 2011.

Buildings and special installations were revalued on December 31st, 2015 by SC JPA Audit & Consultanta SRL, independent evaluator authorized by the National Union of Authorized Evaluators in Romania,
The valuation was performed at fair value, assuming that the Company would further carry on its business by using the tangible assets in the existing structure. The following were not valued:

The assets from the State's public domain representing finished non-current assets self-funded by the Company will be included in the inventory of assets belonging to the State's public domain after recovering the self-funding sources, when the inventory of goods belonging to the State's public domain is approved by Government Decision.

Buildings and special installations include mainly transformation substations and high voltage electricity lines, Machinery and equipment mainly include transformers and cells relating corresponding to the NPS of 110 kV, 220 kV, 400 KV and 750 kV.

As of December 31st, 2017 and December 31st, 2016, the Group did not have any assets pledged or mortgaged.

Fair value of property, plant and equipment

The Company's property, plant and equipment other than property, plant and equipment in progress are disclosed in the financial statements at revaluated amount, which is the fair value as of the date of valuation less accumulated depreciation and impairment adjustments.

The fair value of the Group's land plots was determined using the direct comparison method.

This method is recommended for properties when there is sufficient and reliable data on sale transactions or similar offers involving properties in the area. Analysis of prices at which the transactions were made or of the prices asked or offered for comparable properties is followed by corrections to such prices in order to quantify the differences between the prices paid, asked or offered due to differences between specific characteristics of each property, called elements of comparison.

The fair value of buildings, equipment and measurement devices has been determined through the cost approach.

This method assumes that the maximum value of an asset for an informed buyer is the amount needed to buy or build a new asset of an equivalent utility. When the asset is not new, all forms of impairment that can be assigned for those assets up to the valuation date should be subtracted from the current gross cost.

5, PROPERTY, PLANT AND EQUIPMENT (continued)

Information on the hierarchy of fair value as of December 31st, 2017 and December 31st, 2016:

	Level 1	Level 2	Level 3	Fair value as at December 31, 2017
Land and land improvements	-	-	54,818	54,818
Buildings and special installations	-	-	1,209,489	1,209,489
Plant and machinery	-	-	1,194,501	1,194,501
Measurement and control devices	-	-	108,145	108,145
Vehicles	-	-	18,229	18,229
Other property, plant and equipment	-	-	78,011	78,011
Property, plant and equipment in progress			422,570	422,570

Fair value of property, plant and equipment (continued)

	Level 1	Level 2	Level 3	Fair value as at December 31, 2016
Land and land improvements	-	-	54,887	54,887
Buildings and special installations	-	-	1,264,127	1,264,127
Plant and machinery	-	-	1,240,519	1,240,519
Measurement and control devices	-	-	111,990	111,990
Vehicles	-	-	18,501	18,501
Other property, plant and equipment	-	-	91,179	91,179
Property, plant and equipment in progress			473,152	473,152

There were no transitions between the fair value levels in 2017 or in 2016.

The value at cost of property, plant and equipment as of December 31st, 2017 and December 31st, 2016, net of accumulated expenses with depreciation and impairment is presented below:

	Value at cost December 31st, 2017	Value at cost December 31, 2016
Land and land improvements	10,663	10,604
Buildings and special installations	832,374	792,683
Plant and machinery	1,278,189	1,265,368
Measurement and control devices	103,268	98,782
Vehicles	10,486	10,479
Other property, plant and equipment	96,473	100,019
TOTAL	**2,331,453**	**2,277,935**

6. INTANGIBLE ASSETS

	Other intangible assets	Licences and software	Intangible assets in progress	Total
COST				
Balance on January 1st, 2017	**4,104**	**70,297**	**8,277**	**82,678**
Additions	-	789	1,919	2,708
Transfers from intangible assets in progress	-	1,761	(1,761)	-
Transfers from tangible assets in progress	-	-	1,088	1,088
Disposals	-	(7,481)	(79)	(7,560)

6. INTANGIBLE ASSETS (continued)

Balance on December 31st, 2017	**4,104**	**65,366**	**9,444**	**78,914**
Balance on January 1st, 2016	**4,104**	**75,102**	**28,450**	**107,656**
Additions	-	441	5,049	5,490
Transfers from intangible assets in progress	-	2,271	(2,271)	-
Transfers from tangible assets in progress	-	-	-	-
Disposals	-	(7,517)	(22,951)	(30,468)
Balance on December 31st, 2016	**4,104**	**70,927**	**8,277**	**82,678**

ACCUMULATED DEPRECIATION

Balance on January 1st, 2017	4,104	63,799	-	67,903
Depreciation expenses	-	2,915	-	2,915
Accumulated depreciation of disposals	-	(7,517)	-	(7,517)
Balance on December 31st, 2017	**4,104**	**58,847**	**-**	**62,951**
Balance as of 1 January 1st 2016	**4,104**	**68,401**	**-**	**72,505**
Depreciation expenses	-	2,915	-	2,915
Accumulated depreciation of disposals	-	(7,517)	-	(7,517)
Balance as at 31 December 2016	**4,104**	**63,799**	**-**	67,903
IMPAIRMENT ADJUSTMENTS				
Sold la 1 Ianuarie 2017	-	-	-	-
Expenses wit impairment adjustments	-	-	351	351
Balance on December 31st, 2017	**-**	**-**	**351**	**351**
BOOK VALUE				
Balance on December 31st, 2017	**-**	**6,519**	**9,093**	**15,612**
Balance on December 31st, 2016	**-**	**6,498**	**8,277**	**14,775**

The Net Asset Value of Intangible Assets in progress as of December 31st, 2016 decreased mainly due to:

- Contribution in kind of CNTEE Transelectrica SA to the share capital of SC OPCOM SA for the OPCOM Electricity Exchange" and the„OPCOM Regional Electricity Fund financed from IBRD funds, according to the Decision no. 6 of the Extraordinary General Shareholder Meeting / 15.06.2016 of SC OPCOM SA and Certificate of recording mentions from 11.07.2016 to 22,587;
- expenses incurred by the Group for the removal of the non-current real estate assets in the "OPCOM Regional Electricity Market", based on the Evaluation Report no. 786 / 15.03.2016 issued by JPA Audit & Consultanta SRL – 363.

Recording the memorandum of association amendments of SC OPCOM SA, based on the Extraordinary Shareholder Meeting Decision no, 6 / 15.06.2016, was performed at the ONRC according to the Certificate of Registration of Mentions dated 11.07.2016. As of 31.12.2016, the share capital is recorded in the financial statements submitted for approval to the General Shareholder Meeting by the OPCOM Branch SA are presented as subscribed and fully paid-up share capital.

6. INTANGIBLE ASSETS (continued)

In 2017, the biggest transfers from intangible assets in progress to intangible assets are mainly represented by the startup of the investment objectives, as follows:

- Upgrading the SCADA system for the Constanta Nord 400/110/10 kV substation with 8 types of licenses – 571,
- Licenses corresponding to the technical upgrade of the Campia Turzii 220/110/20 kV substation – 568;
- SCADA (software) programs in the Bradu 400/220/110/20 kV substation – 305;
- Software for the integrated security management system – 174;

For the intangible assets in progress, the largest entries in 2017 were:

- Replacement of EMS SCADA AREVA system components - software component, hardware component – 1,222;
- Upgrade of the existing antimalware solution – 45;

The balance of intangible assets in progress on December 31st, 2017 is mainly represented by:

- Implementing a system of Electronic Archiving and Document Management within CNTEE Transelectrica SA – 5,474;
- Replacement of EMS SCADA AREVA system components - software component, hardware component – 4,000;
- MIS extension – advanced reporting and budget planning solution – 3,048;
- Upgrading the SCADA system for the Constanta Nord substation – 571,

On December 31st, 2017, the tangible assets also included down payments amounting to 31,181 granted to the supplier ELCOMEX - IEA SA for performing the projects:

- Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja OHL to the Medgidia Sud 400 kV substation – down payment amounting to 9,949;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - Stage I - Resita 400/220/110 kV substation – down payment amounting to 21,232,

The down payments made to ELCOMEX - IEA SA have been secured with the insurance policies issued by Asito Kapital S.A.
On April 7th, 2017 the Court of Constanta, Section II Civil, by Hearing protocol no. 294/2017, upheld the application for a declaration of insolvency of the debtor Elcomex - IEA SA, naming Pricewaterhouse Coopers Business Recovery Services IPURL as insolvency administrator, Following the declaration of insolvency of Elcomex IEA SA, CNTEE Transelectrica SA entered on its statement of affairs for the amount of 31,189,487, representing the consideration of the down payment made to SC Elcomex IEA SA for the agreements no, C163/29,07,2015 and C255/18,11,2015 and other expenses, Starting with June 30th, 2017, the down payments amounting to 31,181 have been reclassified from "Tangible Assets" to "Receivables", where further details are available,

7. LONG-TERM RECEIVABLES

On December 31st, 2017 the Company no longer registers long-term receivables representing trade receivables with maturity of over 1 year that have been spread up for payment, associated to the bonus type support scheme for high efficiency cogeneration promotion, following the integral collection of the amount of 4,558 representing the overcompensation for the year of 2016, amount that should have been collected starting with the month of October 2018, according to the concluded agreements.

8. INVENTORIES

On December 31st, 2017 and December 31st, 2016, the inventories (at net value) were presented as follows:

	December 31, 2017	December 31, 2016
Spare parts	23,645	24,079
Consumables and other materials	7,353	6,849
Auxiliary materials	10,533	9,173
Other inventories	8,554	5,617
Total	**50,106**	**45,475**

8. INVENTORIES (continued)

As of December 31st, 2017 and December 31st, 2016, the inventories impairment adjustments are presented as follows:

	December 31st, 2017	December 31st, 2016
Adjustments for impairment of consumables	8,263	4,289
Adjustments for impairment of other materials	1,839	4,323
Adjustments for impairment of packaging	157	35
Total	**10,259**	**8,647**

As of December 31st, 2017 and December 31st, 2016, the evolution of inventory impairment adjustments are presented as follows:

	December 31st, 2017	December 31st, 2016
Balance on the 1st of January	**8,647**	**6,372**
Inventories impairment adjustments	2,978	2,275
Reversal of inventories impairment adjustments	(1,366)	-
Balance at the end of the period	**10,259**	**8,647**

During 2017, the expenditures incurred with materials and spare parts consumption are presented as follows:

	December 31st, 2017	December 31st, 2016
Expenditures on spare parts	13,877	18,524
Expenditures on consumables	3,901	4,629
Expenditures on other materials	1,753	1,890
Expenditures on auxiliary materials	388	396
Expenditures on fuel	2,287	2,302
Total	**22,206**	**27,741**

9. TRADE AND OTHER RECEIVABLES

On December 31st, 2017 and December 31st, 2016, the trade receivables and other receivables are presented as follows:

	December 31st, 2017	December 31st, 2016
Trade Receivables	853,451	878,374
Other Receivables	120,913	134,009
Down payments to suppliers	11,102	19,171
VAT to be recovered	47,899	28,433
Adjustments for impairment of uncertain trade receivables	(124,988)	(103,381)
Adjustments for impairment of other uncertain receivables	(82,913)	(92,274)
Total	**825,464**	**864,332**

9. TRADE AND OTHER RECEIVABLES (continued)

The structure of trade receivables is as follows:

	December 31st, 2017	December 31st, 2016
Customers – energy market, of which:	**845,529**	**863,707**
- Clients - operational activity - energy	382,603	428,634
- Clients - balancing market	243,548	255,981
- Clients - bonus type support scheme to promote the high-efficiency cogeneration	219,379	179,093
Other clients	7,922	14,667
Total Trade Receivables	**853,451**	**878,374**

CNTEE Transelectrica SA operates based on the Operating License No, 161/2000 issued by ANRE, as updated by the Decision of ANRE Chairman no, 802/May 18th, 2016, for the transmission of electricity, the provision of the system service and for the management of the balancing market.

On December 31st, 2017, the current customers in the operational activity registered a decrease compared to December 31st, 2016, which was mainly determined by:
- fall in the electricity capacity provided to consumers in December 2016 compared to December 2017;
- decrease of the average tariff approved by ANRE for these services

The main current customers on the electricity market are represented by: CIGA Energy, RAAN, Electrocentrale Bucuresti, Societatea Energetica Electrica, Electrica Furnizare, Enel Energie Muntenia SA, Enel Energie SA, E,ON Energie Romania, Complexul energetic Oltenia, Petprod, The weight of the main customers on the electricity market is about 54% in the Total Gross Receivables.

CNTEE Transelectrica SA operates its activities related to the bonus type support scheme for promoting the high efficiency cogeneration, acting as the administrator of the support scheme according to the provisions of the Government Decision no, 1215/2009, as amended and supplemented, "the main tasks being to collect, on a monthly basis, the contribution for cogeneration and the monthly payment of bonuses".

On December 31st, 2017, the Company registered receivables to be cashed from the bonus type support scheme for promoting the high efficiency cogeneration in a proportion of approximately 26% (December 31st, 2016 : 22%) of the total trade receivables, in a slight increase determined mainly by the amounts corresponding to the ANRE decisions regarding the over-compensation of the cogeneration activity for the year 2016 in the amount of 139,914(over-compensation 2015 registered in 2016: 119,655) registered according to ANRE decisions for which invoices were issued in March 2017.

In the timeframe January 1st – December 31st, 2017, the amounts related to the bonus type support scheme have increased compared to December 31st, 2016, mainly due to the over-compensation decisions for 2016, issued in 2017. The overview of the cashing of receivables for the cogeneration scheme is as follows:

- the amount of 1,394 representing the overcompensation for the year of 2014, via bank transactions from Termoficare Oradea (for Electrocentrale Oradea, according to the staging Convention);
- the amount of 13,234 representing the overcompensation for the year of 2015, via bank transactions from Termoficare Oradea (for Electrocentrale Oradea, according to the staging Convention);
- the amount of 83,233 representing overcompensation for the year of 2016, on the grounds of reciprocal compensations made via the Management and Informatics Institute (on the grounds of DG no, 685/1999) (the amount of 29,866 with Enet SA, Modern Calor, Rulmenti Barlad, Soceram, Thermoenergy Group, Veolia Energie Iasi, Veolia Energie Prahova, CET Govora) and receipts in the bank account dedicated to the administration of the support scheme (the amount of 53,367 from CET Grivita, Electrocentrale Bucuresti, Termoficare Oradea, Thermoenergy Group, Veolia Energie Prahova)<
- the amount of 70, representing undue bonus for the year of 2016, on the grounds of compensations made via the Management and Informatics Institute (on the grounds of DG no, 685 / 1999) – CET Arad,

On December 31st, 2017, the Company registered receivables amounting to 168,850, represented by the issued invoices under the bonus type support scheme for high efficiency cogeneration, out of which:

- overcompensation for the timeframe 2011 - 2013 in the amount of 76,702, namely from RAAN - 63,467 and CET Govora SA - 13,235;
- undue bonus for 2014 in the amount of 3,915, namely from RAAN – 1,981, CET Govora – 1,934;
- undue bonus for 2015 in the amount of 564, namely from CET Govora - 534, Interagro - 30;
- overcompensation for 2015 in the amount of 9,775, from Electrocentrale Oradea (debt taken over by Termoficare Oradea);
- overcompensation for 2016 in the amount of 56,680 from Electrocentrale Bucuresti;

9. TRADE AND OTHER RECEIVABLES (continued)

- contribution for cogeneration not collected from the suppliers of electricity consumers, in the amount of 21,214, namely from: Transenergo Com – 5,882, PetProd - 4,391, Romenergy Industry – 2,681, RAAN- 2,386, Arelco Power – 2,379, UGM Energy – 1,814, CET Govora – 901, KDF Energy – 888 and others,

For discharging the receivables generated by the overcompensation and the undue bonus, the Company requested the reciprocal compensations from the qualified producers in the support scheme, For producers (RAAN, Electrocentrale Bucuresti, CET Govora) that have not agreed to this way of discharging the reciprocal receivables and debts, the Company has applied and continues to apply the provisions of Article 17 (5) of the Order of ANRE Chairman no, 116/2013 for approving the Regulation on determining the way to collect the contribution for high efficiency cogeneration and payment of the bonus for the electricity produced in high efficiency cogeneration: "if the manufacturer did not make the payment in full to the administrator of the support scheme for its obligations resulted in accordance with the provisions of this Regulation, the administrator of the support scheme pays to the producer the difference between the invoices issued by the producer and the payment obligations of the producer on the support scheme, with explicit mention on the payment document of the respective amounts", and detained from payment the amounts due related to the corresponding support scheme.

CNTEE Transelectrica SA has concluded an agreement with CET Govora on compensation and rescheduling of payments for the amounts representing the equivalent receivables from the counter value of the overcompensation for the timeframe 2011 - 2013 and of the undue bonus for 2014 (Agreement no, C 135/June 30th, 2015 and Addendum no, 1/August 4th, 2015). The period of the Agreement was 1 year (timeframe July 2015 - August 2016) and stipulated the Company's right to calculate and collect payment penalties over the installment period.

According to the Agreement, the Company's receivables to be collected from CET Govora SA were compensated with the debts to CET Govora SA, represented by the cogeneration bonus for the period May 2014 - October 2015 detained pursuant to the Art, 17 (5) from the Order of the ANRE Chairman no, 116/2013 and the provisions of the Agreement, in the amount of 40,507,669.

Following the suspension in court, by Civil sentence no, 3185/November 27th, 2015, the ANRE Decision no, 738/March 28th, 2014 on setting the overcompensation amount for the timeframe 2011 - 2013, CET Govora SA no longer respected the obligations undertaken according to the Agreement.

Starting with May 9th, 2016, the general insolvency proceedings were opened for CET Govora, To recover its liabilities recorded before the insolvency proceedings, the Company applied the specific procedures provided by the Law no, 85/2014 on Insolvency and requested admission of its liabilities, according to the law.

Given the aforementioned facts, starting with May 9th, 2016, the Company has terminated the enforcement of article 17 (5) from the Order of ANRE Chairman no. 116 / 2013 on approving the Regulation regarding the settlement of the collection procedure of the high efficiency cogeneration contribution and the payment of the bonus for the electricity produced via high efficiency cogeneration, and has paid the cogeneration bonus to CET Govora on a monthly basis.

Via Civil Decision no, 2430/October 5th, 2016, the High Court of Cassation and Justice admitted the appeal declared by ANRE against Civil Ruling no. 3185/November 27th, 2015, has partially cancelled the contested sentence and has rejected the suspension request lodged by CET Govora, the judgement being final, Thus, starting with 05.10.2016, the effects of the ANRE Decision no, 738/28.03.2014 were no longer suspended, being in full effect.

Under these circumstances, the Company enforces the provisions of article 17 (5) of the ANRE Order no. 116 / 2013 for the reciprocal debts and receivables occurred after the insolvency proceedings, retaining the bonus owed to CET Govora SA up to the amounts unpaid to the Company according to the support scheme.

In the month of September 2016, CNTEE Transelectrica SA has concluded an agreement with SC Termoficare Oradea, to take over the debt of SC Electrocentrale Oradea, representing the overcompensation for the year 2014 and 2015. The overtaken debt, in the amount of 29,259, has been spread over 24 monthly instalments (October 31st, 2016 - September 30th, 2018).Until the financial statements were prepared, the deadlines provided for in the rescheduling agreement were respected.

Taking into consideration the Government Decision 925/2016, as subsequently amended and supplemented, presented above in Note 1, the Company does not register provisions for the support scheme, the unrecovered value of these receivables being included in the cogeneration contribution.

9, TRADE AND OTHER RECEIVABLES (continued)

Other receivables

On December 31st, 2017, other receivables in the amount of 1,209,133 mainly included:

- late payment penalties calculated to late paying clients, amounting to 64,817 (out of which the amount of 26,021 represents penalties in relation to the support scheme), The largest penalties for late payment have been registered by the following customers: RAAN (16,901), SC CET Govora (9,607), SC Eco Energy SRL (8,910), SC Petprod SRL (8,895), Total Electric Oltenia (3,289), Arcelor Mittal Galati (2,952), Also Energ (2,121), For the penalty charges for late payment of the receivables from operational activities, depreciation adjustments were recorded.
- compensations owed by suppliers for not delivering electricity (Arelco Power 2,817 and Enol Grup 2,541), Impairment adjustments were recorded for the compensations owed by suppliers from operating activities,
- the down payments granted to the supplier ELCOMEX - IEA SA amounting to 31,181, to which penalties amounting to 687have been added, The down payments have been granted to the supplier ELCOMEX - IEA SA for performing the following projects:
  - Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja OHL to the Medgidia Sud 400 kV substation – down payment amounting to 9,949;
  - Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to the 400 kV voltage - Stage I - Resita 400/220/110 kV substation – down payment amounting to 21,232,

The down payments made by the Company to ELCOMEX - IEA SA were secured with the insurance policies issued by Asito Kapital S.A.
On April 7th, 2017 the Court of Constanta, Section II Civil, by Hearing protocol no, 294/2017, upheld the application for a declaration of insolvency of the debtor Elcomex - IEA SA, naming Pricewaterhouse Coopers Business Recovery Services IPURL as insolvency administrator.
On the day of insolvency, CNTEE Transelectrica SA held the following agreements concluded with SC Elcomex IEA SA: C163/29.07.2015: "Converting the Portile de Fier – Resita – Timisoara – Sacalaz – Arad to 400 kV / the 400/220/110 kV Resita substation" and C255/18.11.2015 "Connecting the OHL 400 kV Isaccea-Varna and OHL 400 kV Isaccea-Dobruja in the 400 kV Medgidia Sud station, stage I". Following the declaration of insolvency of SC Elcomex IEA SA, CNTEE Transelectrica SA entered on its statement of affairs for the amount of 31,189, representing the consideration of the down payment made to SC Elcomex IEA SA for the agreements no. C163/29,07,2015 and C255/18.11.2015 and other expenses.
Pricewaterhouse Coopers Business Recovery Services IPURL notifies Transelectrica on August 7th, 2017, regarding the cancellation of the agreement C 163/29,07,2015 "Converting the Portile de Fier – Resita – Timisoara – Sacalaz – Arad to 400 kV / the 400/220/110 kV Resita substation".
On August 8th, 2017, the judiciary administrator Pricewaterhouse Coopers Business Recovery Services IPURL considers itself bound to note the cancellation by CNTEE Transelectrica SA of the agreement no. C255 from November 18th, 2015, regarding "Connection of the Isaccea-Varna 400 kV OHL and Isaccea-Dobruja 400 kV OHL in the Medgidia Sud 400 kV OHL, Stage I", notified by the Company with letter no, 24597 from July 5th, 2017, and at the same time the termination of the agreement on the initiative of CNTEE Transelectrica SA.
On July 1st, 2017, the Company submitted an application for summons regarding the issuance of a payment order, an action subject to the case file no, 24552/3/2017 on the docket of the Bucharest Court, Section VI Civil, requesting the Court to rule a decision obliging the debtor ASITO KAPITAL SA to pay the amount of 7,058,773,36 Euro *(the equivalent of 31,180,858 lei)*, representing guarantee policies for the down payments no. BR – 1500544/November 18th, 2015, and no, BR – 1500520/July 29th, 2015.
At the hearing from November 7th, 2017, after deliberation, the Bucharest Court ruled the following solution, in short:
- Admits the request.
- Orders the debtor to pay, within 20 days from notification of this decision, the amount of 2,237,750.83 euro (the equivalent of 9,949 at the exchange rate of 4,4458 euro), representing the down payment which was not reimbursed but guaranteed via letter of guarantee no, BR-1500544/18.11.2015;
- Orders the debtor to pay, within 20 days from notification of this decision, the amount of 4,821,022,53 euro (the equivalent of 21,233 at the exchange rate of 4,4041 euro), representing the down payment which was not reimbursed but guaranteed via letter of guarantee no, BR-1500520/29.07.2015;
- Orders the debtor to pay, within 20 days from notification of this decision, the amount of 200 lei representing legal expenses, With right of request in annulment within 10 days from notification, Document: Decision 4067/2017 – 07.11.2017,

By the date of drafting these financial statements, Decision 4067/2017 – 07.11.2017 has not been drafted and communicated in order to be enforced,

Considering that until the date of the present financial statements, the amounts insured by ASITO KAPITAL SA for the advance payment were not recovered, the Company recorded on 31 December 2017 impairment adjustments in the amount of 31,181.

- receivables from OPCOM representing VAT for the contribution in kind to the subsidiary's equity, amounting to

9, TRADE AND OTHER RECEIVABLES (continued)

4,517;

- deferred expenses amounting to 4,807 mainly represented by the advances on contracts concluded with the suppliers of electricity needed for covering the own technological consumption for future periods (3,321,562), a guarantee fee for the BEI 25710 loan (83) and commission of ING credit granting (354), maintenance and technical assistance (97), rents (600);
- other long-term receivables amounting to 4,517 , out of which 4,200 represent guarantees for temporary occupation of the land calculated and retained in accordance with Article 39 (1), (2) and (5) of the Law no, 46 / 2008 on the Forestry Code, in order to achieve the investment objective Resita – Pancevo (Serbia) 400 kV OHL.

Down payments to suppliers

On December 31st, 2017, the down payments to suppliers are represented by the suppliers who are debtors for services amounted to 11,102,342, out of which 11,083 represent amounts from transactions related to the price coupling mechanism. Application of the mechanism coupling through the price began on November 19th, 2014, the date at which the project "4 Market Market Coupling" which provides the unification of the electricity markets DAM Square (Next Day Market) from Romania, Hungary, Czech Republic and Slovakia entered in the operating phase. Within the price coupling mechanism for the day-ahead markets, the electricity exchanges correlate the day-ahead electricity transactions based on bids, taking into account the interconnection capacity provided by the TSOs, by which it is implicitly allocated CNTEE Transelectrica SA, acting as TSO, transfers the electricity both in physical and commercial terms to the neighboring TSOs (MAVIR-Hungary) and manages the congestion revenues along the respective interconnection (Article 139 from ANRE Order no, 82/2014), while in relation to SC OPCOM SA it acts as Implicit Participant on the Day-Ahead Market.
As a Shipping Agent and Implicit Participant, CNTEE Transelectrica SA has the commercial task to settle the power traded between SC OPCOM SA and MAVIR.

Adjustments for depreciation of trade receivables, of uncertain trade receivables and of other uncertain receivables

The Groups's policy is to register impairments amounting to 100% for clients in litigation, under insolvency and bankruptcy, and 100% from trade receivables and other receivables not collected for more than 180 days, except for outstanding receivables generated by the support scheme, The Company also makes a case by case analysis of uncollected trade and other receivables.

On December 31st, 2017, the highest adjustments of depreciation, calculated for the trade receivables and related penalties, have been recorded for SC Eco Energy SRL (24,736), SC Petprod SRL (23,540), Arelco Power (17,359), SC Total Electric Oltenia SA (14,186), Romenergy Industry (13,513), Elsaco Energy (9,294), RAAN (8,517), Also Energ (7,177), CET Brasov (4,665), OPCOM (4,517), The Company took the following measures in order to recover the impaired receivables: court proceedings, entering on the statement of affairs, requesting clarifications from ANAF (regarding the VAT collected from Opcom) and so on.

The Company's exposure to the collection risk, as well as the value adjustments for trade receivables, are presented in Note 30.

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10. OTHER FINANCIAL ASSETS

On December 31st, 2017 and December 31st, 2016, the other financial assets were presented as follows:

	December 31st, 2017	December 31st, 2016
Bank deposits with maturity larger than 90 days	-	135,090
Total	**-**	**135,090**

On December 31st, 2017, the Company has no bank deposits with maturity larger than 90 days,

11. CASH AND CASH EQUIVALENTS

On December 31st, 2017 and December 31st, 2016, the cash and cash equivalents were presented as follows:

	December 31, 2017	December 31, 2016
Current bank accounts and deposits with original maturities of less than 90 days, out of which:	553,787	960,400
-Cash from high efficiency cogeneration	19,173	107,812
-Cash from revenues related to the allocation of interconnection capacities used for investments in the grid	84,247	77,027
-cash from the connection fee	31,153	22,533
-Petty cash	88	89
Other cash equivalents	-	-
Total	**553,875**	**960,489**

The bank deposits with initial maturity smaller than 90 days, constituted with cash available in current accounts (including cogeneration deposits) amounted to 251,047 at December 31st, 2017 and to 688,115 at December 31st, 2016.

12. SHAREHOLDERS' EQUITY

Share capital

According to GEO 86/2014 on the establishment of reorganization measures at central public administration level and for modifying and completion of some normative acts, on February 20th, 2015 was recorded in the Company's shareholder Register the transfer of 43,020,309 shares from the account of the Romanian State from the administration of the General Secretariat of Government, in the account of the Romanian State in the management of the Ministry of Economy, Trade and Tourism.

Under the provisions of Article 2 of Government Emergency Ordinance no.55/November 19th, 2015 on the establishment of reorganization measures at the central government level and to supplement several acts, the Ministry of Economy, Trade and Business Environment Relationship (MECRMA) was incorporated by reorganizing and taking over the activities of the Ministry of Economy, Trade and Tourism, which was dissolved, and by merging and structures in the field of small and medium businesses of the Ministry of Energy, Small and Medium Enterprises and Business Environment,
According to the provisions of GD no.27/January 12th, 2017 on the organization and functioning of the Ministry of Economy, the Company functions under the authority of the Ministry of Economy.
On March 3rd, 2017 the transfer in the amount of 43,020,309 shares was registered in the Company's Shareholder Register, from the account of the Romanian State from the administration of the Ministry of Economy, Trade and Tourism, in the account of the Romanian State in the administration of the Ministry of Economy.

At the end of each reporting period, the subscribed and paid share capital of the Company amounted to 733,031 is divided into 73,303,142 ordinary shares with a nominal value of 10 lei/share and corresponds to the one registered in the Trade Register.

12. SHAREHOLDERS' EQUITY (continued)

Share capital (continued)

The shareholder structure on December 31st, 2017 and on December 31st, 2016 was as follows:

	December 31st, 2017		December 31st, 2016	
Shareholder	**Number of shares**	**% of the share capital**	**Number of shares**	**% of the share capital**
Romanian State through MECRMA	43,020,309	58,69%	43,020,309	58,69%
Other legal person shareholders	20,689,339	28,22%	25,797,725	35,19%
DEDEMAN SRL	4,192,363	5,72%	-	-
Other natural person shareholders	5,401,131	7,37%	4,485,108	6,12%
Total	**73,303,142**	**100,00%**	**73,303,142**	**100,00%**

As of December 31st, 2017, the legal entities shareholder's position also includes the holding of 5,77% of DEDEMAN SRL (at 31,12,2016 the ownership was under 5%),
The Company recognizes changes in the share capital in accordance with the legislation in force and only after their approval in the Extraordinary General Assembly of Shareholders and their registration with the Trade Registry.

As of December 31st, 2017 and December 31st, 2016, the share capital is as follows:

	December 31st, 2017	December 31st, 2016
Share capital (nominal value)	733,031	733,031
Share capital balance	**733,031**	**733,031**

The shareholders are entitled to receive dividends and are entitled to one vote per share at the meetings of the Company.
The value of shareholders' dividends distributed from the profit of 2016 according to the General Assembly Decision no, 4/April 27th, 2017 amounts to 165,445, and their payment is done through the Central Depository starting with June 28th, 2017. The amount of unpaid dividends as of December 31st, 2017 is 2,414 (December 31st, 2016: 1,313).

Share premium

All new shares issued within the capital increase by the primary initial public offering from 2006 were subscribed and fully paid in against the issue price, The share premium amounting to 49,843, being the difference between the share issue price and the share nominal value, was recorded in the Company's reserve account.

Legal reserves

Legal reserves in the amount of 119,153 as of December 31st, 2017 and 116,522 as of December 31st, 2016 represent legal reserves constituted according to the statutory legislation and cannot be distributed, The Company transfers to this reserve at least 5% of its annual accounting profits (GEO no, 64/2001, Law no, 227/2015) until the cumulative balance reaches 20% of its paid in share capital.

Revaluation reserves

The revaluation reserve amounts to 408,899 as of December 31st, 2017 and 458,184 as of December 31st, 2016, The latest revaluation of buildings and special installations was made on December 31st, 2015 by SC JPA Audit & Consultanta SRL, independent evaluator authorized by the National Union of Authorized Evaluators in Romania ("ANEVAR").

12. SHAREHOLDERS' EQUITY (continued)

Other reserves

As of December 31st, 2017, other reserves amount to 57,627 (57,627 as of December 31st, 2016), of which 20,952 represents the value of structural funds received from the Managing Authority for Sectoral Operational Program "Increase of Economic Competitiveness" and 32,718 represents the value of subsidies from connection tariffs, which were used to finance received investment works in assets that are part of the State's public domain, and 3,283 represents the value of the land for which certificates authenticating the ownership rights were obtained, As described in Note 26, the land for which the certificates authenticating the ownership rights are obtained is first recognized at fair value in reserve and followed by an increase in share capital after it is recorded with the Trade Registry Office.

Retained earnings

Retained earnings amount to 1,369,052 as of December 31st, 2017 and 1,714,462 as of December 31st, 2016.

On December 31st, 2017, the Company recorded an accounting loss of 47,945. Accounting regulations in line with the International Financial Reporting Standards approved by the OMPF no. 2844/2016, provide the following:
(1) The retained accounting loss shall be covered from the profit of the financial year and from retained earnings, from the reserves, the share premiums and the share capital, according to the decision of the general meeting of the shareholders or associates, in compliance with the legal provisions.

(2) In the absence of express legal provisions, the order of the sources from which the accounting loss is covered is the responsibility of the general meeting of shareholders or associates, respectively of the board of directors.

On December 31st, 2017, the Company recorded a positive retained earning result corresponding to the surplus from the revaluation reserves in the amount of 834,511, out of which 189,989 surplus from the revaluation reserves not taxable at the change of destination, and 644,522 surplus from the revaluation reserves taxable at destination change.

Considering art, 176 of the Accounting Regulations in compliance with the International Financial Reporting Standards approved by the OMPF no, 2844/2016 with subsequent amendments and completions ,as well as art, III par, (1) of GO no, 64/2001 with the subsequent amendments and completions, it is subject to the approval of the General Meeting of Shareholders the proposal to cover the accounting loss recorded as of 31 December 2017 in the amount of 47,945 from the positive retained earnings result originated from the surplus realized from non-taxable revaluation reserves upon change of destination.

13. DEFERRED REVENUES

Deferred income include mainly connection tariff, other investment subsidies, non-refundable European funds from the Ministry of European Funds, as well as revenues from the allocation of interconnection capacities

On December 31st, 2017, the deferred revenues were as follows:

	December 31st, 2017	Out of which short term portion as at 31,12,2017	December 31st, 2016	Out of which short term portion as at 31,12,2016
Deferred revenues – allocation of interconnection capacity	5,797	5,797	6,579	6,579
Deferred income – European funds	2,558	2,558	1,320	1,320
Funds from connection fee	311,396	23,558	319,026	21,082
European funds	101,625	7,415	109,441	7,473
Other subsidies	32,371	1,553	35,351	1,571
Total	**453,747**	**40,881**	**471,717**	**38,025**

13. DEFERRED REVENUES (continued)

Evolution in advance short-term revenues during the 2017 is presented as follows:

	December 31st, 2017	December 31st, 2016
Opening balance	38,025	33,408
Cash in advance related to interconnection capacity	75,479	38,685
Collections from European funds	1,327	1,213
Connection fee transferred from long-term deferred income (connection tariff)	2,300	(413)
Revenues from using the interconnection capacity	(76,261)	(34,868)
Revenues from European funds	(89)	-
Total	**40,881**	**38,025**

The evolution in advance long-term revenues during the 2017 is presented as follows:

	December 31st, 2017	December 31st, 2016
Opening balance	434,891	467,949
Connection subsidies	14,228	(2,951)
Reclassification of connection subsidies to public patrimony	-	-
Non-refundable funds	174	33
Non-refundable funds to be repaid	-	(137)
Transfer to short-term deferred income	(2,300)	413
Release of deferred income	(34,127)	(31,615)
Total	**412,866**	**434,891**

In 2017, CNTEE Transelectrica SA collected from the Ministry of Economy the amount of 164 lei in order to start the expropriation procedures for the privately owned immovable properties constituting the expropriation corridor for the following works of national interest:

- Connecting the Isaccea-Varna 400 kV OHL and the Isaccea-Dobrudja 400 kV OHL in the Medgidia Sud 400 kV substation - Stage II - Connections in the Medgidia Sud 400 kV OHL d,c, substation;
- Converting the Portile de Fier – Resita – Timisoara – Sacalaz – Arad axis/Portile de Fier – (Anina) – Resita 400 kV OHL to 400 kV;
- Converting the Portile de Fier - Resita - Timisoara - Sacalaz - Arad axis to 400 kV / stage I: Extension of the Portile de Fier 400 kV substation, Portile de Fier - Anina - Resita 400 kV OHL, Resita 400/220/110 kV Resita substation;
- Resita-Pancevo 400 kV OHL interconnection;
- Ostrovu Mare 220 kV OHL double circuit – PTG;
- Gutinas – Smardan 400 kV OHL d,c, and
- Cernavoda-Stalpu 400 kV OHL d,c, and connection in the Gura Ialomitei substation.

14. LOANS

Long-term loans

On December 31st, 2017 and December 31st, 2016, the amounts owed to credit institutions for a period of over one year are the following:

Description	December 31st, 2017	December 31st, 2016
NIB PIL No 02/18 (a)	3,417	11,337
IBRD 7181 (b)	43,603	74,348
NIB PIL No 03/5 (c)	10,717	20,889
NIB PIL No 02/37 (d)	5,737	11,182
KfW 10431 (e)	-	9,522
KfW 11300 (f)	-	9,611
EIB 25709 (i)	89,742	98,391
EIB 25710 (i)	97,425	105,910
BRD-ING (j)	58,712	95,363
Unsecured bonds (k)	200,000	200,000
Total long-term loans from credit institutions, out of which:	**509,355**	**636,554,**
Less: Current portion of long-term loans	**(314,169)**	**(134,624)**

Description	December 31st, 2017	December 31st, 2016
Total long-term loans net of current installments	**195,186**	**501,930**

Overview of the long-term loans as on December 31st, 2017

Loan name	Loan date	Value of loan (currency)	Balance as at December 31, 2017 (foreign currency)	Balance as at December 31, 2017 (RON)	Interest rate	Maturity date as per loan
NIB PI 02/18	19,02,2003	18,442 USD	878 USD	3,417	LIBOR 6M+0,9%	16,04,2018
BIRD 7181	15,07,2003	71,623 EUR	9,357 EUR	43,603	last transmitted 0%	15,01,2020
NIB PI 03/5	12,11,2004	23,000 EUR	2,300 EUR	10,717	EURIBOR 6M+0,85%	17,09,2018
NIB PI 02/37	25,02,2004	12,928 EUR	1,231 EUR	5,737	EURIBOR 6M+0,9%	17,09,2018
BEI 25709	12,08,2004	32,500 EUR	19,259 EUR	89,742	3,596%	10,09,2025
BEI 25710	12,08,2004	32,500 EUR	20,908EUR	97,425	3,856% and 2,847%	11,04,2028
ING+BRD	26,07,2012	42,000 EUR	12,600 EUR	58,712	EURIBOR 6M+2,75%	13,02,2019
Unsecured bonds	19,12,2013	200,000 RON	200,000 RON	200,000	6,1%	19,12,2018
TOTAL				**509,355**		

Long-term loans are detailed as follows:

a) Loan no, 02/18 from NIB PIL

The loan from NIB was granted on February 19th, 2003, The total amount due as of December 31st, 2017 amounts to USD 878,175, The loan was granted to finance the rehabilitation of the Slatina 400/220 kV electrical substation, The loan bears a variable interest rate of six months LIBOR plus a 0,9% margin. Repayment is scheduled over 10 years in 20 instalments, from 2008 to 2018.

b) Loan no, 7181 from IBRD

The loan from IBRD was granted on July 15th, 2003 for the objective "Electricity Market", The total amount outstanding as of December 31st, 2017 is EUR 9,357,495. The loan bears a variable interest rate communicated by IBRD depending on the financing cost, The interest rate for the last instalment was 0%, The repayment is performed biannually (on January 15th and July 15th of each year), starting July 15th, 2008, with the last instalment being scheduled on January 15th, 2020,
The loan agreement includes certain financial provisions: (i) a debt service cover ratio of not less than 1,3 and (ii) a ratio of current assets to current liabilities of not less than 1.2.

c) Loan no, 03/5 from NIB PIL

The loan from NIB was granted on November 12th, 2004 for the objective "Rehabilitation of the Gutinas 400/220/110 kV electrical substation".The total amount outstanding as of December 31st, 2017 is EUR 2,300,000, The interest rate is 6 month EURIBOR plus 0,85%, repayment is performed biannually, in equal instalments starting March 15th, 2009, with the last instalment being scheduled on September 17th, 2018.

d) Loan no, 02/37 from NIB PIL

The loan was granted by NIB on February 25th, 2004 for the objective "Rehabilitation of the Rosiori 400/220 kV electrical substation". The total amount outstanding as of December 31st, 2017 is EUR 1,231,233. The interest rate is 6 month EURIBOR plus 0,90%, repayment is performed biannually, in equal instalments starting September 15th, 2008, with the last instalment being scheduled on September 17th, 2018.

e) Loan no, 10431 from KfW
The loan has been granted by KfW on August 12th, 2004 for the objective "Rehabilitation of the Sibiu Sud 400/220/110 kV electrical substation", As of December 31st, 2017, the loan was repaid in full, The interest rate is 6 months EURIBOR

14. LOANS (CONTINUED)

plus 0,60%, the repayment being performed biannually, in equal instalments starting January 31st, 2008, with the last instalment being scheduled on July 31st, 2017.

f) Loan no, 11300 from KfW

The loan has been granted by KfW on August 12th, 2004 for the "Rehabilitation and modernization of the Bucuresti Sud 400/220/100 kV electrical substation", As of December 31st, 2017, the loan was repaid in full, The interest rate is 6 months EURIBOR plus 0,60%, the repayment being performed biannually, in equal instalments starting January 31st, 2008, with the last instalment being scheduled on July 31st, 2017.

g) Loan no, 25709 and no, 25710 from EIB

The loans were granted by EIB on August 5th, 2010 for financing the modernization and rehabilitation of the Romanian Power Transmission Grid, Each loan amounts to EUR 32,500,000, EIB loan no, 25709 is not guaranteed, while EIB loan no, 25710 is guaranteed by CitiBank Europe PLC, Dublin – Romania branch, The repayment period is of 15 years, with a grace period of 2 years, The repayment is scheduled from 2012 to 2025 for EIB loan no, 25709 (on March 10th and September 10th of each year) and from 2013 to 2028 for EIB loan no, 25710 (on April 11th and October 11th of each year). The interest rates are 3,596% for EIB loan no, 25709 and 3,856% and 2,847% for EIB loan no, 25710.

The amount outstanding as of December 31st, 2017 for the EIB loan no, 25709 is EUR 19,259,259 and for EIB loan no, 25710 EUR 20,908,120.

The EIB loan agreement no, 25709 includes certain financial provisions: (i) a ratio of EBITDA to interest payments for long-term loans during the year of not less than 4,2; (ii) a ratio of debt to equity of not more than 0,95; (iii) a ratio of total net debt and EBITDA of no more than 3,5.
Loan no, 25710 from EIB is guaranteed by CitiBank Europe PLC, Dublin – Romania branch, The contract bears a guarantee commission of 0,46% per annum, computed at 115% of the value of the balance. The guarantee agreement concluded on January 26th, 2011 includes certain financial provisions: (i) a ratio of consolidated EBITDA to consolidated net financial expenses of not less than 4,2; (ii) a ratio of total net debt to equity of not more than 0,95.

h) Loan from ING Bank N,V,, Amsterdam (Bucharest branch) and BRD – Groupe Société Générale SA

The loan was granted on July 26th, 2012 by the consortium made up of ING Bank N,V,, Amsterdam (Bucharest branch) and BRD – Groupe Société Générale SA. The loan is meant to finance the following investments: refurbishment of the Lacu Sarat 400/200/110/20 kV substation, refurbishment of the Mintia 220/110 kV substation, integrated security systems in substations and replacement of autotransformers and transformers in electrical substations. The repayment period is of 84 months with a grace period of 24 months, with equal instalments payable every semester starting from August 2014, The loan bears a variable rate of 6 month EURIBOR, plus a margin of 2,75%,The loan is 100% guaranteed through assignment of receivables, The total amount outstanding as of December 31st, 2017 is EUR 12,600,000.

The loan agreement includes certain financial provisions: (i) a ratio of EBITDA to financial expenses of no less than 4,2; (ii) a ratio of total net debt to EBITDA of no more than 3,5.

i) Bonds issue

The Extraordinary General Assembly of Shareholders of CNTEE Transelectrica SA approved, through Decision no, 7 of 30,09,2013, a limit of RON 900 million for the issue of corporate bonds during 2013 – 2017, from which RON 200,000,000 were issued during December 11th, 2013 – December 18th, 2013 through an initial public offering on the internal capital market, The bonds are unsecured and are not convertible into shares, The interest rate of the bonds issued is of 6,1% per annum, the interest being paid on an annual basis in December 2014, December 2015, December 2016, December 2017 and December 2018, The bonds are due on December 19th, 2018.

Following the consent given by the Council of the Bucharest Stock Exchange on January 14th, 2014, starting with January 16th, 2014, the corporate bonds of the Company are being traded on the Bucharest Stock Exchange, within the sector Securities – third category Corporate bonds under the symbol TEL 18.

During the entire period in which the bonds are not redeemed in full, the Company undertakes to comply with certain financial indicators: (i) Interest Cover Ratio to be at least equal to 4,2; (ii) the Debt/Equity Ratio to be equal or less than 0,9.

14. LOANS (CONTINUED)

As of December 31st, 2017, the financial indicators corresponding to loan agreements and bonds issue, were met.

The long-term portion of loans will be repaid as follows:

	December 31st, 2017	December 31st, 2016
Between 1 and 2 years	51,449	311,712
Between 2 and 5 years	68,913	95,402
Over 5 years	74,824	94,816
Total	**195,186**	**501,930**

The Group did not perform activities related to hedging its foreign currency obligations or to exposure to interest rate risks.

All the long-term loans, except for the agreements EIB 25709 and EIB 25710 and Bonds, bear a variable interest rate and consequently, the fair value of the long-term loans is similar to their book value.

As of December 31st, 2017, the long-term loans guaranteed by the Romanian Government through the Ministry of Public Finances are: BIRD 7181, NIB PIL 03/5, NIB PIL 02/18 and NIB PIL 02/37.
The loan from ING and BRD was initially guaranteed by assignment of receivables from SC E,On Energie Romania SA, SC E-Distributie Muntenia SA, SC Alpiq Romindustries SRL, SC Electromagnetica SA, SC Met Romania Energy Marketing SRL and through the real movable security over the investment accounts opened with ING and one investment account opened with BRD SMCC.
From November 2016, the loan is secured by the assignment of the receivables that the Company has to collect only from SC EON Energie Romania SA and SC Enel Distributie Muntenia SA and by the real movable security over the investment accounts opened with ING and an investment account opened with BRD SMCC.

The guarantee agreement concluded with CitiBank Europe PLC is secured by assignment of receivables that the Company has to collect from SC Enel Energie Muntenia SA.
Short-term loans

On December 31st,2017 and December 31st,2016 the short-term Loans are detailed as follows:

	December 31st, 2017	December 31st, 2016
Current share of long-term loans	314,169	134,624
SMART revolving	21,119	17,343
Interest on long and short-term loans	2,460	3,140
Interest of bonds	435	441
Total short-term loans	**338,183**	**155,548**

Loans contracted for the current activity

Transelectrica has contracted a credit line in February 2017 from BRD GROUP SOCIETE GENERALE SA, the Large Corporates Branch, for a period of 12 months for financing the bonus type support scheme for high efficiency cogeneration, in the form of overdraft amounting to 150 with an interest calculated according to the ROBOR 1M reference rate, plus a negative margin of 0,10%, In the event that the value of the ROBOR 1M reference rate is smaller than 0,10%, the interest rate applied shall be of 0%,
This was guaranteed by:
- movable mortgage on the account opened at the bank;
- movable mortgage on receivables resulted from contracts regarding the contribution for high efficiency cogeneration, concluded with Cez Vanzare S,A,, E,ON Energie Romania S,A,, Tinmar Energy S,A,

On December 31st, 2017, the credit line is not used,
The subsidiary Smart SA contracted a credit line from ING Bank NV Amsterdam, with variable interest rate, As of 31,12,2017 the structure of the credit line is presented as follows:

14. LOANS (CONTINUED)

- Working capital for supporting and financing othe current activity in the amount of 24,000, valid for 1 year
- Commitments in the form of a bank guarantee letter for repayment of the advance amounting to 5,792, valid on September 6, 2019. The bank letter guarantees the advance of 30% of the value of the products and works received by the company under the execution contract no, C99 / 06,06,2016, having as object the execution of the work "Modernization of 220/110 kV Dumbrava station" concluded with CNTEE Transelectrica SA.

On December 31, 2017, the group had used 21,000.

15. EMPLOYEE BENEFITS OBLIGATIONS

According to Government Decisions no, 1041/2003 and no, 1461/2003, the Company provides in-kind benefits in the form of free electricity to the employees who retired from the Predecessor Entity.

Also, according to the collective labor agreement, the Company provides long-term benefits to both employees – depending on the length of service and seniority within the Company – and to former employees after retirement. The benefits awarded to management personnel are included in Note 28, under *Remuneration of the Company's management,*
The long-term benefits provided by the Company include the following:

retiree premiums ranging from 1 to 5 gross monthly base salaries, depending on the number of years of seniority within the Company on the date of retirement;

anniversary premiums between 1 and 5 gross monthly base salaries, depending on the number of years of seniority within the Company;

free electricity paid after retirement of 1,800 kWh/year, paid according to the collective labor agreement.

The actuarial calculations referring to the post-employment benefits and other long-term benefits were made by an authorized actuary, based on the service agreement concluded with Mr, Daniel Ghervase,

15. EMPLOYEE BENEFITS OBLIGATIONS (continued)

	December 31st, 2016	Interest cost	Cost of current service	Payments from provisions	Actuarial loss for the period	December 31st, 2017
Benefits pertaining to anniversary premiums to be granted to current employees	26,718	340	837	1,850	1,070	27,114
Benefits pertaining to maternity premiums to be granted to current employees	74	-	-	-	(74)	-
Benefits pertaining to retiree premiums of current employees	15,512	149	525	1,505	(952)	13,751
Benefits pertaining to premiums granted for the labor agreement termination	101	-	-	-	(101)	-
Benefits pertaining to the counter value of electricity to be paid to current employees after retirement	8,640	136	462	-	1,067	10,306
Benefits pertaining to the counter value of electricity paid to current retirees	7,006	144	-	880	5,094	11,343
	58,050	**769**	**1,824**	**4,235**	**6,105**	**62,513**

The main assumptions considered in the actuarial calculation :

	December 31st, 2017	December 31st, 2016
Discount rate	Values in the range 3,5% - 4,6% set	
	ve in lei, without adjustments, supplied by	
	,975%; 1,393%; 1,799%; 2,197%; 2,565%	
For the first 5 years	secondary market and correlated with the development of the inflation target level set by NBR for the following years, A long-term inflation of 2% per annum and a real return of 1,86%	the interest curve in lei, without adjustments, supplied by EIOPA for December 2016, with a peak of 4,587% for 25 years and dropping to 4,358% for 85 years
For more than 5 years		4% in the first 3 years, 3% in the 4th year and 2% in the remaining years
Salary increase	The wages follow the inflation rate development,	

16. TRADE AND OTHER PAYABLES

On December 31st, 2017 and December 31st, 2016, trade payables and other payables are presented as follows:

	December 31st, 2017	December 31st, 2016
Providers - electricity market	538,923	591,679
Asset providers	46,283	77,668
Providers of other activities	18,634	22,286
Amounts due to the employees	7,537	6,170
Other liabilities	81,972	179,255
Total	**693,349**	**877,058**

On December 31st, 2017 and December 31st, 2016, outstanding debts on the energy market amounted to 591,679 and 514,808 respectively, and presented the following structure:

	December 31st, 2017	December 31st, 2016
Suppliers on the electricity market, of which:		
- suppliers – operations – energy	110,801	122,864
- suppliers - balancing market	204,920	286,775
- suppliers in the bonus support scheme for the promotion of high-efficiency cogeneration	223,202	182,040
Total	**538,923**	**591,679**

The decrease of liabilities to suppliers from the operational activity – energy came as a result of the payment of outstanding obligations on the electricity market as of December 31st, 2016.

The decrease of liabilities to suppliers on the balancing market was due to the decrease of the amount of transactions on the balancing market in December 2017 compared to December 2016, causing an increase of liabilities to suppliers on this market, outstanding as of December 31st, 2017 compared to December 31st, 2016.

The providers on the electricity market are represented mainly by: SC Hidroelectrica SA, Electrocentrale Bucuresti, RAAN, Complex Energetic Oltenia, Mavir, Complex Energetic Hunedoara, Romgaz SA, OMV Petrom, On December 31st, 2017, their share was ca, 88% in the total number of energy suppliers.

The increase in debts related to the support scheme towards the suppliers (producers) was determined by withholding from payment the cogeneration bonus and the ante-overcompensation owed to producers in the account of the Company's receivables not collected from the same producers in the support scheme, represented by the overcompensation of the period 2011-2013, 2015 and 2016 by applying the provisions of Art. 17 (5) of Order no. 116/2013 of the ANRE Chairman.

On December 31st, 2017, payment obligations were registered towards suppliers (producers) in the amount of 111,233 (Electrocentrale Bucuresti – 56,680, RAAN – 51,184, CET Govora SA – 3,369), representing the cogeneration bonus and ante-overcompensation for the years 2014 and 2015, as well as the bonus not granted for the years 2015 and 2016, The amounts representing the debts of the Company regarding the support scheme towards Electrocentrale Bucuresti, RAAN and CET Govora have been retained from payment on the grounds of Article 17 (5) of the Order of the ANRE Chairman no, 116 / 2013, because the suppliers (producers) registered payment obligations towards the Company regarding the bonus type support scheme.

The Company requested the agreement of the producers (suppliers of the Company) who did not pay for the overcompensation invoices and the undue bonus, to compensate the reciprocal debts at their minimum level via the Management and Informatics Institute (IMI), entity that unitedly manages all information received from tax-payers, according to the provisions of GD no. 685/1999.
RAAN and Electrocentrale Bucuresti have not agreed to this method of discharging the reciprocal receivables and debts, and therefore the Company has applied and continues to apply the provisions of Article 17 (5) of the Order of ANRE Chairman no. 116/2013 for approving the Regulation on determining the way to collect the contribution for high efficiency cogeneration and payment of bonus for electricity produced in high efficiency cogeneration: "if the manufacturer did not make the payment in full to the administrator of the support scheme for its obligations resulted in

16. TRADE AND OTHER PAYABLES (continued)

accordance with the provisions of this Regulation, the administrator of the support scheme pays to the producer the difference between the invoices issued by the producer and the payment obligations of the producer on the support scheme with explicit mention on the payment document of the respective amounts" and detained from payment the amounts due related to the corresponding support scheme.

CNTEE Transelectrica SA has concluded an agreement with CET Govora on compensation and rescheduling of payments for the amounts representing the equivalent receivables from the counter value of the overcompensation for the timeframe 2011-2013 and of the undue bonus for 2014 (Agreement no, C 135/June 30th, 2015 and Addendum no, 1/August 4th, 2015), The period of the Agreement was 1 year (timeframe July 2015 - August 2016) and stipulated the Company's right to calculate and collect payment penalties over the installment period.

According to the Agreement, the Company's receivables to be collected from CET Govora SA were compensated with the debts to CET Govora SA, represented by the cogeneration bonus for the period May 2014 - October 2015 detained pursuant to the Art, 17 (5) from the Order of the ANRE Chairman no, 116/2013 and the provisions of the Agreement, in the amount of 40,508.

Following the suspension in court, by Civil sentence no, 3185/November 27th, 2015, the ANRE Decision no, 738/March 28th, 2014 on setting the overcompensation amount for the timeframe 2011 - 2013, CET Govora SA no longer respected the obligations undertaken according to the Agreement.

Starting with May 9th, 2016, the general insolvency proceedings were opened for CET Govora, To recover its liabilities recorded before the insolvency proceedings, the Company applied the specific procedures provided by the Law no, 85/2014 on Insolvency and requested admission of its liabilities, according to the law.

Given the aforementioned facts, starting with May 9th, 2016, the Company has terminated the enforcement of article 17 (5) from the Order of ANRE Chairman no, 116 / 2013 on approving the Regulation regarding the settlement of the collection procedure of the high efficiency cogeneration contribution and the payment of the bonus for the electricity produced via high efficiency cogeneration, and has paid the cogeneration bonus to CET Govora on a monthly basis.

Via Civil Decision no, 2430/October 5th, 2016, the High Court of Cassation and Justice admitted the appeal declared by ANRE against Civil Ruling no, 3185/November 27th, 2015, has partially cancelled the contested sentence and has rejected the suspension request lodged by CET Govora, the judgement being final, Thus, starting with 05,10,2016, the effects of the ANDRE Decision no, 738/28,03,2014 are no longer suspended, being in full effect.

Under these circumstances, the Company enforces the provisions of article 17 (5) of the ANRE Order no, 116 / 2013 for the reciprocal debts and receivables occurred after the insolvency proceedings, retaining the bonus owed to CET Govora SA up to the amounts unpaid to the Company according to the support scheme.

The decrease of the balance of asset suppliers on December 31st, 2017 compared to December 31st, 2016 is due to the payment towards the equipment, works and services providers for the investment projects.

The debts towards suppliers of other activities are mainly represented by the not due debts related to the services provided by third parties, debts which have registered an insignificant decrease compared to December 31st, 2016.

The debts' structure recorded as "other liabilities" is presented as follows:

	December 31st, 2017	December 31st, 2016
Different Creditors	32,010	134,136
Clients – creditors	37,486	33,620
Dividends to be paid	2,414	1,313
Other liabilities	10,064	10,186
Total	**81,973**	**179,255**

On December 31st, 2017, the position "different creditors" in the amount of 32,010 mainly represents the net position of the support scheme for high-efficiency cogeneration, which on December 31st, 2017 registers a debt position amounting to 30,452 (December 31st, 2016: 128,273), down from December 31st, 2016 as a result of the decrease in value of the high-efficiency cogeneration contribution.

The net position of the support scheme is the difference between:

- the amount of contributions to be collected from the electricity suppliers, the amount of the overcompensation of the activity of electricity and heat production in high-efficiency cogeneration for 2011-2013, for the years of 2014, 2015 and 2016, the undue bonus for the years of 2014, 2015 and 2016 – to be collected from the producers, according to the ANRE decisions, on the one hand, and
- the cogeneration bonus amount withheld under Article 17 (5) of the Order of ANRE Chairman no, 116/2013, the

16. TRADE AND OTHER PAYABLES (continued)

ante-overcompensation for the years 2014, 2015 and 2016 and the bonus not granted for the years 2014, 2015 and 2016 - to be paid to the high-efficiency cogeneration energy producers, the beneficiaries of the support scheme, on the other hand.

"Clients creditors" on December 31st, 2017 amounted to 37,486, out of which 10,276 represent amounts collected in advance from MAVIR and 10,408 represent amounts collected in advance from OPCOM within the transactions related to the price coupling mechanism.
On December 31st, 2017, the dividends owed and unpaid to the Company's shareholders amount to 2,414, out of which the amount of 659 is related to dividends distributed from the profit of the year 2016 and the amount of 998 is related to dividends distributed from the profit unallocated, highlighted in the account balance "Other Revenues – Own sources of funding from profits" based on the Decision no, 11/16,10,2017 of the General Assemnly of Shareholders.
These amounts are available to the shareholders through the payment agent.
Other debts amounting to 10,064 are mainly represented by guarantees for the proper execution of service contracts on the electricity market concluded by CNTEE Transelectrica SA, amounting to 8,400.

17. PROVISIONS

As of December 31st, 2017 and December 31st, 2016, the provisions are as follows:

	December 31st, 2017	December 31st, 2016
Litigation	3,502	4,411
Provisions for mandate contracts	38,498	42,355
Fund for employees' profit sharing	45	7,968
Other provisions	876	540
TOTAL	**42,921**	**55,274**

Outstanding provisions on December 31, 2017 are as follows:

	Provisions for litigation	Provisions for share based payments	Provision for employees' profit sharing	Other provisions
Opening balance as at January 1, 2017	**4,411**	**42,355**	**7,968**	**76,499**
Additions in provisions (through profit and loss)	6	-	-	9
Reversal of provisions (through profit and loss)	(915)	(3,857)	(7,923)	125
Additions in provisions (through OCI)	-	-	-	-
Reversal of provisions (through OCI)	-	-	-	-
Closing balance as at December 31, 2016	**3,502**	**38,498**	**45**	**876**

Provisions for litigations outstanding as of December 31st, 2017 amounting to 2,992 consist of provisions created for the litigation with the OPCOM subsidiary amounting to 2,670 regarding the fine imposed following the EU investigation.

On November 24th, 2014, the SC OPCOM SA subsidiary summoned CNTEE Transelectrica SA in order to force it to pay the amount of 582,086,31 euro (2,585,161 lei at the NBR exchange rate from November 24th, 2014), representing the amount paid by her as fine, from the total of the fine amounting to 1,031,000 euro applied to the subsidiary OPCOM S.A. by the European Commission, in the context in which the SC OPCOM SA subsidiary paid the entire fine established by the European Commission.
Also, the SC OPCOM SA subsidiary requested the court to order the Company to pay the amount of 85 as lawful interest related to the period between June 11th, 2014 - November 24th, 2014, plus legal expenses amounting to 37,828 (see Note 26 *iii*).

Other provisions in the amount of 10 are represented by are accrued provisions for unpaid leave
Also, on December 31, 2017, the Company resumed the accumulated provision of 75,727.

As of December 31st, 2017, the Company registered a provision of 38,498 (42,355 as of December 31st, 2016) for the annual variable component owed to the Directorate and Board of Supervisors members (see Note 28).

17, PROVISIONS (continued)

The provision amounting to 45 is mainly represented by the provision created for the employees' profit participation for the financial years 2013, 2015 and 2016, amounts not granted until December 31st, 2017.

18. INCOME TAX

The income tax for the years 2017 and 2016 is presented as follows:

	2017	2016
Current income tax expense	(24,883)	67,346
(Income from) / Expense with deferred income tax	5,302	(4,468)
Total	**(19,581)**	**62,878**

The tax on the current and deferred income of the Company for 2017 and 2016 is determined at a statutory rate of 16% and is applicable for 2017 and 2016,

Reconciliation of the effective tax rate:

	2017	2016
Profit before income tax	**(35,2017)**	**321,872**
Income tax at statutory rate of 16%	(5,633)	51,500
Effect of non-deductible expenses	50,629	21,350
Effect of non-taxable income	(22,984)	(5,261)
Taxable revaluation reserve	3,735	4,906
Legal reserve	-	(2,712)
Income tax exempted	(2,112)	(4,625)
Other effects	(4,054)	(2,460)
Income tax	**19,581**	**62,878**

18, INCOME TAX (continued)

The movement pertaining to deferred taxes during 2017 and 2016 is as follows:

Elements	Balance as of January 1, 2016	Recognized in profit or loss	Tax recognized directly in OCI	Balance as at December 31, 2016	Recognized in profit or loss	Tax recognized directly in OCI	Balance as of December 31, 2017
Property, plant and equipment – useful life	3,036	1,284	-	4,320	487	-	4,807
Property, plant and equipment – revaluation reserves	45,393	(4,521)	-	40,872	(4,685)	-	36,187
Property, plant and equipment financed by subsidies	(1,136)	(563)	-	(1,699)	(509)	-	(1,190)
Employee benefits	(4,688)	1,019	-	(3,699)	(1,013)	-	(4,712)
Interconnection estimate	(469)	(13)	-	(482)	(507)	-	(989)
Provisions	(4,207)	(2,570)	-	(6,777)	-	-	(6,777)
Other elements	-	-	-	-	925		925
Tax (assets)/liabilities	**37,929**	**(5,364)**	**-**	**32,565**	**(5,302)**	**-**	**27,263**

Deferred tax consists of:

	Asset		Liability		Net	
	31-dec-17	31-dec-16	31-dec-17	31-dec-16	31-dec-17	31-dec-16
Property, plant and equipment – life	(1,245)	(854)	6,062	5,174	4,807	4,320
Property, plant and equipment – revaluation reserves	(3,606)	(4,520)	39,793	45,392	36,187	40,872
Property, plant and equipment financed by subsidies	(1,190)	(1,699)	-	-	(1,190)	(1,699)
Employee benefits	(4,712)	(3,699)	-	-	(4,712)	(3,699)
Interconnection estimate	(989)	(482)	-	-	(989)	(482)
Provisions	(6,777)	(6,777)	-	-	(6,777)	(6,777)
Other elements	-	-	925	-	925	-
Net tax (assets)/liabilities	**(18,519)**	**(18,031)**	**46,780**	**50,566**	**27,263**	**32,565**

19. EARNINGS PER SHARE

As of December 31st, 2017 and December 31st, 2016, the earnings per share is as follows:

	2017	2016
Consolidated profit for the period	**(54,788)**	**258,994**
Number of ordinary shares at the beginning and at the end of the period	73,303,142	73,303,142
Basic and diluted earnings per share (RON/share)	**(0,75)**	**3,53**

20. OTHER TAX AND SOCIAL SECURITY LIABILITIES

As at December 31, 2017 and December 31, 2016 the other tax and social security liabilities are as follows:

	December 31, 2017	December 31, 2016
Contribution to social security funds	6,364	6,325
VAT payable	745	2,126
Tax on salaries	2,489	2,487
Other tax payable	1,626	1,353
Total	**11,225**	**12,291**

On December 31st, 2017, the Company registered payment obligations for contributions to social insurance funds, payroll tax and other taxes that were paid in the month of January 2018.
Furthermore, on December 31st, 2017, the Company also registered taxes on dividends amounting to 90,586, taxes due in January 2018.

21. OPERATING REVENUES

The operating revenues include revenues from electricity transmission service and system services, allocation of the interconnection capacity, balancing market operation and other revenues.

The average tariffs approved by ANRE for the services provided on the electricity market are as follows:

	Average Price for the transmission service	Average Tariff for technological system services	Average Price for the functional system services
Order no, 48/2017 for the period July 1st – December 31st, 2017	16,86	9,39	1,11
Order no, 27/2016 for the period July 1st 2016 - June 30th, 2017	18,70	11,58	1,30
Order no, 93/2015 for the period July 1st - June 30th, 2016	20,97	12,58	1,17

The average tariff for the electricity transmission has two components: the tariff for the electricity injected into the transmission grid (T_G) and the tariff for the electricity drawn off the transmission grid (T_L).

The zonal tariffs regarding the transmission service for the injection of electricity into the transmission grid (T_G) and for drawing electricity off the transmission grid (T_L) have been approved by ANRE Order no, 48/2017, starting with July 1st, 2017.

21. OPERATING REVENUES (continued)

The amount of electricity delivered to consumers to whom the prices for services provided on the electricity market were applied, is presented as follows:

	2017	2016
Quantity of electricity (MWh)	54,753,325	53,523,021

The revenues obtained in 2017 and 2016 are as follows:

	2017	2016
Revenues from electricity transmission	970,694	1,056,520
Revenues from the allocation of the interconnection capacity	75,727	82,233
Revenues from reactive energy	6,317	6,954
Revenues from transactions with own technological consumption	1,106	254
Inter TSO Compensation (ITC) revenues	786	296
Total revenues from electricity transmission	**1,054,629**	**1,146,257**
Revenues from functional system services	65,980	66,139
Revenues from technological system services	582,330	648,802
Revenues from unplanned exchanges on DAM	2,437	1,399
Total revenues from system services	**650,747**	**716,340**
Balancing market	1,304,613	814,080
Other revenues	58,015	61,411
Total revenues	**3,068,004**	**2,738,088**

Transmission revenues

Given the rise in the amount of electricity delivered to consumers in 2017 compared to 2016, namely of 2,3% or 1,230,304 MWh, the income from the transmission service has registered a decrease in the amount of 85,827, determined by the decrease of the average tariffs approved by ANRE (according to the table on the average tariffs approved by ANRE for the analyzed timeframes, presented above),taking in consideration the increase of used quantity by Authority for new tariffs (from 52 TWh to 54 TWh) accordingly with transport methodology,In this condition the calculation of the tariffs using average tariffs for 2017- 17,78 lei decreased with 10,34% compared with average tariffs for 2016-19,83 lei.

Functional system service revenues

In 2017, the revenues from functional system services registered a decrease with the amount of 159 compared to 2016, determined by the decrease of the average tariff approved by ANRE for these services (according to the table on the average tariffs approved by ANRE for the analyzed periods, presented above).

Revenues from the allocation of interconnection capacity

In 2017, the income from the interconnection capacity allocation has registered a decrease compared to 2016, in the amount of 6,506, corresponding to the level of usage of the available interconnection capacity by traders on the electricity market.

The mechanism for the allocation of interconnection capacity consists in organizing annual, monthly, daily and intra-daily auctions, The annual, monthly and intra-daily are explicit - only the transmission capacity is bid on, and the daily ones with Hungary are implicit - are allocated simultaneously with the energy and capacity via the coupling mechanism.

The incorporation of the regional energy exchange by Romania, Hungary, the Czech Republic and Slovakia on November 19th, 2014 requires that these four countries have a unique price of electricity traded on the spot markets. The capacity allocation between Romania and Hungary, the only country of the 3 with which Romania has a border, is made by the carriers: Transelectrica and MAVIR, through the common mechanism, based on a bilateral agreement.

21. OPERATING REVENUES (continued)

Starting with 2016, the UIOSI principle has been implemented at the border with Bulgaria, and starting with 2017 at the border with Serbia as well, According to this principle the participants not using the capacity won at the annual and monthly auctions, are compensated (by Transelectrica) for that capacity. The spare capacity is subsequently sold in the daily auctions. On the Hungarian border the direction is reversed, meaning that MAVIR compensates the participants for the unused capacities.

The market for interconnection capacity allocation is fluctuating, the prices evolve depending on demand and the need of the participants on the energy market to purchase interconnection capacity.

Using the net incomes from the interconnection capacity allocation is achieved in accordance with Article 22 (4) of the ANRE Order no, 53 / 2013 and Article 16 (6) of the Regulation (EC) no, 714 / 2009, as a source of financing for upgrading and development of the interconnection capacity with the neighboring systems.

Revenues from technological system services

The revenues from technological system services have registered a decrease in 2017 compared to 2016 in the amount of 66,472, mainly determined by the decrease of the average tariff approved by ANRE for these services (according to the table on the average tariffs approved by ANRE for the analyzed periods, presented above), given that the amount of electricity delivered registered an increase of 2,3%.

In 2017, the revenues from the technological system services decreased with the amount of 78,993 compared to the expennses for the acquisition of technological system services, while in 2016, the revenues from the technological system services were higher with the amount of 87,775 ,.The loss was caused by the unfavorable conditions on the energy market resulting in higher average unit prices at auctions compared to the predicted unit prices that were at the basis of the calculation of the tariff for the technological system services, as well as the partial recovery of the profit realized in the year previously and the profit recorded in earlier periods, on a zero profit segment.
This amount lowers the gross profit of the Company reported on December 31st, 2017.

Revenues on the balancing market

- The income from the balancing market have registered an increase in 2017 compared to 2016, with the amount of 490,533, determined by:
- the high degree of unpredictability and volatility of production from renewable sources (especially wind),
- over-contracting / subcontracting on the markets prior to the balancing market (given that PRE s did not have significant notification imbalance values) and reduced participation / trading on the intra-day electricity market, The increasing of the negative imbalance registered at the level of the suppliers of electricity on the balancing market, ie increasing the imbalance between the notified net contractual position and the actually supplied energy;
- the very low temperatures recorded in the first quarter of 2017, which generated the recording of higher values of the electricity consumption in the operation of the NES;
- the increase in electricity consumption amid the severe weather phenomena recorded in July and August 2017 (heat in late July and early August, strong wind with storm in July, so the production in wind power plants varied a lot during the day and with large production variations from one hour to the next);
- Hydraulic evolution (low hidraulicity).

Balancing market is an activity with zero profit to the Company.

Other revenues

"Other revenues" earned in 2017, have been higher than the ones earned in 2016, This development was mainly determined by the collection of fines and penalty payments in 2017, amounting to 6,021 (Arelco Power SRL with the amount of 3,215 and Enol Grup SA with the amount of 2,541 etc), compared to the collection of fines and penalty payments in 2016, amounting to 31.

22. SYSTEM OPERATING EXPENSES AND BALANCING MARKET EXPENSES

The system operating and balancing market expenses are as follows in 2017 and 2016:

	2017	2016
Expenses on own technological consumption	206,992	182,981
Congestion costs	241	2,931
Electricity consumption in ETG stations	14,411	15,383
Expenses with functional system services	16,336	12,687
ITC expenses (Inter TSO Compensation)	19,937	16,775
Total Operational Expenses	**257,917**	**230,757**
Expenses with technological system services	661,323	561,027
Balancing market expenses	1,304,613	814,080
Total	**2,223,853**	**1,605,864**

Expenses on own technological consumption

These represent the acquisition expenses of electricity in the free market of energy for covering its own technological consumption (CPT) in RET.

In 2017, these expenses have increased with the amount of 24,011 compared to the ones registered in 2016, given the reduction of the electricity quantity necessary to cover the OTC in PTG with ca, 4,6% (from 1,014,566 MWh in 2016, down to 968,042 MWh in 2017).

The energy crisis registered in the first quarter of 2017, determined by the very low temperatures, compared to the similar period of the year 2016, in conjunction with the extension of the unavailability of the main power production plants, have determined the sudden increase of prices on the Day-Ahead Market (DAM), Intra-Day Market (IDM) and on the Balancing Market (BM), regarding the purchase of electricity for the own technological consumption.

Thus, in 2017, the electricity for covering the OTC has been purchased on the free energy market, namely on the Centralized Market for Electricity Bilateral Contracts (CMBC), the Day–Ahead Market (DAM), the Balancing Market (BM) and the Intra–Day Market (IDM) at the average purchase price of 213,7 lei/MWh, compared to the average purchase price of 180,3 lei/MWh in 2016.

Expenses on congestions

Congestions (network restrictions) are requests for electricity transmission beyond the technical capacity of the network, requiring corrective actions from the transmission and system operator and occur in the situation in which, in the programming of the operation or the operation in real time, the power flow between two nodes or system areas leads to the non-accomplishment of the safety parameters in the operation of a power system. In 2017, the expenses on congestions have been registered in the amount of 241,042, being lower than the ones registered in 2016, the latter amounting to 2,931,

The registered congestion expenses in 2016 amounted to 2,931 resulted to a great extent from accidental disconnections as a consequence of bad meteorological conditions recorded in the first part of 2016 (Tariverde – Tulcea Vest 400 kV OHL, in the month of January 2016, Iernut – Gadalin 400 kV OHL, Iernut – Baia Mare III 220 kV OHL, in the month of June 2016).

In order to comply with the safety criterion in the Dobrogea region, the balancing market reduced the values notified by the Dobrogea WPP, which inputs into the 110 kV electricity grid from Dobrogea (except for the Pantelimon WPP and the Cerna WPP) and into the Tariverde 400 kV OHL substation.

22. SYSTEM OPERATING EXPENSES AND BALANCING MARKET EXPENSES (continued)

Expenses with functional system services

The expenses on the functional system services represent the non-contracted international exchanges of electricity with the neighboring countries and the expenses on unplanned exchanges on the Day-Ahead Market.
These expenditures have registered an increase amounted to 3,649 in 2017 compared to 2016, mainly determined by the increase in the expenditures on the balancing market and the day-ahead market regarding the unplanned electricity exchanges (exports) with the neighbouring countries connected to the NPS, due to the rise in prices on the centralized electricity markets.

ITC (Inter TSO Compensation) expenses

ITC expenses, amounting to 19,937, represent the monthly payment obligations/rights of collection for each transmission system operator (TSO), They are established within the compensation / settlement mechanism for the effects of using the electricity transmission grid (RET) for transits of electricity between TSO operators from 35 countries that acceded to this mechanism of the ENTSO-E, In year 2017, these expenditures have increased by 3,161 compared to 2016.

Expenses with the technological system services

The technological system services are purchased by the Company from producers in order to comply with the operational security limits of the NPS and of the quality of the electricity transmitted at the parameters required by the technical norms in force, The contracting of these services is performed:

- in a regulatory manner, based on Government Decisions and Decisions of the National Energy Regulatory Authority (ANRE);
- through competitive mechanisms,

According to GD no. 138/April 8th, 2013 on the adoption of measures regarding the electricity supply security, in the period April 15th, 2013 - July 1st, 2015, the Company purchased technological system services according to the terms of the regulations issued by ANRE, from SC Complexul Energetic Hunedoara SA, at an electrical power value of at least 400 MW and from SC Complexul Energetic Oltenia SA at an electrical power value of at least 600 MW, According to the provisions of GD no. 941/October 29th, 2014, the enforcement deadline for the provisions of Government Decision no, 138/2013, for SC Complexul Energetic Hunedoara SA, was extended until December 31st, 2017.

For the period January 1st - March 31st, 2017, the purchase of technological system services was conducted in the regulatory regime (slow tertiary reserve) according to GD no, 844/November 9th, 2016, as subsequently amended and supplemented, by which the "Winter Program in the Energy Sector for Assuring the safety and stability of the NES" was approved.

In the timeframe January 1st - June 30th, 2017, the purchase of the technological system services has been conducted under regulated regime from SC Hidroelectrica SA (ANRE Decision no, 1035/June 22th, 2016) and from SC Complexul Energetic Hunedoara SA (ANRE Decision no. 1034/June 22th, 2016).

In the period July 1st - December 31st, 2017, the purchase of technological system services has been conducted under regulated regime from SC Hidroelectrica SA (ANRE Decision no, 906/June 22th, 2017) and from SC Complexul Energetic Hunedoara SA (ANRE Decision no. 907/June 22th, 2017).

In 2017 the technological system services expenses registered an increase compared to 2016 amounting to 100,296, generated by the purchase prices for technological system services on the competitive market which were higher than the regulated prices.
A significant influence in the rise of prices for purchasing technological system services on the competitive market was generated by the increase in prices registered on the electricity market in 2017.
An important influence in the increase of the purchasing cost of TSS on the competitive market was also the extremely high level of concentration of the technological system services market by service type (secondary reserve, fast tertiary reserve, slow tertiary reserve), This extreme concentration of the market has created favorable conditions for the manifestation and exercise of power on the market, granted to certain participants by their dominant positions held (Hidroelectrica SA for SR and FTR, Romgaz for STR).

CNTEE Transelectrica SA re-invoices the value of the technological system services purchased from producers, to the electricity suppliers licensed by ANRE, entities who ultimately benefit from these services.

22. SYSTEM OPERATING EXPENSES AND BALANCING MARKET EXPENSES (continued)

Balancing Market Expenses

The expenses from 2017 related to the balancing market amounted to 1,304,613 following the evolution presented in the chapter

Revenues on the balancing market,

These expenses result from the notifications/achievements of the participants on this market, and are fully covered by the income from the balancing market.

23. OTHER OPERATING EXPENSES

	2017		2016
Other third party services	**22,694**		**72,954**
Postage and telecommunications	**1,592**		**1,748**
Rent	**11,062**		**10,840**
Net operating expense for impairment adjustments of trade receivables	**22,179**		**21,874**
Net operating expenses for impairment adjustments of other receivables	**(9,467)**		**-**
Value adjustments for fixed assets	**-**		***16,830***
Losses on receivables	***45,081***		**-**
Net operating expense for adjustments related to inventory impairment	***1,612***		**-**
Expenses with late payment increases due to the state budget *	**99,928**		
Other operating expenses	**28,173**		**6,237**
Total	**222,854**		**130,483**

The increase of these expenses in 2017 compared to 2016 was mainly due to:

- between 14.12.2011-30.06.2017 the ANAF-DGAMC control regarding the 2005-2010 time period took place. Following the inspection, a tax inspection report was issued , concluded with the Tax Decision no. F-MC 439 / 30.06.2017, supplemented with additional notes on the date of 12.07.2017.

- the amount of 99,891 consists of 99,013 (according to the Decision mentioned above) to which accessories in the amount of 877, for the period 01.07.2017-26.09.2017, the date of extinguishment of the obligation to ANAF-DGAMC have been added.

- the amount of 99,013 consists of the amount of 35,105 representing additional debts (incometax and value added tax) and the amount of 63,908 representing additional tax liabilities (interest / increases and late payment penalties).

The additional tax liability structure in the amount of 35,105 is shown in the table below:

Reference year	2005*	2006*	2007*	2008	2009	2010	**Total**
Income Tax	231	13,578	5,224	809	1,979	1,671	**23,493**
VAT	0	76	6,200	773	2,417	2,147	**11,613**
	231	13,654	11,424	1,582	4,396	3,818	**35,105**

*Note:
1) Period 1: September2005 - November 2007: 123 missing invoices, justified by the Company as being burned in the fire that occurred on the night of June 26t^{h} -27th, 2009, at the Millennium Business Center building working point in. 2-4 Armand Calinescu street, sector 2;
2) Period 2: December 2006 - May 2007: 349 invoices found missing in the same fire
3) The VAT for the period 1 for a number of 123 invoices and that is not found in the above amounts, being detained in another fiscal inspection report (FIR) issued in 2011, litigation lost by the Company on 30.04.2014 and definitively on 01.03.2017. For the amount paid by the Company (44,443) adjustments for the receivables impairment has been registered in 2012 and 2014. In 2017, the receivable loss expense was recorded simultaneously with the reversal of the impairment adjustment, with zero effect.

4) Income tax for the 123 burned invoices: 13,735
5) Income tax for the 349 burned invoices: 4.787

23. OTHER OPERATING EXPENSES (continued)

6) VAT collected for the 349 burned invoices: 5.695
Amounts highlighted under 4), 5) and 6) represent the amounts of the FIR ended on 30.06.2017.

Interests / increases and penalties for late payment from the beginning of the period up to the date of execution are shown below:

	**Amounts for 2005-2016	Amounts for 2017	**Total**
Interest/ delay increases and penalties for Income Tax	47,974	1,704	**49,678**
Interest/ delay increases and penalties for for VAT	14,745	362	**15,107**
	62,719	2,066	**64,785**

** Note:
1) Accessories for the 123 burned invoices: 31.429
2) Accessories related to 349 burned invoices: 22.591

Apart from the details presented in the previous Notes the ANAF-DGAMC findings for the 2005-2010 period include both additional liabilities and accessories corresponding to the unrealized technological system services provided in the framework agreements approved by ANRE, for which Transelectrica records revenues from penalties. At the same time, the ANAF-DGAMC detained additional liabilities and accessories corresponding to the Court of Auditors findings regarding the expenses that were not aimed at the continuous training of the employees, and which are not forms of professional training and for which the Court of Auditors Decision no. 14/2011 was issued.

In 2017, the Company challenged the ANAF Taxation Decision and, given that until March 13, 2018, the ANAF-DGAMC had failed to resolve the appeal, it requested the annulment of the Decision by the Court of Appeal of Bucharest file No 1802/2/2018.
Thus, by eliminating from the Other Expenses the amount of 97,824 related to the debts and interest / increases and delay penalties from the ANAF Decision, the recalculated operating profit is as follows:

	2017	**2016**
Revenues		
Transmission revenues	1,054,629	1,146,257
Revenues from system services	650,746,	716,340
Revenues on the balancing market	1,304,613	814,080
Other revenues	58,015	61,411
Total revenues	**3,068,004**	**2,738,088**
Operating expenses		
System operating expenses	(257,917)	(230,757)
Expenses on the balancing market	(1,304,613)	(814,080)
Expenses regarding the technological system services	(661,323)	(561,027)
Depreciation	(321,027)	(331,433)
Personnel expenses	(237,262)	(271,938)
Expenses for repair and maintenance	(52,383)	(28,913)
Expenses for materials and consumables	(22,206)	(27,741)
Other operating expenses - revised	(122,963)	(130,483)

Total Operating Expenses -revised	**(2,979,694)**	**(2,396,372)**
Operating profit- revised	**88,310**	**341,716**

The Company considered that the tax base was not reasonably determined by ANAF, depending on the fully regulated nature of the activity on the electricity market, this being determined in proportionally to the number and value of the invoices issued in the period under review. Transelectrica has been entitled to bring court action because it believes that ANAF did not consider all data and documents relevant to the estimate as required by the Fiscal Procedure Code applicable at that time. Thus, the Company sued ANAF at the Bucharest Court of Appeal in August 2012 for the recovery of the sum and requested in the probationary case to be admitted the proof sample and the evidence with the judicial expertise.

On September 18th, 2013 the report of expertise was issued and submitted to the case file on the 20 September 2013 term, On the 18 October 2013 term the parties expressed objections to the judiciary expertise report, which were admitted by the Appeal Court on the 15 November 2013 term and were notified to the designated expert, On the 7 March 2014 term the expert submitted the answer to the Company's objections, As against the revenues taken into account by ANAF, used by ANAF when estimating the collected value added tax amounting to 16,303, the judiciary accounting expertise report found unjustified revenues in sum of 551,013 to which sum the value added tax and accessories to it should have been calculated. The hearing was deferred in order to acknowledge the answer to the objections made to the expertise report.

On the hearing date 30,04,2014 the settlement pronounced by the first instance, the Appeal Court Bucharest, Section VIII of Administrative and Fiscal Disputes (Ruling 1356/2014) in File 6657/2/2012 was: "Denies the request of claimant CNTEE Transelectrica SA (Contestation against the Administrative fiscal deed of ANAF)".

The Company filed appeal by requesting to be set within the term submitted in this file, with hearing term set on 07.04.2016, session that took place in the High Court of Cassation and Justice, Administrative and Fiscal Disputes Section. On 07.04.2016 a new term was set on 02.06.2016 for absence of procedure, term when the instance deferred pronouncement on 16.06.2016.

On this term the High Court of Cassation and Justice, Administrative and Fiscal Disputes Section pronounced ruling 1945/16.06.2016, stipulating as follows: "Admits the request and resets the recurrent-claimant within the appeal filing term, Denies as groundless the appeal filed by the National Power Grid Company Transelectrica against Sentence 1365 of 30 April 2014 of the Appeal Court Bucharest, Section VIII of administrative and fiscal disputes section, Irrevocable, Pronounced at public hearing today, 16 June 2016", Ruling 1945/16,06,2016 pronounced by the High Court of Cassation and Justice was notified to the Company by photocopy.

Contest for annulment was filed against the ruling 1945/16,06,2016 submitted to the High Court of Cassation and Justice. On 01.03.2017 the High Court of Cassation and Justice decided in ruling 779 as follows: "denies the exception of inadmissibility of contestation for cancellation filed by contender Transelectrica SA, invoked by statement by the respondent in appeal General Directorate Administrating Large Tax Payers, Denies as groundless the contestation for cancellation filed by contender Transelectrica SA against civil ruling 1945 of 16 June 2016 of the High Court of Cassation and Justice, Section of administrative and fiscal disputes, pronounced in file 6657/2/2012, Irrevocable", Until the elaboration date of these financial statements the Company has not received the printed ruling 779/01.03.2017.

The additional payable liabilities set by ANAF-DGAMC under the taxation decision 62/2011 were registered under "other operational expenses" by including the provision constituted in the financial years 2012 and 2014 into revenues.

- Recording within the indicator "operational expenses regarding depreciation allowances for current assets" the depreciation allowances for:
  - Elcomex IEA SA in the amount of 31,868;
  - Arelco Power SRL in the amount of 18,782;
  - other uncertain clients and various debtors amounting to 7,602 (Elsaco Energy SRL, Eva Energy, Enol Grup SA, CET Govora SA, PetProd SRL, etc,).

24. NET FINANCIAL RESULT

	2017	2016
Interest revenues	5,664	5,844
Foreign exchange gains	11,501	21,470
Other financial income	64	1,322
Total financial income	**17,229**	**28,676**
Interest expenses	(19,231)	24,382
Foreign exchange losses	(21,623)	22,727
Other financial expenses		1,411
Total financial expenses	**40,854**	**48,520**
Net financial result	**(23,625)**	**(19,844)**

The decrease of the net financial in 2017 compared to 2016, in the amount of 4,092, was negatively influenced by the evolution of the exchange rate of the national currency in relation to foreign currencies in which the Company has contracted bank loans for financing the investment programs (Euros, Dollars), which led to the decrease in exchange-rate income to be only partly offset by exchange and interest rate fluctuations, amid a 30% decrease in the Other Financial Income position.

The average exchange rate of the national currency registered on December 31st, 2017, compared to the one registered on December 31st, 2016 is as follows:

Currency	**31,12,2017**	**31,12,2016**
Lei / Euro	4,6597	4,5411
Lei / USD	3,8915	4,3033
Lei / 100 Japanes yen	3,4574	3,6834

25. THE LEGISLATIVE AND FISCAL FRAMEWORK

The legal and fiscal environment in Romania and its implementation into practice changes regularly and is subject to different interpretations by various Ministries of the Government, Income tax returns are subject to review and correction by the tax authorities for a period generally of five years subsequent to their filing, Management believes that it has adequately provided for tax liabilities in the accompanying financial statements; however, the risk remains that tax authorities could take differing positions with regards to the interpretation of these issues, Their impact cannot be estimated at this time.

26. COMMITMENTS AND CONTINGENCIES

i) Commitments

As of December 31st, 2017 and December 31st, 2016, the Company had commitments amounting to 1,121,770 and 1,036,117 mainly representing ongoing contracts related to the investment program for the modernization and upgrading of the transmission grid

ii) Land plots used by the Company

As per the Group'spolicy, the financial statements include only the value of the land for which certificates authenticating the ownership rights have been obtained as of the date of the financial statements.
According to Law No. 99/1999, in case the Company obtains the title deeds for lands after the privatization, the land will be considered as contribution in kind of the State. These plots of lands are firstly recognized in other reserves, In this respect, the Company will increase the share capital in line with the value of the lands, and the beneficiary of this increase will be the Romanian State, In accordance with Art. 130 of Law 297/2004 regarding the capital market, "the increase in the share capital of a listed company on a regulated market will be made with the possibility for the other shareholders to maintain their percentage in the share capital of that company".

26. COMMITMENTS AND CONTINGENCIES (continued)

As of the date of the issuance of these financial statements, the external legal opinion received by the management of the Group following the acquisition of legal consultancy, assistance and/or representation services needed for the share capital increase states that in the absence of other changes or clarifications in the legal framework, the general legal provisions applicable to the companies are contradictory with regards to the increase provisions for companies regulated by the privatization law. Taking into consideration the steps undertaken by the Group for the share capital increase by the value of the land plots for which certificates authenticating the ownership rights have been obtained, O.P.S.P.I. has communicated to the Group that in their opinion, the share capital increase should be performed after the changes in the legal framework.

iii) Pending disputes

The management regularly analyses the ongoing litigations, and after consulting with its legal representatives decides the need to create provisions for the amounts involved or of their presentation in the financial reports.

Taking into account the existing information, the management of the Company considers that there are no significant disputes in progress in which the Company is defendant, except for the following disputes:

• Pending with the Mehedinti Court – Section II Civil, Administrative and Fiscal Litigation Section, the **file no. 3616/101/2014** was recorded, involving the "claims in the amount of 1,091 , counter value of invoice no. 1300215/31.12.2013", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN.

By civil sentence no, 127 ruled on October 10th, 2014, the Mehedinti Court admitted the request lodged by plaintiff RAAN and ordered CNTEE Transelectrica SA to pay the amount of 1,091 , the counter value of invoice no, 1300215/31.12.2013.

The amount requested for payment represents penalties calculated by RAAN for the bonus due from the support scheme and withheld from payment by the Company, in its capacity as Administrator of the support scheme, who enforced the provisions of Article 17 (5) of ANRE's Order no, 116 / 2013 (see Note 9).

The amount was enforced by RAAN on July 15th, 2016, as per the Decision issued by the Bankruptcy Receiver Office Ailiesei si Guta in the enforcement file no. 12105/2016.

By civil decision no. 843/2015, the Craiova Court of Appeal rejected the appeal filed by CNTEE Transelectrica SA against civil sentence no, 127/10.10.2014, as lacking interest, Against the decision no, 843/May 11th, 2015 of the Court of Appeal Craiova - Section II Civil, pronounced in the public hearing from May 11th, 2015, in file no, 3616/101/2014, as well as against the decision no. 127/2014 of the Mehedinti Court- Section II Civil, Administrative and Fiscal Litigation, pronounced in the public hearing from October 10th, 2014, in file no, 3616/101/2014, as well as against the Decision no, 1/2015 of the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation, pronounced in the public hearing from January 9th, 2015, in file no, 3616/101/2014, CNTEE Transelectrica SA filed an appeal asking the court to allow the appeal as it was filed and to reverse the judgment and sentences under appeal and to refer the case to the trial court in the territorial jurisdiction for judgement, and to declare the compliance with the requirements of Articles 1616 and 1617 of the Civil Code, reason for which it is being required to declare the intervention of the compensation of mutual debts, and their redemption up to the amount of the smallest of them, namely the total amount requested by the plaintiff in the application for summons, ordering the appellee - plaintiff to pay the expenses occurred with this appeal.

The appeal was registered on the docket of the High Court of Cassation and Justice who decided to reverse decision no, 843/2015 and to remand the case for retrial to the same court, the Court of Appeal Craiova.

By decision no, 124/2017, the Court of Appeal Craiova admitted the appeal declared by Transelectrica and remanded sentence no, 127/2014 pronounced by the Mehedinti Court, and the case was remanded for retrial to the Bucharest Court – Section VI Civil, On the docket of the Bucharest Court, the case was registered under no, 40444/3/2017 who, via civil sentence no. 4406/04.12.2017, admitted the request lodged by RAAN and ordered Transelectrica to pay the amount of 1,090,831,70 lei. The decision is subject to appeal in higher court.

In the period 2014 - 2015, the Company has retained the due support scheme bonus from payment to RAAN, pursuant to the provisions of the ANRE regulations, namely the Article 17 (5) of ANRE Chairman's Order no. 116/2013.

Under these conditions, RAAN calculated penalties for late payment of the due cogeneration bonus in the amount of 3,497, withheld from the payment by the Company in the account of non-cashed receivables, The amount of 3,497 was refused for payment by the Company and was not registered as a liability in the support scheme.

• Pending with the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigations, the **file no.**

26. COMMITMENTS AND CONTINGENCIES (continued)

9089/101/2013/a138 was recorded, involving the "presidential ordinance", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities - RAAN – debtor in insolvency,
Through the sentence no, 63/2016, the court ordered the defendant to continue the electricity transmission and system services necessary for continuing the activity throughout the judicial reorganization of the RAAN.
Transelectrica filed an appeal against that decision.

On May 10th, 2016, the Craiova Court of Appeal delivered its judgment no, 457/05,10,2016, which ordered the following: "Dismisses the appeal, Rejects the appeal as ill-founded. Final."

Also, the hearing of the appeal declared by RAAN against the decision of starting the bankruptcy proceedings, subject of file no. **9089/101/2013/a137** before the Court of Appeal Craiova, was postponed until May 31st, 2016, when the case was taken for judgement,.

Through the Decision no, 563/June 14th, 2016, the Court of Appeal Craiova - Section II Civil rejected the appeals lodged against interim decision no, 10/January 28th, 2016, ruled by the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section.

• Pending with the Mehedinti Court – Section II Civil, Administrative and Fiscal Litigation Section, the file no. **1284/101/2015** was recorded, involving the "claims in the amount of 11,637,439,66i", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN.

By the application for summons filed by the plaintiff, they asked Transelectrica SA to pay the amount of 11,637.

On May 22th, 2015, the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section, ruled the sentence no, 41/2015, by which it ordered the following: 'Admits the exception for lacking territorial jurisdiction, Declines jurisdiction in favor of Bucharest Court, Section VI Civil, With no means of appeal." The file was registered to the Bucharest Court - Section VI Civil, under no. 24206 / 3 / 2015.

The applicant RAAN filed a request to amend the amount of the alleged right, seeking the increased amount of 17,806 from Transelectrica SA.

On November 3rd, 2015, the Bucharest Court, Section VI Civil delivered the sentence no, 6075 / 2015, by which it ordered the following: 'Upholds the application in the way it was completed, Orders the defendant to pay the plaintiff the amount

of 17,806 , representing the equivalent value of the bonus and penalties, Dismisses the application for granting legal expenses, lodged by the plaintiff, as ill-founded, With appeal within 30 days from communication, The appeal is lodged at the Bucharest Court - Section VI Civil."

The ruling was communicated on July 4th, 2016, according to the registration entry stamp of the correspondence with Transelectrica SA, An appeal was lodged against the sentence, By Hearing protocol from January 12th, 2017, pronounced in the file no. 24206/3/2015, the Court of Appeal Bucharest ordered the postponement of the hearing of the appeal until the final settlement of the file no. 9089/101/2013/a152 on the docket of the Mehedinti Court, on the grounds of Article 413 (1) (1) of the New Civil Procedure Code, With appeal throughout the suspension.

The Court of Appeal Bucharest decided the suspension of the judgement of the case, considering that its settlement depends on the decision that shall be pronounced in file no. 9089/101/2013/a 152 on the docket of the High Court of Cassation and Justice, involving the challenge of the additional receivables table of the Autonomous Authority for Nuclear Activities SA.

• Pending with the Bucharest Court – Section VI Civil the **file no. 26024/3/2015** was recorded, involving the "claims", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN.

By the application for summons filed by the applicant, they asked Transelectrica SA to pay the amount of 10,275.

The court reserved judgement on June 13th, 2016, postponing the ruling until June 27th, 2016 when, by hearing protocol, it ordered the redocking of the case in order to discuss the administration of additional evidence to establish mutual debts and compensation invoked by the defendant, to date, setting the next hearing on November 28th, 2016.

By Hearing protocol from November 28th, 2016, the Bucharest Court has suspended the cause according to Article 413 (1) of the New Civil Procedure Code, in conjunction with Article 411 (1) of the New Civil Procedure Code, With appeal throughout the suspension.

The Court of Bucharest decided the suspension of the judgement of the case, considering that its settlement depends on the decision to be ruled in file no, 3014/2/2014 on the docket of the High Court of Cassation and Justice, involving appeal - annulment of the Decision of the ANRE Chairman no.743/2014.

26. COMMITMENTS AND CONTINGENCIES (continued)

• Pending with the Bucharest Court – Section VI Civil the file no. **3694/3/2016** was recorded, involving the "claims", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN.

By application for summons filed by the plaintiff, they asked Transelectrica SA to pay the amount of 15,699.

On the grounds of Article 413 (1) (1) of the Civil Procedure Code, on October 20th, 2016, the Bucharest Court ordered the suspension of judgement until the final settlement of the file no. 3014/2/2014 on the docket of the High Court of Cassation and Justice, involving appeal – annulment of the Decision of the ANRE Chairman no, 743/2014, With appeal throughout the suspension.

• Pending with the Mehedinti Court – Section II Civil, Administrative and Fiscal Litigation Section, the **file no. 9089/101/2013/a140** was recorded, involving the "claims in the amount of 86,513,430,67", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities – RAAN.

By application for summons filed by the plaintiff, they asked Transelectrica SA to pay the amount of 86,513.

On May 19th, 2016, the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section, pronounced a hearing protocol by which it ordered the following: "on the grounds of Article 413 (1) of the Civil Procedure Code, suspends the case until the settlement of the file no, 3014/2/2014 on the docket of the High Court of Cassation and Justice, With appeal throughout the suspension, Pronounced today, May 19th, 2016, in open court."

• We also mention the fact that, by the protocol dated on September 18th, 2013, ruled by the Mehedinti Court in file no, 9089/101/2013, the opening of the general insolvency proceedings has been ordered against the debtor Autonomous Administration for Nuclear Activities R.A.(R.A.A.N.)

Through the sentence no. 387/March 20th, 2014, the Mehedinti Court confirmed the reorganization plan of the debtor Autonomous Administration for Nuclear Activities, proposed by the insolvency administrator Tudor & Partners SPRL and voted on by the General Assembly of Creditors according to the minutes of February 28th, 2014.

By interim decision no, 10/January 28th, 2016, pronounced by the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation, the liquidator ordered the commencement of the bankruptcy procedure for the debtor pursuant to Article 107 (1) C of Law, no, 85/2006, and the dissolution of the debtor and cancellation of the debtor's right to administer,

Through the Decision no, 563/June 14th, 2016, the Court of Appeal Craiova - Section II Civil rejected the appeals lodged against interim decision no. 10/January 28th, 2016, ruled by the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section.

By the hearing protocol of June 30th, 2016, Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section set the new procedural time limit as follows: "Sets the deadline for the submission of claims arising in the proceedings to August 13rd, 2016, Sets the deadline for the verification of claims arising during the procedure, preparation, display and communication of additional table of receivables on September 29th, 2016, , Sets the deadline for filing objections against receivables arising in the proceedings on October 9th, 2016 and for resolving the objections against

receivables arising in the proceedings on October 20th, 2016, Sets the deadline for the preparation and display of the consolidated final table on November 10tth, 2016."

Together with filing the receivables declaration in the bankruptcy proceedings of RAAN, Transelectrica SA may invoke the provisions of Article 52 of Law no, 85/2006, applicable to the bankruptcy proceedings for RAAN, provisions taken from Article 90 of Law no, 85/2014 concerning the creditor's right to invoke the compensation of his receivable with the one of the debtor, when the legal provisions on compensation in legal proceedings are completed on the date of commencement of the procedure,Transelectrica SA has been registered in the table of debtor RAAN with the amount of 11,264,777,30 lei under the category of receivables resulting from the continuation of the debtor's activity, the amount requested by our company being equal to 89,361 , our amount of 78,096 not being registered in the preliminary table because "this is not listed as owed in RAAN's accounting records." Moreover, the liquidator considered that the request regarding the registration in the table of the amount equal to 78,096 is tardily filed, being related to the timeframe 2011 – 2013, reason for which the receivable declaration should have been filed at the moment of commencement of the insolvency proceedings, namely on September 18th, 2013. Objection was filed against the Table. The Mehedinti Court approved the evidence with the audit expertise. The parties lodged objections against the audit expertise report, which were admitted by the court who set the hearing on February 22nd, 2018.

• Following a verification conducted in 2013, the Court of Auditors issued several measures to be implemented by the Company as a result of a series of deficits identified within this verification, The decision and protocol issued by the Court

26. COMMITMENTS AND CONTINGENCIES (continued)

of Auditors have been appealed before the Court of Appeal Bucharest, the file no. 1658/2/2014 being constituted.

At the hearing from January 20th, 2016, the court postponed the case so that the appointed accounting expert can express his point of view regarding the objections of the plaintiff against the expert report concerned and so that the technical expert can perform the expertise. On June 29th, 2016, the court postponed the case so that the technical expertise report may be finished. The next hearing was set on October 26th, 2016, and until the date of drafting this report, no other changes have been registered.

At the hearing from February 8th, 2017, the objections against the expert report have been notified, Postponement term 04,04,2018.

• CNTEE Transelectrica SA filed a complaint against the Order of the ANRE Chairman no, 51/June 26th, 2014, registered at ANRE under no, 47714/August 4th, 2014, and an appeal before the Court of Appeal Bucharest, subject of the file no.

4921/2/2014, requesting either the amendment of the aforementioned Order, or the issuance of a new order, which should recalculate the RRR value at the level of 9,87% (recalculated with a (β) coefficient of 1,0359, according to the internal analyses conducted by Transelectrica) or, should this request be rejected, using the same percentage of 8,52% set by ANRE for the year of 2013 and for the first semester of 2014.

On June 26th, 2014, the ANRE Order no, 51 was issued, published in the Official Journal under no, 474/June 27th, 2014 on the approval of the average tariff for the transmission service, the tariff for the system service and the zonal tariffs for the transmission service, payable to the National Power Grid Company "Transelectrica" - SA, and the repealing of Addendum no, 1 of the ANRE Chairman's Order no, 96/2013 regarding the approval of the average tariff for the transmission service, the tariff for the system service, the zonal tariffs for the transmission service and the tariffs for the reactive electrical energy, payable to economic agents from the electricity sector.

The values taken into consideration for calculating the Regulated Rate on Return (RRR[1]) by ANRE, according to the Methodology on establishing the tariffs for the electricity transmission service, approved by ANRE Order no. 53/2013 ("the Methodology") have determined a RRR value of 7,7%.

CNTEE Transelectrica SA considers that the enforcement of the provisions of Article 51 of the Methodology on establishing the Beta (β) parameter at the value of 0,432 shall determine the financial damage of the company by decreasing the rentability with an estimated value of 138,4 mil, lei[3], having a significant impact on the financial interests of the company.

At the hearing from February 9th, 2016, the court admitted the evidence with the audit expertise - specialization financial investments and other entities of movable goods, extended the discussion on the technical evidence discussion – electro-

energetic specialization, after administering the evidence with the audit expertise - specialization financial investments and other entities of movable goods.

At the hearings from March 25th, 2016, April 22nd, 2016, June 10th, 2016 and March 3rd, 2017, the court postponed the judgement of the cause because of the missing technical expertise report, The next hearing was set for March 27th, 2018,

• On March 4th, 2014, the European Commission issued a communication stating that it has imposed a fine of 1,031,000 EUR to the subsidiary of SC OPCOM S,A, for the abuse of dominant position on the Romanian market in order to facilitate the trading of electricity on the spot market, in breach of the EU antitrust rules, The Company was included in the trial acting as parent company to the subsidiary SC OPCOM S,A,, being jointly responsible for paying the fine.

The General Assembly of the subsidiary SC OPCOM SA shareholders, at the meeting from June 10th, 2014, decided upon full payment of the fine amounting to 1,031,000 euro imposed by the Directorate General for Competition – European Commission for breaching of Article 102 of the Treaty on the Functioning of the European Union, according to the Decision no. AT 39984 in the antitrust case, The subsidiary SC OPCOM SA has made full payment of the fine set by the European Commission.

On November 24th, 2014, the subsidiary SC OPCOM SA summoned CNTEE Transelectrica SA in order to force it to pay the amount of 582,086,31 euro (2,585 at the National Bank of Romania exchange rate from November 24th, 2014), representing the amount paid by her as fine, from the total of the fine amounting to 1,031,000 euro.

[1] RRR - Regulated Rate on Return is presented in the technical literature as WACC – Weighted Average Cost of Capital – translated as Weighted Average Cost of Capital, the equation of both indicators being similar: RRR = WACC = CCP + Kp/(1 – T) + CCI x Ki
[2] The value that caused the decrease of the RRR to 7.7%
[3] Calculated value compared to the RRR of 8.52%

26. COMMITMENTS AND CONTINGENCIES (continued)

Also, the subsidiary SC OPCOM SA requested the court to order the Company to pay the amount of 85 as lawful interest related to the period between June 11th, 2014 - November 24th, 2014, plus legal expenses amounting to 38.

The action filed by the subsidiary SC OPCOM SA is subject of the **file no, 40814/3/2014** on the docket of the Bucharest Court, Section VI Civil, involving claims, litigation with professionals matter, CNTEE Transelectrica SA has lodged counterclaim against the application for summons in this case, invoking exceptions and defenses on the main issue of the matter regarding the unfounded and unlawful character of the action.

On July 24th, 2015, the Bucharest Court ruled the judgement no, 4275/2015, by which it ordered the following: "Admits the application for summons filed by plaintiff Romanian Gas and Electricity Market Operator - OPCOM S,A, against defendant National Power Grid Company "Transelectrica" S,A, Orders the defendant to pay the plaintiff the amount of 582,086,31 euro, representing the amount paid by the plaintiff in the defendant's stead from the fine in the amount of

1,031,000 euro, imposed by the Decision of the European Commission on March 5th, 2014 in the case no. AT.39984 and of the lawful interest related to the amount of 582,086,31 euro, calculated on June 11th, 2014 and up until de day of the actual payment, Orders the defendant to pay the plaintiff the amount of 38 as legal expenses, With right of appeal within 30 days from notification, The request for appeal shall be lodged before the Bucharest Court – Section VI Civil."

Against sentence no, 4275/2015, pronounced in the aforementioned file, Transelectrica SA filed an appeal, which was registered on the docket of the Court of Appeal Bucharest, The resolution of the Court of Appeal is the following: Admits the appeal, Changes the appealed civil sentence completely, meaning that it rejects the application for summons as ill-founded, Orders the appellee - plaintiff to pay the trial expenses to the appellant - defendant amounting to 16,129, representing legal stamp duty, With appeal within 30 days from notification, Ruled in open court today, October 10th, 2016, Document: Decision 1517/2016 from October 10th, 2016.

OPCOM S.A. filed a second appeal, The High Court of Cassation and Justice decided the following: Grants, in principle, the appellant-plaintiff Operatorul Pieței de Energie Electrică și Gaze Naturale – OPCOM S,A, motion against decision no, 1517/10,10,2016, ruled by the Bucharest Court of Appeal – Section V Civil, Sets the hearing for solving the appeal on March 13th, 2018, The parties will be summoned, Ruled in open court today, December 5th, 2017.

In 2014, the company recorded a provision amounting to 2,670 for the litigation with the subsidiary SC OPCOM SA.

• In 2013, Conaid Company SRL took legal actions against CNTEE Transelectrica for the unjustified refusal of the latter to sign an addendum to the connection agreement or to sign a new connection agreement, and requested the compensation for costs incurred up to that time, amounted to 17,420 and loss of profit for the period 2013 - 2033 amounting to EUR 722,756,000. So far, the Company did not conclude an addendum to the connection agreement because the suspensive provisions included therein have not been met by Conaid Company SRL, A new connection agreement would have had to be concluded by March 11th, 2014, the date on which the technical connection permit has expired, On the date of these financial statements, the amounts claimed by Conaid Company SRL were regarded as contingent liabilities as it is unlikely to settle this obligation, there will be necessary outflows of resources embodying economic benefits and the value of

obligation cannot be evaluated with sufficient reliability.

The file no. 5302/2/2013 was on the docket of the High Court, involving the obligation of issuing of an administrative document, the procedural stage – second appeal, the hearing being on December 9th, 2015. At this hearing, the High Court of Cassation and Justice admitted, in principle, the second appeals and set the hearing, in substance, of the second appeals on April 8th, 2016, Formation 4, summoning the parties. The case trial was postponed for the date of June 17th, 2016, when the court reserved judgement, postponing the judgement until June 29th, 2016, when it pronounced Decision no. 2148/2016, by which it ordered the following: 'Rejects the exceptions invoked by the appellant - plaintiff S.C. Conaid Company S.R.L. via insolvency administrator RVA Insolvency Specialists SPRL, and by the appellant - defendant National Company for Energy Transportation Transelectrica S.A. Admits the second appeal filed by the defendant National Company for Energy Transportation Transelectrica S.A. against the hearing protocol of February 18th, 2014 and the civil sentence no. 1866 of June 11th, 2014, pronounced by the Court of Appeal Bucharest – Section VIII. Administrative and Fiscal Litigation Section, Partially invalidates the contested protocol and judgment and refers the case to the Bucharest Court – Section VI Civil, for settlement of the application of the plaintiff sought against the National Power Grid Company Transelectrica S,A, Maintains the other provisions of the sentence concerning the plaintiff's action against the National Regulatory Authority for Energy, Rejects the second appeals of the plaintiff SC Conaid Company S,R,L, via insolvency administrator RVA Insolvency Specialists SPRL and the intervener S,C, Duro Felguera S.A. against the civil sentence no, 1866 of June 11th, 2014 pronounced by the Bucharest Court of Appeal – Section VIII.

26. COMMITMENTS AND CONTINGENCIES (continued)

Administrative and Fiscal Litigation, Rejects the second appeal filed by the defendant National Power Grid Company Transelectrica S,A, against the hearing protocol from March 25th, 2014, pronounced by the Bucharest Court of Appeal - Section VIII, Administrative and Fiscal Litigation, Final, Ruled in open court today, June 29th, 2016.

On the docket of Bucharest Court – Section VI Civil, the case was registered under no, 12107/3/2017, By civil sentence no, 4364/23.11.2017, the Court admits the exception to the ineligibility of the claim and rejects it as ineligible, It also rejects the motion to intervene in the interest of the plaintiff, With right of appeal within 30 days from notification, The appeal is lodged at the Bucharest Court - Section VI Civil, Sent to the parties via registry today, November 23rd, 2017.

Following a verification conducted in 2017, the Court of Auditors issued several measures to be implemented by the Company as a result of a series of deficits identified within this verification, CNTEE Transelectrica SA filed a total of 8 objections against the measures ruled by the Romanian Court of Auditors (CCR) via Decision no, 8/27,06,2017 requesting

the annulment thereof, as well as the Decision no, 77/03,08,2017 registered with the Company's secretariat under no, 29117/08,08,2017, as well as the Control Report no, 19211/26.05.2017.

- Case file no. 47332/3/2017 on the docket of the Bucharest Court - Section VI Civil, by which the company FF Wind Energy Internațional SRL requests the following against CNTEE Transelectrica SA: - the annulment of the unilateral statement for the termination of the PTG connection agreement no, 85/14,03,2011 issued on March 2nd, 2016 under no, 8295, - ordering the Company to pay the amount of 33 mil, lei as damages following the termination of the agreement and to pay the amount of 45,000,000 euro as the amount of depreciation of the company FF Wind Energy Internațional SRL caused by the impairment of its purpose, Status of the file: in preliminary proceedings for notification of the action and filing statement of defense.

• Also, the company is involved in significant litigations in which it has the quality of plaintiff, especially for debt recovery (e,g, Eco Energy SRL, Petprod SRL, Total Electric Oltenia SA, Arcelormittal Galati SA, Regia Autonoma de Activitati Nucleare, Romenergy Industry SRL, Energy Holding SRL, UGM Energy Trading SRL, CET Iasi, CET Bacau, CET Braila, CET Govora, CET Brasov, Elsaco Energy SRL, Elsaco Esco, Arelco Power SRL, Arelco Energy SRL, Inversolar Energy SA), The company recorded adjustments for value losses for the customers and other receivables in litigation and for the customers in bankruptcy, The Company also acted as plaintiff in a dispute with ANAF as shown in Note 23, and starting with the year 2018 is the plaintiff in a new litigation against ANAF.
At the same time, the Company Transelectrica SA is also involved in litigation with former members of the Directorate and the Supervisory Board, regarding the mandate contracts concluded between the Company and them.

The management of the Company considers it is likely that there will be no cases in which an outflow of resources will be required for settling the pending litigation, In addition, there are no other pending litigations which, either by their nature or by their value would deem necessary the presentation of some contingent assets or liabilities significant for the activity of the Company,.

The Company is also involved in:

-Litiations with subsidiary SMART SA
Case file no. 3269/3/2015 registered with Bucharest Tribunal, Section VI Civil, renumbered 1015/2/2018 with the Court of Appeal Bucharest,
Case file subject:
Compelling SMART SA to pay 1,841 , VAT included and the sum of 232 as accessories – representing the reduced value of our patrimony by the defendant's violating the provisions of contracts C, 43/2005 and C,237/2010,
Case file stage: On the hearing date 11,10,2017 Bucharest Tribunal pronounced civil ruling 3592/11,10,2017, whereby it denied as inadmissible the action filed by CNTEE Transelectrica SA in contradiction with the Company of Maintenance Services to the Electricity Transmission Grid SMART SA,
On 04.12.2017 CNTEE Transelectrica SA filed appeal against civil ruling 3592/2017 pronounced by Bucharest Tribunal on 11.10.2017, Such appeal is included in file 1015/2/2018 on the docket of the Appeal Court Bucharest, with hearing term set on 07.05.2018.
Case file no. **40958/3/2016** registered with Bucharest Tribunal, Section VI Civil
Case file subject:
Compelling Company SMART SA to pay 2,797 , VAT included + 1,212 accessories calculated to the amount of 2,872 Smart has misunderstood the sum of 2,871,823,43 Lei represented accessories (interest rates).
File stage: On the hearing date 07.06.2017 the instance in accordance with article 413 para 1 pt, 1 NCPC suspended judging the case until the final settlement of file 1658/3/2014 on the docket of the Appeal Court Bucharest in contradiction with the Court of Accounts, Appeal right during the entire suspension period.
Remarks about the circumstances when such action was initiated
Item 3 from Ruling 37/2013 of the Court of Accounts retained the following: "Making undue payments in the estimated sum of 314 for deforestation services provided by the same provider at higher tariffs as well as for services provided on

26. COMMITMENTS AND CONTINGENCIES (continued)

the same surfaces" (pages 3-6 of Ruling 37/2013)
1, Case file no. 48509/3/2017 registered with Bucharest Tribunal, Section VI Civil
File subject:
CNTEE Transelectrica SA requests by court action to have SMART SA compelled to:
a) Return to our company the amount of 7,652 where VAT is to be added, as prejudice incurred by our company as a consequence of the defendant's enrichment with no just cause, in the first place, and as undue payment, in the second place;
b) Compelling the defendant to pay the non-achieved benefits associated to the sum paid under the enrichment title without just cause, in the main, calculated from the date when the subscribed made the undue payments to the defendant until the date when the law court was notified, in quantum of 2,773, as well as compelling the defendant to further pay the non-achieved benefits until the actual return date of the sum representing the principal by the defendant,
Case file stage: found in the preliminary procedure, On 12.03.2018 we were notified the contestation filed by SMART which we answered on 22,03,2018, and the first hearing term is to be set later,
- Litigations with the subsidiary Teletrans SA
1, Case file no.**20223/3/2017** registered with Bucharest Tribunal, Section VI Civil
Case file object**:**
Teletrans SA requests compelling CNTEE Transelectrica SA to pay 4,635 , as value of the performance bond constituted as per contract C243/2010, to which the sum of 293 is added, legal interest calculated on the maturity date until law suit opening – 31.05.2017,
stage of the case file :Court hearing term on 13,04,2018, in view of settling the dispute in amiable manner,
2, Case file no. **16216/3/2017** registered with Bucharest Tribunal, Section VI Civil
Case file object:
By its suing request Teletrans SA asks the instance

- To ascertain the services under contract 03/2007 have been fully provided, as added;
- In subsidiary to ascertain the services under contract 03/2007 have been provided and partially accepted, as it has been added;
- To oblige Transelectrica to pay 4,649 , to which VAT of 883,360,56 Lei is added, representing the amounts of invoices 115/2017, 123/2017 up to 143/2017;
- To oblige Transelectrica to pay 214,355,40 Euro plus VAT, at the exchange rate on the invoice issuance dates, representing the value of services provided and partially accepted for the contractual interval May 2014 – November 2016, "in subsidiary if admitted the second subject of the request not the first subject of the request";

stage of the case file: hearing term 23.04.2018, in view of settling of the litigation amicably.

iv) Guarantees

As of December 31st, 2017 and December 31st, 2016, the guarantees are presented as follows:

	2017	2016
Guarantees granted, of which:	**381,753**	**461,879**
- letters of guarantee issued – production	44,554	36,325
- letters of guarantee issued – investments	183,962	238,617
- other guarantees granted	153,237	186,936
Guarantees received, of which:	**497,216**	**502,122**
- letters of guarantee received – production	184,226	220,879
- letters of guarantee received – investments	264,729	233,729
- other guarantees received	48,261	47,513

Guarantees granted

In accordance with the License no, 161/2000 updated by ANRE Decision no, 802/18,05,2016 regarding the provision of electricity transmission and system services and the administration of the balancing market, the Company has the obligation to establish and maintain a financial guarantee of 1% of the turnover related to the licensed activities, which

26. COMMITMENTS AND CONTINGENCIES (continued)

enables the Company to continue its licensed activities, considering the major risks that may impact these activities and which covers any potential damages that may be incurred according to the concluded contractual clauses, In order to comply with this obligation, the Company concluded a loan agreement for issuance of bank letters of guarantee with EximBank SA, the value of which being 29,422,392 as of December 31st, 2017.

On December 27th, 2017, the Company concluded a loan agreement for issuance of bank letters of guarantee with Banca Comerciala Romana amounting to 26,805,370 and valid between January 1st, 2018 and December 31st, 2018.

The other guarantees granted consist mainly of bank letters of guarantee issued for contracts concluded on the centralized markets administered by OPCOM – the Centralized Market for Bilateral Electricity Contracts for Extended Auction (CMCB-EA), the Day-Ahead Market (DAM) and the Intra-Day Market (IDM), as well as commitments/guarantees granted for investments in relation to pending loan contracts.
Other guarantees granted consist of contracts assigned to secure the credit line contracted for the support scheme.

Guarantees received

The guarantees received consist mainly in bank letters of guarantee for due payment in relation to contracts concluded on the electricity market, the good performance bonds and down payment letters of guarantee in relation to investment contracts and other guarantees received based on contracts funded by the connection tariff.

v) Revaluation reserves as of December 31st, 2017

As of December 31st, 2017, revaluation reserves are in amount of 408,899 (December 31st, 2016: 458,184).

Starting with May 1st, 2009, the reserves from the revaluation of fixed assets, including land plots, recorded after January 1st, 2004, which are deducted when calculating taxable income through tax depreciation expenses or transferred and/or ceased assets expenses, are taxed simultaneously with the tax depreciation deduction, namely when the assets are disposed, as the case may be.

Realized reserves are taxable in the future, in case of changing the destination of the reserves in any form, in case of liquidation, merger of the Company, including using the reserves for covering the Company's losses, except for the transfer of the aforementioned reserves after May 1st, 2009.

vi) Tariff for energy transmission and system services

The tariff for electricity transmission is set based on the "revenue cap" methodology, Using this methodology, ANRE sets an initial annual target revenue calculated by summing up the regulated costs and the regulated return of recognized assets, Certain costs included in the base of regulated costs are subject to efficiency requirements limiting the level of expenses that may be recovered through the regulated tariff (controllable operating and maintenance costs, own technological consumption). The annual target revenues calculated for a regulatory period are redirected through a linearization procedure aiming at softening any severe increases/decreases of revenues from one tariff year to the next, The revenues redirected in this way are annually adjusted by the price consumption index.
Certain changes in the tariff mechanism may have a significant impact on the recovery of the regulated depreciation of fixed assets included in the regulated assets base.

The current regulatory period lasts five years (July 1st, 2014 – June 30th, 2019), and comprises five tariff years (the tariff year begins on July 1st and lasts for 12 months). Thus, 2017 was the year of transition from the third tariff year to the fourth tariff year within the current regulatory period (the third tariff year ended June 30th, 2017, the fourth tariff year began July 1st, 2017). For 2017, the tariffs for the transmission and system services were calculated according to the provisions of ANRE Orders no. 53/2013 and 87/2013, as subsequently amended and supplemented, For the first semester of 2017, tariffs for the transmission and system services were approved by ANRE Order no. 27/2016 and for the second semester of 2017 by ANRE Order no. 48/2017.

According to ANRE Order no. 53/2013, as subsequently amended and supplemented, approving the Methodology for determining the tariffs for the electricity transmission service, for the calculation of the regulated revenue for the first tariff period, the competent authority determines the amount related to the efficiency gains (resulted from the reduction of

26. COMMITMENTS AND CONTINGENCIES (continued)

controllable operating costs incurred in a tariff period) above the targets set for prior regulated period and allocates 50% of the surplus to the customers of the transmission service (gain sharing mechanism).

According to ANRE Order no. 87/2013 approving the Methodology for determining the tariffs for the system services, the competent authority determines the amount related to gains obtained by the transmission and system operator through an efficient management of technological system services within a tariff period and allocates 80% thereof to users (gain sharing mechanism). In June 2017, via Order no. 45/2017, ANRE approved the new Methodology for determining the tariffs for the system services, applicable starting with the tariff period July 1st, 2017 - June 30th, 2018 (repealing ANRE Order no.87/2013).
The tariffs for the transmission of electricity and system services are adjusted annually by the total corrections resulting from the previous tariff period's corrections (actual data for 8 months and estimated data for 4 months) and the corrections of the second last tariff period (actual data), By way of exception, the tariff for the technological system services approved for the fourth tariff year has been revised pursuant to the provisions of Art. 45 of ANRE Order no. 45/2017, from 9.39 lei/MWh to 12.06 lei/MWh, applicable starting with January 1st, 2018, The main underlying factor for the tariff increase was represented by the reconsideration of the price assumptions related to Transelectrica's purchase of system reserves on the competitive market.

Service	Tariff applied in the first semester of 2017 (approved by ANRE Order no, 27/2016)	Tariff applied in the second semester of 2017 (approved by ANRE Order no, 48/2017)
	lei/MWh	lei/MWh
Electricity transmission service	18,70	16,86
Functional system services	1,30	1,11
Technological system services	11,58	9,39

vii) Contingencies

The following control measures are ongoing at the Company's Transelectrica headquarters:

Ministry of Public Finance - General Department of Economic and Financial Inspection - an inspection activity that started on 15.09.2017 and which was suspended by Address 243104 / 29.11.2017 on the same date.The objectives undergoing verification for 2012-2016 are presented below:

- substantiating and executing the revenues and expenses budget;

- compliance with the budgetary, economic, financial and accounting discipline;

- compliance with the legal provisions regarding the public and private property of the state and of the units

administrative-territorial units, held in any form;

- compliance with the provisions of the Government Order no, 64/2001 on the distribution of profits to the national entities,national companies and commercial companies with full or majority state capital, as well as self-governing administrations with subsequent amendments and completions;

- the use of reserve holdings;

- the way of organizing and exercising the compulsory forms of internal / managerial control;

- the way in which the amounts granted from the consolidated general budget were substantiated and justified,

The Ministry of Economy – Division for Control Body of the Minister– the control commenced on January 18th, 2018 – the objectives of the measure are: verifying the observance of legal provisions and internal norms pertaining to the entity's organization and functioning, verifying the way in which the acquisition activity is organized and performed, verifying the way in which consultancy, legal assistance and representation and litigation agreements are concluded and performed.

verifying the way in which the sponsorship agreements are concluded and performed, verifying the way in which the transportation expenses are made, analysis of the way in which orders, instructions and other requirements of the Ministry of Economy in the specific field of activity are performed, verifying the completion status of the measures ruled via previous reports, comparative analysis of the entity's economic and financial results in the last three years of activity.

The National Agency for Public Procurement – the control started on February 26th, 2018 – the control aimed at verifying the observance of the rules pertaining to the drafting of technical specifications for the allocation procedure of the agreement for the Technical upgrade of the Turnu Severin Este 220/110 kV substation – procurement notice no, 166637/15.03.2016.

On 31 December 2017 Teletrans S,A,,subsidiary of the Company was under a control that began on 29.05.2015 by the General Economic–Financial Audit Directorate from the Ministry of Public Finance, the reviewed period being

26. COMMITMENTS AND CONTINGENCIES (continued)

01.01.2010-31.12.2014, according to the service orders 82/2.,05.2015 and 01.01.2015- to date, according to the service order 38/31.05.2017; the economic-financial audit objectives being:

- -Fundamentals and execution of the revenue and expense budget;
- -Compliance with the budgetary economic-financial and accounting discipline;
- -Observing the legal provisions regarding assets in the public and private state domain and of the administrative territorial units;
- -The organisation and exercise of compulsory internal / managerial control;
- -Checking the compliance with the provisions of GO 26/2013 on enhancing financial discipline of certain economic operators where the state or administrative territorial units are single or majority shareholders, or hold directly or indirectly majority participation in 2015 – to date.

On December 31, 2017, Teletrans SA, the subsidiary of the Company, was subject to control by the General Division- for Economic and Financial Inspection of the Ministry of Public Finance regarding the period 2010-2014 and finalized in 2018. The Economic and Financial Inspection Report Draft issued on February 21st , 2018 specifies that, as a result of the leasing of the assets belonging to the public state domain (capacities and infrastructure elements of the public telecommunications network) with disregard by the Company's representatives and Teletrans S.A. of the provisions of art. 14, art. 15 and art. 16 of Law no. 213/1998 on the public property, the state budget would have been damaged in a total amount of 88,778, representing sums collected and not paid to the state budget in the period 2006-2016.

In the letter 13443 from26.03.2018 written by Teletrans, it notified Transelectrica of the following:

- -In 21.02.2018 – 10.032018 time frame several meetings took place between the representatives of Teletrans and the representatives of the Ministry's audit team, which decided the calculation base used in the draft report was
- -wrong, as it strictly related to the revenues registered without taking into account the expenses made (total amortisement of the procured grid equipment, human resources as well as all indirect costs of such activities) and without fully understanding the commercial and juridical relations between Transelectrica and Teletrans;
- -Consequently, the audit team together with the managers of the Economic-Financial Audit Division from the Ministry of Finance provided a new term to Teletrans by which it should submit the reviewed situation and additional explanations for the reviewed time interval, extending the 27.02.2018 term by 30.03.2018,

Teletrans letter also specified that, taking into account the above, the managerial team of Teletrans has got solid reasons to believe the finding about the so-called deviation from the draft audit report will be removed and this report will find Teletrans performed correct commercial activities.

As regards the legality of using the excess optical fibre, the juridical nature of the contractual relation took into account the legal opinion of Bostina&Asociatii according to which the previous contract C45/2006 was deemed as mandate contract without representation pertaining to "concluding by SC TELETRANS SA in its own name but on behalf of the public telecommunication network of Transelectrica some contracts trading its capacity and infrastructure elements", Such construction of the juridical deed enabled concluding Covenant C111/2014, while keeping the juridical relations between parties.

Until the date of approval of the consolidated financial statements for the year ended on December 31st, .17, the Company did not complete the analysis necessary to determine the possible effect of the result of the economic and financial inspection report issued on 21 February 2018 on the consolidated financial statements of the Company for the year ended on 31 December 2017.

Considering that the ANAF-DGAMC findings for the period 2005-2010 include both additional debts and accessories corresponding to the technological services provided in the framework agreements approved by ANRE and considering that until thedrafting of the financial statements there was anofficial reply from the Authority received, regarding the amendments of the framework contract as requested by the Company, at this moment it is not possible to accurately estimate the possible influence of the authorities' interpretation of the unrealized technological system services for which Transelectrica records income from penalties for the capacities not provided to it under the contract under the conditions of IAS 37 Provisions , contingent liabilities and contingent assets.

At the same time, according to the Court of Accounts' findings regarding the expenses that were not aimed at the continuous training of the employees and which are not forms of professional training and for which the Decision no. 14/2011was issued, ANAF-DGAMC retained additional debts and corresponding accessories.

Currently there are ongoing litigations with the Court of Auditors regarding controls carried out in 2013 and 2017. Taking into account the findings of the Court of Accounts, found in the Decisions of the years 2013 and 2017, there is the potential of additional tax liabilities, which at this time cannot be accurately determined under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

26. COMMITMENTS AND CONTINGENCIES (continued)

Thus considering the above on December 31st 2017 the Company's managerial team did not have the necessary information to make a sound analysis in view of determining the effects and results of such report over the stand-alone financial statements for the financial year ended on December 31st, 2017.

From 16.01.2017 to 05.05.2017 Romania's Court of Auditors conducted an audit at Smart SA pertaining to "Control on the mode of administration of the assets from the national electricity transmission network",
When such control ended an Audit report was issued on 05,05,2017, This Audit report was capitalised by Decision 6/07,06,2017, Smart SA filed objection against this decision.
The objection was settled by the Objection Settlement Commission under Conclusion 75/25,07,2017, which denied the objection, The conclusion was received by the company on 31,07,2017.
Within the legal term Smart SA filed Complaint against Conclusion 75/25.07.2017 issued by the Objection settlement commission established in Romania's Court of Accounts, requesting cancellation of such conclusion as well as cancelation of Decision 6/07.06.2017 issued by the Court of Accounts, Department IV, The complaint is included in File 6412/2017 found on the docket of the Appeal Court Bucharest, Section VIII of administrative and fiscal disputes,
Since the suspension of the obligation to enforce Decision 6/2017 ended as of the reception date of Conclusion 75/25.07.2017, the measure plan was elaborated and implemented, being registered under no.5790/23.08.2017 in order to carry out the decided measures.
The initial term to carry out the measures decided by Romania's Court of Accounts was 29,12,2017, The term was extended until 30.06.2018.

27. GROUP STRUCTURE

The main Group companies and the percentage of ownership exercised by the Company are as follows:

Entity	Country of Origin	31 December 2017 % of total shares	31 December 2016 % of total shares
SMART SA	Romania	70	70
TELETRANS SA	Romania	100	100

SC SMART SA

SC SMART SA, with registered office at 33Magheru Blvd,, district 1, Bucharest, and head office located at the work point in 246 C Calea Floreasca, "Sky Tower" Building, 20th floor, district 1 Bucharest, has as main activities the provision of maintenance services for the transmission-dispatch system, The subsidiary was incorporated by GD no, 710/July 19th, 2001 on November 1st, 2001.The share capital as of December 31st, 2017 amounted to 55,036,300, of which 38,528,600 is subscribed and fully paid up by the Company.

By Decision no, 14/10,12,2014, the Extraordinary General Assembly of Shareholders of SC Smart SA approved the company's share capital increase by in-kind contribution with the land plots value for which the certificate authenticating the ownership rights was obtained.

On December 30th, 2014, the Trade Registry Office attached to the Bucharest Court settled the application to register the share capital increase of SC Smart SA and, consequently, as of December 31st, 2015, the shareholding of SC Smart SA was the following:

- CNTEE Transelectrica SA - shares 3,852,860
  - participation in profit and loss: 70,005%
- Romanian State through the General Secretariat of the Government - shares 1,650,770
  - participation in profit and loss: 29,994%

On January 25th, 2016, the amendment regarding the change of the shareholder structure of SC Smart SA was processed at the National Trade Registry Office, namely the mention regarding the administration of State's assets, amendment required by Art, 10 of GEO no, 86/2014, as amended and revised.

*) On the docket of the courts there was a litigation - file no, 32675/3/2015 - involving the annulment of Resolution of the

27. GROUP STRUCTURE (continued)

Designated Person No, 154954/December 30th, 2014, pronounced in file no. 449314/December 23rd, 2014, under which the Trade Register attached to the Bucharest Court has registered the share capital increase of the subsidiary SC Smart SA with contribution in kind and amended the Articles of Association according to Decision no, 12375/December 22nd, 2014 of the Chairman of the Board of Directors of the subsidiary and according to Board Decision no. 19/December 22nd, 2014, The Company also requested the competent court for the annulment of the two aforementioned decisions and the suspension of the enforcement of deeds whose annulment is requested, until the resolution of the promoted action.

In the file no. 32675/3/2015, the Bucharest Court – Section VI Civil pronounced the civil sentence no. 6468/November 16th, 2015, through which it ordered the following: "Admits the exception of inadmissibility. Dismisses the application for summons filed by the plaintiff Transelectrica against the defendants: the subsidiary Company for electricity transmission grid maintenance services SMART SA, the Romanian State and ONRC, as inadmissible. With right of appeal within 30 days from notification. The appeal is lodged with the Bucharest Court Section VI Civil, Pronounced in open court today, November 16th, 2015", CNTEE Transelectrica SA lodged an appeal, which was registered on the docket of the Court of Appeal, the case being settled at the hearing from May 23rd, 2016, when the Court of Appeal Bucharest ruled the civil decision no, 903/23.05.2016, by which it ordered the following: "Rejects the appeal as ill-founded, Admits the notification of the Constitutional Court, Pursuant to Article 29 (4) of Law no, 47/1992, notifies the Constitutional Court to resolve the exception of unconstitutionality of Article 114 (3) of Law no. 31/1990 in relation to the provisions of Article 16. Article 21 and Article 44 of the Constitution, exception invoked by the appellant. Final."

SC TELETRANS SA

SC TELETRANS SA, with registered office at 16 – 18 Hristo-Botev Blvd,, district3, Bucharest, has as main activities process and management IT maintenance services, telecommunication and IT specific services in the PTG, telephony and data transmission. The subsidiary was incorporated as per Decision no, 3/2002 of the General Assembly of Shareholders, The share capital as of December 31st, 2017 amounted to 6,874,430, subscribed and fully paid up.

28. REMUNERATION OF COMPANY'S MANAGEMENT

The wages paid to the management employed based on Individual Employment Contracts (IEC) for the services rendered consist primarily of base salary, benefits upon termination of employment and post-employment and the fixed and variable components for the members of the Directorate and the Board of Supervisors. These are detailed as follows:

	2017	2016
Short-term employee benefits	9,822	10,269
Other long-term benefits	121	267
Members of the Management Board and the Supervisory Board		
Fixed component	1,611	1,566
Variable component	0	2,013
Total	**11,555**	**14,116**

In 2013, the 4 year mandate was approved for the members of the Board of Supervisors and the Directorate. The General Assembly of Shareholders of November 6th, 2013 approved the mandate of the Board of Supervisors members and their variable remuneration level starting with the business day immediately following the date of approval of the Administration Plan of CNTEE Transelectrica SA for the period 2013-2017 prepared by the Board of Supervisors, i.e. from 01.10.2013.
Decision no, 1 of 23,03,2015 of the Ordinary General Assembly of Shareholders approved under items 3.3 and 3.4 the setting of the general caps of the fixed remuneration granted to the Board of Supervisors members of CNTEE "Transelectrica" – S,A, and the general caps of the variable component of their remunerations.

As of December 31st, 2017, the number of OAVTs granted to the Board of Supervisors members of Transelectrica is as follows:

27. REMUNERATION OF COMPANY'S MANAGEMENT (continued)

Package	No, of OAVTs	Date granted	Due date	Weighted average price for the month prior to granting as per the mandate contract
Package 1 November 15th, 2013	644,545	15,11,2013	15,11,2016	13,1484 (lei/share)
Package 2 November 15th, 2014	571,561	15,11,2014	15,11,2017	26,6040 (lei/share)
Package 3 November 15th, 2015	355,640	15,11,2015	15,11,2018	25,9986 (lei/share)
Package 4 November 15th, 2016	415,274	15,11,2016	15,11,2019	29,0861 (lei/share)

As of December 31st, 2016, as per the certificates issued by the Company, the number of OAVTs granted to the Transelectrica Directorate members is as follows:

Package	No, of OAVTs	Date granted	Due date	Weighted average price for the month prior to granting as per the mandate contract
Package 1 May 15th, 2014	567,978	15,05,2014	15,11,2016	13,1484 lei/share
Package 2 November 15th, 2014	657,973	15,11,2014	15,11,2017	26,6040 lei/share
Package 3 November 15th, 2015	522,418	15,11,2015	15,11,2018	25,9986 lei/share
Package 4 November 15th, 2016	474,837	15,11,2016	15,11,2019	29,0861 (lei/share)

Details of the valuation model of OAVTs:

	Package 1	Package 2	Package 3	Package 4
Validity	3 years	3 years	3 years	3 years
Way of exerting	1/3 of the package granted yearly			
Weighted average price for the month prior	13,1484 lei/ share	26,6040 lei/ share	25,9986 lei/ share	29,0861 lei/ share

Thus, as of December 31st, 2017, the Company recorded a provision amounting to 38,498 (42,355 as of December 31st, 2016) for the annual variable component owed to the Directorate and Board of Supervisors members for the fair value of the virtual shares of the Company as of the end of the financial year.

29. NON-CONTROLLING INTERESTS

	December 31, 2017	December 31, 2016
Balance at the beginning of the year	5,484	11,645
Share of profit for the year	(1,419)	(6,161)
Additional non-controlling interests	-	-
Balance at the end of the year	**4,065**	**5,484**

30. FINANCIAL INSTRUMENTS

Financial risk management

The Group is exposed to the following risks that arise from financial instruments: market risk (interest rate risk and currency risk), credit risk and liquidity risk, The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to mitigate potentially adverse effects on the Group's financial performance, Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's profit or loss or the value of its holdings of financial instruments.

The Group does not have formal arrangements to mitigate financial risks. Despite the fact that no formal arrangements are in place, the financial risks are monitored by management considering the financial needs of the Group in order to make sure that the opportunities and threats are matched efficiently.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Interest rate risk

The Group's operating cash flows are affected mainly by changes in interest rates, due to the foreign currency long-term borrowings with variable interest rates contracted from external credit institutions. The Group has significant long-term borrowings with variable interest rates that expose it to significant cash flow risk.

At the reporting date, the financial liabilities with fixed and variables interest rates are as follows:

	December 31, 2017	December 31, 2016
Fixed rate instruments		
Financial liabilities	389,449	478,649
Variable rate instruments		
Financial liabilities	143,919	178,829

Sensitivity analysis of interest rate

As of the reporting date, a 100% appreciation of the interest rate for the borrowings with variable interest rates date would have decreased the gross profit for the period by the amounts shown below, This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	Loss 2017	Loss 2016
RON	-	(44)
EUR	(877)	(1,325)
USD	(12)	(21)
Total	**(889)**	**(1,390)**

As of the reporting date, a 100% depreciation of the interest rate for the borrowings with variable interest rates date would have increased the gross profit for the period by the amounts shown below, This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	Profit 2017	Profit 2016
RON	-	44
EUR	877	1,325
USD	12	21
Total	**889**	**1,390**

The Group did not conclude any hedging contracts regarding the debts in foreign currencies or the exposure to the interest rate risk.

30. FINANCIAL INSTRUMENTS (continued)

Exchange rate risk

The Group may be exposed to the changes in the foreign exchange rates through cash and cash equivalents, long-term borrowings and commercial debts denominated in foreign currencies.

The Group's functional currency is RON, The Group is exposed to foreign currency risk on cash and cash equivalents, purchases and borrowings that are denominated in a currency other than the functional currency, The currencies giving rise to this risk are primarily EUR, USD and Japanese Yen (JPY), The long-term loans and other liabilities denominated in foreign currencies are then retranslated at the prevailing exchange rate at each balance sheet date, as communicated by Romanian National Bank, The resulting differences are charged or credited to the profit or loss, but do not affect cash flows until the settlement of the amount.

The Group's exposure to foreign currency risk, expressed in RON, was as follows:

	Value	RON	EUR	USD
31 December 2017				
Monetary assets				
Cash and cash equivalents	553,875	498,963	54,896	16
Other financial assets	-	-	-	-
Receivables	825,464	759,016	65,148	-
Gross exposure	**1,379,339**	**1,258,979**	**120,043**	**16**
Monetary liabilities				
Suppliers and other liabilities	704,574	638,725	65,849	-
Borrowings	533,369	224,989	308,380	-
Gross exposure	**1,237,943**	**863,714**	**374,229**	**3,435**
Net balance sheet exposure	**141,396**	**395,265**	**(254,186)**	**(3,420)**

	Value	RON	EUR	USD
31 December 2016				
Monetary assets				
Cash and cash equivalents	960,489	920,125	40,327	38
Other financial assets	135,090	135,090	-	-
Receivables	874,107	830,854	43,253	-
Gross exposure	**1,969,686**	**1,886,068**	**83,580**	**38**
Monetary liabilities				
Suppliers and other liabilities	889,349	808,560	80,789	-
Borrowings	657,478	217,343	428,798	11,337
Gross exposure	**1,546,827**	**1,025,903**	**509,587**	**11,337**
Net balance sheet exposure	**422,859**	**860,165**	**(426,007)**	**11,299**

Trade and other receivables, suppliers and other liabilities, except suppliers of non-current assets are denominated only in RON.

The following significant exchange rates were used:

30. FINANCIAL INSTRUMENTS (continued)

	Average exchange rate		Exchange rate as of	
	2017	**2016**	**December 31st, 2017**	**December 31st, 2016**
RON/ EURO	4,5682	4,4908	4,6597	4,5411
RON/ USD	4,0525	4,0592	3,8915	4,3033

Sensitivity analysis of exchange rate risk

A 10% appreciation of the RON against the following currencies as of December 31st, 2016 and December 31st, 2015 would have increased the gross profit by the amounts shown below, This analysis assumes that all other variables remain constant

	Profit 2017	**Profit 2016**
EUR	25,419	42,601
USD	342	1,130
JPY	-	-
Total	**25,761**	**43,731**

A 10% depreciation of the RON against the following currencies as of December 31st, 2016 and December 31st, 2015 would have had the equal but opposite effect on the above currencies to the amounts shown above, assuming that all other variables remain constant,

	Loss 2017	**Loss 2016**
EUR	(25,419)	(42,601)
USD	(342)	(1,130)
JPY	-	-
Total	**(25,761)**	**(43,731)**

Credit risk

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

The treatment of counterparty risk is based on internal and external success factors of the Group. External factors of success that are systematically reducing the risk are: de-centralization of the energy sector where production, transmission, distribution and supply are distinct activities, and the interface for the customer is the supplier, the trading of energy on the Romanian market on two market segments: regulated market and competitive market. Internal factors of success in the treatment of counterparty risk include the diversification of customer portfolio and diversification of the number of services provided on the electricity market.

Financial assets, which potentially subject the Group to collection risk, consist principally of trade receivables and cash and cash equivalents. The Group applied a series of policies to make sure that the services are rendered to customers that can provide a proper collection, by including in the commercial contracts their obligation to establish financial guarantees, The carrying amount of accounts receivable, net of impairment allowances, represents the maximum amount exposed to collection risk.

The collection risk related to these receivables is limited, as these amounts are primarily due by state-owned companies.

30. FINANCIAL INSTRUMENTS (continued)

The cash is placed in financial institutions, which are considered as having minimal risk, The deposits are placed with Banca Comeciala Romana, BRD – Groupe Societe Generale, Credit Europe Bank, Garanti Bank, Alpha Bank, Banca Transilvania, Exim Bank, ING Bank and CITI Bank,

At the date of reporting, the maximum exposure to the risk of collection was:

	December 31st, 2017	December 31st, 2016
Financial assets		
Net trade receivables	728,463	774,993
Cash and cash equivalents	553,875	960,489
Other net receivables	38,000	89,339
VAT to recover	47,899	-
Other financial assets	-	135,090
	1,378,468	**1,959,911**

The situation of receivables' seniority on the date of drafting the financial position report was:

	Gross value December 31st, 2017	Provision December 31st, 2017	Gross value December 31st, 2016	Provision December 31st, 2016
Not due	573,750	1,268	648,510	5,550
Due date exceeded by 1 to 30 days	294	2	13,257	-
Due date exceeded by 31 to 90 days	2,877	2,853	6,222	-
Due date exceeded by 90 to 180 days	(91)	-	1,152	359
Due date exceeded by 180 to 270 days	61,178	2,979	27,315	7,725
Due date exceeded by 270 to 365 days	26,220	21,851	6,256	-
Due date exceeded by more than a year	189,222	96,034	175,662	89,746
Total	**853,451**	**124,988**	**878,374**	**103,381**

The situation of other receivables' seniority on the date of drafting the financial position report was:

	Gross value December 31st, 2017	Provision December 31st, 2017	Gross value December 31st, 2016	Provision December 31st, 2016
Not due	22,944	2,526	68,799	2,501
Due date exceeded by 1 to 30 days	73	0	16	9
Due date exceeded by 31 to 90 days	63	57	57	30
Due date exceeded by 90 to 180 days	34,681	34,534	6,064	4,791
Due date exceeded by 180 to 270 days	3,020	2,939	2,317	669
Due date exceeded by 270 to 365 days	179	113	3,160	595
Due date exceeded by more than a year	71,054	42,746	101,201	83,678
Total	**132,015**	**82,913**	**181,613**	**92,274**

The Group's policy is to record impairment adjustments for value loss of 100% for clients in litigation, insolvency and bankruptcy, and 100% of trade receivables and other receivables not re paid in more than 180 days, except for outstanding

30. FINANCIAL INSTRUMENTS (continued)

claims generated by the support scheme, The Group also carries out an individual analysis for trade receivables and other uncollected receivables,

The highest impairment adjustments as of 31st December 2017, calculated for trade receivables and related penalties were recorded for SC Eco Energy SRL (24,736), SC Petprod SRL (23,540), Arelco Power (17,359), SC Total Electric Oltenia SA (14,186), Romenergy Industry (13,513), Elsaco Energy (9,294), RAAN (8,517), Elsaco Energy (7,177), CET Brasov (4,665), OPCOM (4,517), In order to recover the receivablesadjusted for impairment, the Company took the following measures: court action, enrollment at creditor table, requesting clarifications from ANAF (for VAT to be collected from Opcom), etc.

At the same time, the Company has registered an impairment adjustment of the amount of 44,443 due to the total liabilities paid to NAFA.(see Note 9).

The evolution of adjustments for impairment of receivables is presented as follows:

	December 31st, 2017	December 31st, 2016
Balance on the 1st of January	**103,381**	**89,312**
Recognition of adjustments for impairment	36,576	22,607
Reversal of adjustments for impairment	14,969	(8,538)
Balance at the end of the period	**124,988**	**103,381**

The evolution of impairment adjustments for other receivables is presented as follows:

	December 31st, 2017	December 31st, 2016
Balance on the 1st of January	**92,274**	**86,429**
Recognition of adjustments for impairment	38,010	7,501
Reversal of adjustments for impairment	3,356	(1,656)
Balance at the end of the period	**82,913**	**92,274**

Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulties in fulfilling the obligations associated with financial liabilities that are settled in cash or by another financial asset's transfer.

A prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through adequate credit facilities.

	December 31, 2017	December 31, 2016
Assets		
Monetary assets in RON	1,258,979	1,886,068
Monetary assets in foreign currency	120,059	83,618
	1,379,339	**1,969,686**
Liabilities		
Monetary liabilities in RON	(843,210)	(1,025,903)
Monetary liabilities in foreign currency	(377,664)	(520,924)
	(1,237,943)	**(1,546,827)**
Net monetary position in RON	**395,265**	**860,165**
Net monetary position in foreign currency	**(257,605)**	**(437,306)**

The Group's policy on liquidity is to maintain sufficient liquid resources to meet the obligations as they fall due.

30. FINANCIAL INSTRUMENTS (continued)

The followings are the contractual maturities of financial liabilities, including interest payments:

December 31st, 2017	Carrying amount	Contractual amount	12 months or less	1 – 2 years	2 – 5 years	> 5 years
Financial liabilities						
Trade and other liabilities	693,349	726,521	679,594	12,917	838	-
Other tax and social security liabilities	11,225	11,503	11,225	-	-	
Borrowings	533,369	1,292,252	338,183	51,449	68,913	74,824,
Total	**1,237,942**	**2,030,276**	**1,029,001**	**64,336**	**69,751**	**74,824**

December 31st, 2016	Carrying amount	Contractual amount	12 months or less	1 – 2 years	2 – 5 years	> 5 years
Financial liabilities						
Trade and other liabilities	877,058	877,058	877,058	-	-	-
Other tax and social security liabilities	12,291	12,291	12,291	-	-	-
Borrowings	657,478	1,646,600	155,548	311,712	95,402	94,816
Total	**1,546,827**	**2,535,949**	**1,044,897**	**311,712**	**95,402**	**94,816**

Fair value of financial instruments

The fair value is the amount at which the financial instrument can be exchanged in current transactions by willing parties in an arm's length transaction, other than determined through liquidation or forced sale. The fair values are obtained from quoted market prices or through cash flows models, as appropriate. As of December 31st, 2016 and December 31st, 2015, management believes that the fair values of cash and cash equivalents, trade and other receivables, trade payables, loans and other short-term liabilities approximates their carrying value. The carrying amount of the loan is the depreciated cost.

December 31st, 2017	Book value	Fair value	Level
Financial assets			
Net trade receivables	728,463	727,103	Level 1
Cash and cash equivalents	553,875	553,875	Level 1
Other financial assets	49,102	38,489	Level 1
VAT for recovery	47,899	47,899	Level 1
Other net receivables	-	-	Level 1
	1,378,468	**1,378,468**	

December 31st, 2017	Carrying amount	Fair value	Level
Non-current financial liabilities			
Borrowings, except for bonds	195,186	195,186	Level 1
Bonds	-	-	Level 1
	195,186	**195,186**	

Current financial liabilities			
Trade payables and suppliers of non-current assets	693,349	693,349	Level 1
Borrowings	138,183	138,183	Level 1
Bonds	200,000	200,000	Level 2
Liabilities towards employees and other liabilities	11,225	11,225	Level 1
	1,042,757	**1,042,757**	

December 31, 2016	**Book value**	**Fair value**	**Level**
Financial assets			
Net trade receivables	774,993	774,993	Level 1
Cash and cash equivalents	960,489	960,489	Level 1
Other financial assets	135,090	135,090	Level 1
Other net receivables	89,339	89,339	Level 1
	1,959,911	**1,959,911**	

December 31, 2016	**Book value**	**Fair value**	**Level**
Non-current financial liabilities			
Borrowings, except for bonds	501,930	501,930	Level 1
Bonds	200,000	200,000	Level 1
	701,930	**701,930**	
Current financial liabilities			
Trade payables and suppliers of non-current assets	877,058	877,058	Level 1
Borrowings	155,548	155,548	Level 1
Liabilities towards employees and other liabilities	12,291	12,291	Level 1
	1,044,897	**1,044,897**	

Categories of financial assets

	December 31st , 2017	**December 31st , 2016**
Financial assets		
Cash and bank equivalents	553,875	1,095,579
Receivables	825,464	874,107
Financial liabilities		
Depreciated cost	1,237,943	1,802,230

Personnel risk and the salary scheme

As of December 31st, 2017, the average age of the Group's personnel is quite high, It is likely that in the nearest future, the Company will face a lack of personnel due to natural causes.

The Company could also face the risk that highly qualified employees leave for private companies which may offer more attractive salary packages than those offered by the Company.

The salary policy imposed by the State on companies in which it is the majority shareholder may lead to a major fluctuation within the specialized work force.

Capital risk management

The Group's policy is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to

30. FINANCIAL INSTRUMENTS (continued)

sustain future development of the business.

Debt ratio indicator

	December 31st , 2017	December 31st , 2016
Short and long-term borrowings	533,369	657,478
Cash and cash equivalents	(533,875)	(960,489)
Other financial assets	-	(135,090)
	(20,506)	**(438,101)**
Equity	2,739,069	3,133,857
Debt ratio	-	-

31. FEES CHARGED BY EACH STATUTORY AUDITOR OR AUDIT FIRM

The total fees charged by each statutory auditor or audit firm for the statutory audit of the annual financial statements and the total fees charged by each statutory auditor or audit firm for other assurance services, for tax consultancy services and for non-audit services according to Art.38 of Annex no. 1 to the Order no. 2844/2016 of the Ministry of Public Finances, as subsequently amended and supplemented, related to the year 2017, are as follows:

- **SC Deloitte Audit SRL -** Contract no, C210/30.10.2017 – audit services for the stand-alone and consolidated financial statements, issuance of the report on the conformity of the Directorate's Report with the stand-alone and consolidated financial statements, audit services regarding the fulfillment of the financial conditions specified in the loan agreements concluded with Commercial Banks/International Financial Institutions, in bond issuance contracts, audit report in compliance with Art. 113 letter G paragraph (6) of Regulation no. 1/2006 issued by the National Securities Commission – fees for 2017 – 200,000, to which VAT is added;
- **SC PKF Finconta SRL –** Contract no. C75/11.04.2016 – tax consultancy services – fees for 2017 – 36,700, to which VAT is added.

- **SC Econsulting SRL –** Contract no,.C266/03,12,2015 – audit services for the project called "Studies regarding the new 400 kV OHL d,c between the Smardan and Gutinas substations", financed via European Funds within the TEN-E program for the period April 1st, 2011 - January 27th, 2017 - fees for 2017 - 2,569;
- **SC Deloitte Audit SRL –** Contract no.C166/04,09,2017 – Independent report for limited assurance of information included in current reports drafted by the company as per provisions of Law no, 297/2004 and Regulation no. 1/2006 - fees for 2017 – 4,500, to which VAT is added;

- **KDCL CONCEPT SRL –** contract C1669 / 10,02,207 - audit services for Teletrans SA subsidiary, according to the auditing standards issued by the CAFR for the financial statements of the financial year ended 31.12.2017 - related fee 2017 - 9000 euro.
- at the time of drafting of these consolidated financial statements the general Shareholders Meeting of Smart SA was summoned for the appointment of **DBF Expert Audit SRL and Expertise and Audit Manolescu Florin through leading association DBF Expert Audit SRL** - providing audit services for the Smart SA subsidiary, according to the audit standards issued by CAFR for the financial statements of the financial year ended 31.12.2017, 31.12.2018, 31.12.2019 - related fee 2017 - 17,280 lei

32. SUBSEQUENT EVENTS

Acceptance of mandate for interim member of the Supervisory Board

According to the Decision no 1 of Ordinary General Shareholders'Meeting from January 9th , 2018, Mr, Constantin DUMITRU was appointed as a temporary member of the Supervisory Board, with a term of office until March 30th , 2018.
The appointment of Mr, Constantin DUMITRU became effective starting with January 15th , 2018, the date of signing before the public notary of the statement of acceptance of the mandate as an interim member of the Supervisory Board of the National Power Grid Company "Transelectrica" S.A.

Extension of the directorate mandate

In the meeting on January 15th , 2018, the Supervisory Board decided to extend through an addendum, the Mandate Contract of the interim members of the Directorate for a period of 2 months, respectively until March 16th ,2018.
Therefore, the composition of the Directorate is as follows:
1, Georgeta - Corina POPESCU 2, Andreea - Georgiana FLOREA 3, Dan - Valeriu ARDELEAN 4, Mircea - Toma MODRAN 5, Florin - Cristian TĂTARU.

Grant approval in the amount of 27,085,000 euro

On January 25th, 2018, the European Commission approved a grant of € 27,085,000 for the construction of the Cernavoda-Stalpu 400 kV power line. The Cernavodă - Stâlpu airline will contribute to increasing interconnection capacity between Romania and Bulgaria and to the integration of wind energy in the Dobrogea area.
The Cernavodă-Stâlpu 400 kV line will be about 160 km long and for its commissioning it is necessary to build the 400 kV Stâlpu station and to expand the Cernavoda and Gura Ialomiţei stations, According to the 10-year Development Plan of CNTEE Transelectrica SA, 400kV Cernavoda-Stâlpu OHL will be completed in 2020.

32. SUBSEQUENT EVENTS (continued)

The Cernavoda-Stalpu Line Project, part of the Black Sea Corridor Cluster, is one of the six major investment objectives of the National Power Grid Company Transelectrica SA, which is on the third list of projects of common interest (PCI) on energy infrastructure adopted in November 2017 by the European Commission, The total value of the six investments is about one billion lei. All of these projects contribute to the achievement of the 400kV national ring, an objective included in the governance program, which leads to an increase in the operational safety of NPSs and the achievement of an economical operating regime for the PTGs.

Loans for current activity

Transelectrica signed the credit contract no. C55 / 01.03.2018 with Raiffeisen Bank for a period of 12 months for the financing of the high efficiency cogeneration bonus scheme, in the form of an overdraft facility amounting to 100,000,000, at an interest rate calculated according to the refereance rate ROBOR 1M, plus a negative margin of 0,35%, If the reference rate is less than 0,35%, the interest rate applied is 0%, This was guaranteed by:

- Mortgage on the bank account opened at the bank
- Mortgage on the receivables resulting from the High Efficiency Contribution Contribution Agreements concluded with CES Sale S.A., E.ON Energie Romania S.A .

Appointment of interim Directoratw Members

As the term of office of the current members of the Directorate ceases on March 16th, 2018, the Board of Supervisors, as of March 17, 2018, appointed the following persons as interim members of the Board of Directors as of March 17th, 2018:
1. Georgeta – Corina POPESCU
2. Andreea – Georgiana FLOREA
3. Dan – Valeriu ARDELEAN
4. Florin - Cristian TĂTARU

The mandate is granted for a period of 4 months with the possibility of extending the mandate, for solid reasons, for further two months, The term of office shall not exceed the date of finalization of the selection procedure of the members of the Directorate of the National Power Grid Company "Transelectrica" SA in the conditions of art, 642 of G,E,O, no, 109/2011 if the procedure is completed within this interval, In accordance with Art, 18 par, (4) of the Constitutive Act of the National Power Grid Company "Transelectrica" -SA, the Supervisory Board elects as the Chairman of the Executive Board, alternatively Chief Executive Officer or Chief Executive Officer - "CEO" - of the Company) of the National Company of Power Transmission "Transelectrica" SA, starting with March 17th, 2018, Ms Georgeta - Corina POPESCU, The appointment of the above-mentioned Directors will become effective on the date of signing before the public notary of the declaration of acceptance of the mandate of the Director of the National Power Grid Company "Transelectrica" SA.

Mandate Acceptance – Imterim Directorate Members

The interim members of the Executive Board, appointed on March 14th, 2018 by the Supervisory Board, signed the declaration of acceptance of the mandates on March 15th, 2018, their appointment becoming effective as of March 17th, 2018, according to the declaration of acceptance of the mandates .

The accompanying consolidated financial statements were approved by the management on March 28th, 2018 and signed on its behalf by:

Directorate

Georgeta - Corina POPESCU	**Andreea Georgiana FLOREA**	**Dan - Valeriu ARDELEAN**	**Florin - Cristian TATARU**
Chairman	**Member**	**Member**	**Member**

Cristina STOIAN
Economics and Financial Strategy Department Director

Cristiana ZIRNOVAN
Budgeting and Management Reporting Department

Note

regarding the financial results included in the Annual Report 2017, according to the Decision no. 6 of the Ordinary General Shareholders Meeting of the National Power Grid Company "Transelectrica" - SA on April 30th, 2018

The attached note provides the financial key figures, stock exchange information, profit distribution and the financial report that were updated using the Stand-alone financial statements according to Decision 6 of 30 April 2018 the Shareholders' General Ordinary Assembly of the National Power Grid Company Transelectrica SA

Directorate,

Adrian-Constantin RUSU	**Dan-Valeriu ARDELEAN**	**Andreea-Georgiana FLOREA**	**Georgeta-Corina POPESCU**	**Florin-Cristian TĂTARU**
Directorate Chairman	**Directorate Member**	**Directorate Member**	**Directorate Member**	**Directorate Member**

Cristina STOIAN

Director of the Accounting&Financial Strategy Direction

Veronica CRISU

Manager of the Accounting Department

Key figures according to the Decision no. 6 of the Ordinary General Shareholders Meeting /30.04.2018

FINANCIAR					
3.060 mil lei	▲12% y/y	Revenues	68 mil lei	▼81% y/y	EBIT
380 mil lei	▼44% y/y	EBITDA	28 mil lei	▼90% y/y	Net profit

Stock-exchange information 2015-2017 according to the Decision no. 6 of the Ordinary General Shareholders Meeting /30.04.2018

ndicator	31.12.2017	31.12.2016	31.12.2015
Number of shares	73,303,142	73,303,142	73,303,142
Stock exchange capitalization (mil lei)	1,800	2,140	2,137
Stock exchange capitalization (mill euro)	386	471	472
Maximum price (lei/share)	33.7	31.15	32.47
Minimum price (lei/share)	24.55	26.40	25.19
Price at the beginning of the year (lei/share)	29.2	29.15	29.27
Price at year-end (lei/share)	24.55	29.20	29.15
Profit per share (lei/share)	0.39	3.72	4.91
PER	63.67	7.86	5.93
P/BV	0.66	0.69	0.71
Gross dividend per share (lei)	-	2.257	2.65
Special gross dividend per share (lei)*	2.330	-	-
Dividend return**%	-	7.73	9.09
Free Float %	41.31	41.31	41.31

*as per allocation of Other reserves

**dividend return proposed for approval in the General Assembly of Shareholders was calculated using the most recent share price of December 31st, each year.

Profit distribution 2015-2017 according to the Decision no. 6 of the Ordinary General Shareholders Meeting /30.04.2018

Indicator		2017	2016	2015
Net result	mil lei	28	175	360
Distributed dividend	mil lei	-	336	194
Gross distribution ratio*	%	-	90	75
Actual distribution ratio**	%	-	124	54.0
Gross dividend per share	lei	-	2.257	2.650
Special dividend per share***	lei	2.330	-	-

** The gross distribution ratio was approved by Decision of the General Assembly of Shareholders*

*** The actual distribution ratio takes into account the sums allocated to legal and other reserves, as well as fiscal facilities.*

**** Special dividend accordingly with GD 29/2017*

Stand-alone financial results for the yeat 2017 according to the Decision no. 6 of the Ordinary General Shareholders Meeting on April 30th,2018, published in the Annual Report 2017 on March 28th, 2018[1]

In 2017, Transelectrica recorded a decrease in the financial profitability compared to 2016. This development was mainly caused by the lowering of the average tariffs approved by ANRE for transmission services.

The factors that determined this development were:

- Decrease in transmission revenues by 8% caused by the negative correction applied by ANRE to the Company as of July 1st, 2016 and July 1st, 2017.
- Decrease in interconnection capacity allocation revenues by 7.9%.
- Increase in the electricity quantity transported through the power networks of the Power Transmission Grid, the energy quantity charged by the Company being with 2.3% higher than in the previous year, against the background of internal consumption increase.

Thus, EBITDA from allowed-profit activities decreased by ▼22%, reaching the value of 459 mil lei compared to 587 mil lei. At the same time, the zero-profit activities (technological system services) registered a 79 mil lei loss as of December 31st, 2017, compared to the 88 mil lei profit registered as of December 31st, 2016.

ANRE published the Order no. 48/2017 on the approval of the average tariff for the transmission service, the tariff for the system service, the zonal tariffs for the transmission service and the regulated price for reactive electrical energy, used by the Company.

The Order was published in the Official Gazette 489/28.06.2017.

Thus, the regulated tariffs concerning the electricity transmission service and system services effective from July 1st, 2017, have been modified.

On December 20th, 2017, on the grounds of ANRE Order no. 122, the Company published the statement on the approval of the average tariff for the transmission service. Pursuant to the document published by ANRE, the increase of the regulated system services tariff (from 9.39 lei/MWh to 12.06 lei/MWh) leads to an increase of ca. 0.6% in the final price of energy delivered to the household consumers.

Additionally, certain multiannual coordinates for the 5 years have been subject to an interim review (investment plan, ARB opening balance, controllable OPEX, non-controllable OPEX, efficiency factor, tariffable energy quantity). The review regulator of the parameters initially set forth at the beginning of the regulatory period based its actions upon those hypothesis used in the tariff calculation with the real values registered by the Company and the increase in predictability.

The increase of operational costs by 31% in 2017 compared to 2016 is also due to recording within late payment expenses due to the state budget of the amount of 24.2 mil lei (the amount results after recording the loss resulting from the additional payment obligations recorded in the ANAF-DGAMC Tax Inspection Report in the amount of RON 75.7 mil lei, within the retained earnings from the correction of accounting errors, according to the Address no. 1649 of 16.04.2018).

The amount of 24.2 mil lei relates to the ANAF-DGAMC findings for the period 2005-2010, which include both additional debts and accessories corresponding to the unrealized technological services provided in the framework contracts approved by ANRE, for which Transelectrica records revenues from penalties. At the same time, the ANAF-DGAMC records additional debts and accessories corresponding to the Court of Auditors findings regarding the expenses that were not aimed at the continuous training of employees and which are not forms of professional training and for which the Court of Auditors Decision no. 14/2011 was issued.

In 2017, the Company challenged the ANAF Tax Decision and, considering that by March

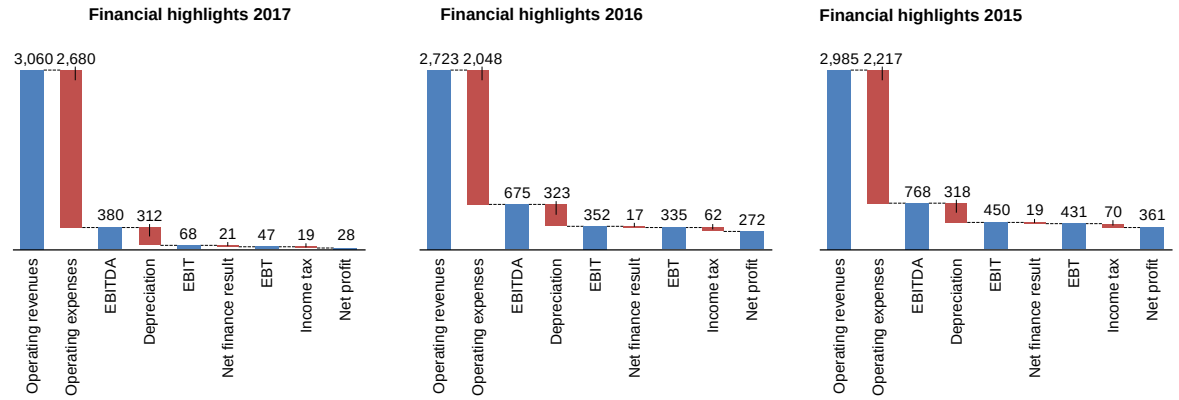
[1] The information included in Chapter 11 from the 2017 Annual Report elaborated by governance structures on 28 March 2018 were updated using the stand-alone Financial Statements in accordance with Decision 6 of 30 April 2018 of the Shareholders' General Ordinary Assembly of the National Power Grid Company Transelectrica SA

13th , 2018, the appeal was not solved, it has filed a lawsuit against ANAF-DGAMC requesting the annulment of the Decision, tthrough case file no. 1802/2/2018 which is enrolled at the Bucharest Court of Appeal.
The main factors that determined the increase of the net financial loss compared to 2016 were:

- Financial revenues registered a 10.9 mil lei decrease in 2017 compared to 2016,
- mainly determined by the decrease in revenues from the exchange rate differences.

Financial expenses registered a 6.8 mil lei decrease in 2017 compared to 2016, mainly determined by the evolution of the national currency compared to the currencies in which investment loans are contracted.

Net result (mil lei) according to the Decision no.6 of the Ordinary General Shareholders Meeting/30.04.2018



Separate account of profit and loss

Separate account of profit and loss according to the Decision no.6 of the Ordinary General Shareholders Meeting /30.04.2018

Mil. Lei	2017	2016	2015	17/16
Charged energy volume (TWh)	**54.75**	**53.52**	**52.47**	**▲2,3%**
ALLOWED PROFIT ACTIVITIES				
Operational revenue	**1,173**	**1,260**	**1,400**	**▼7%**
Transmission, including revenues from interconnection capacity allocation	1,055	1,146	1,285	**▼8%**
Functional system services and unplanned exchanges	68	68	69	**▲1%**
Other revenues	50	46	46	**▲10%**
Operational Costs	**(715)**	**(672)**	**(657)**	**▲6%**
System operation costs	(258)	(231)	(232)	**▲12%**
Maintenance (including IT&C) and repairs	(85)	(88)	(89)	**▼4%**
Personnel expenses	(179)	(212)	(186)	**▼16%**
Other expenses	(193)	(141)	(150)	**▲37%**
EBITDA	**459**	**587**	**743**	**▼22%**
Depreciation	(312)	(323)	(318)	**▼4%**
EBIT	**147**	**264**	**424**	**▼44%**
ZERO-PROFIT ACTIVITIES				
Operational revenue	**1,887**	**1,463**	**1,585**	**▲29%**
Technological System Services	582	649	662	**▼10%**
The Balancing Market	1,305	814	923	**▲60%**

Mil. Lei	2017	2016	2015	17/16
Operational Costs	**(1,966)**	**(1,375)**	**(1,561)**	**▲43%**
Technological System Services	(661)	(561)	(638)	**▲18%**
The Balancing Market	(1,305)	(814)	(923)	**▲60%**
EBIT	**(79)**	**88**	**24**	**n/a**
ALL ACTIVITIES (WITH ALLOWED PROFIT AND ZERO-PROFIT)				
Operational revenue	**3.060**	**2,723**	**2,985**	**▲ 12%**
Operational Costs	(2,680)	(2,048)	(2,217)	**▲ 31%**
EBITDA	**380**	**675**	**767**	**▼44%**
Depreciation	(312)	(323)	(318)	**▼4%**
EBIT	**68**	**352**	**449**	**▼81%**
Financial Result	(21)	(17)	(19)	**▼24%**
EBT	**47**	**335**	**430**	**▼86%**
Income tax	(19)	(62)	(70)	**▼70%**
Net result	**28**	**272**	**360**	**▼90%**
Net result per share	0.39	3.72	4.91	**▼90%**

Allowed profit activities

Revenues from profit allowed activities are mainly represented by **electricity transmission** and **functional system services**. The regulatory framework applicable to these two activities provides the premises of a financial profitability that can be obtained from the capital invested in these assets, by including certain tariff components meant to remunerate the financiers, calculated using a regulated rate of return to the asset regulatory base.

Revenues from allowed profit activities according to the Decision no.6 of the Ordinary General Shareholders Meeting /30.04.2018

Mil. lei	2017	2016	2015	16/15
Operational revenue	**1,173**	**1,260**	**1,400**	▼7%
Transmission	**1,055**	**1,146**	**1,285**	▼8%
Revenues from transmission tariffs	971	1,057	1,174	▼8%
Revenues from allocating the interconnection capacity	76	82	102	▼8%
Revenues from reactive energy	8	8	8	▲ 9%
Functional System Services	**68**	**68**	**69**	▲ 1%
Revenues from functional system services tariffs	66	66	68	▲ 0%
Revenues from unplanned shifts on DAM	2	1	1	▲ 74%
Other revenues	**50**	**46**	**46**	▲ 10%

Against the background of a 2.3% increase in the electricity quantity delivered to consumers in 2017 compared to 2016, the revenues from the transmission service registered an 8% decrease and the functional system services registered an insignificant increase of 1.3%, mainly determined by the negative adjustment of tariffs starting with July 1st, 2016 and July 1st, 2017.

Thus, the revenues from the transmission activity registered a ca. 8.1% decrease in 2017, from 1,057 mil lei in 2016 to 971 mil lei in 2017, against the background of a negative adjustment of 10.2% of the average tariff for the transmission service.

The revenues from the interconnection capacity allocation registered a decrease of -7.9% related to the usage level of the

interconnection capacity availability by the traders on the energy market.

On November 19th, 2014, the establishment of the regional energy exchange by Romania, Hungary, The Czech Republic and Slovakia means these four countries should reach the same electricity price for the volumes traded on spot markets. Capacity allocation between Romania and Hungary, the only one of the 3 countries Romania has a border with, is performed by the transmission operators: Transelectrica and MAVIR, using a common mechanism based on a bilateral agreement.

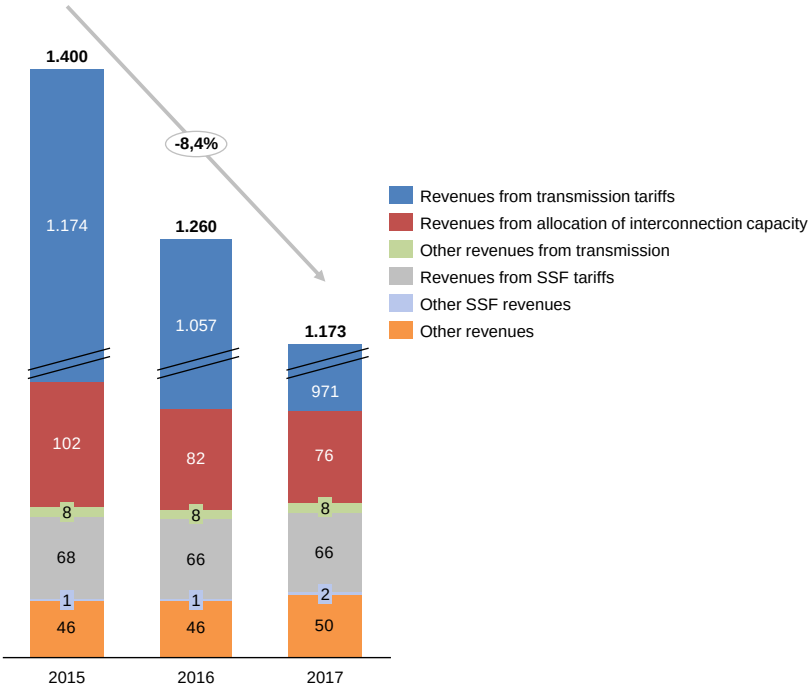
Starting with 2016 the UIOSI ("Use It Or Sell It") principle was implemented, according to which in the case of traders notifying a smaller capacity than that gained under annual and/or monthly auctions organized by Transelectrica, their capacity difference which was not notified will be sold during daily auctions. Transelectrica will remunerate the trader for the spare capacity, calculated as product between (i) the difference between the capacity gained in the long-term and the notified capacity and (ii) the price obtained at the daily auctions. On the Hungarian border the direction is reversed, meaning that MAVIR compensates the participants for the spare capacities.

The interconnection capacity allocation market is fluctuating, the prices evolve depending on demand and the need of the participants on the energy market to purchase interconnection capacity.

The functional system services also registered an insignificant decrease of 0.2% during 2017, from 66.14 mil lei in 2016 to 65.98 mil lei in 2017, against the background of a 12% decrease of the average tariff.

Other revenues adjacent to the transmission service (reactive energy, international transit) have maintained at level close to the ones registered in the previous year.

Revenues from allowed profit activities (mil lei)



Expenses generated by the allowed profit activities

Mil lei	2017	2016	2015	17/16
Operational Costs	**715**	**672**	**657**	▲ 6%
System operation costs	**258**	**231**	**232**	▲ 12%
Expenses on own technological consumption	207	183	187	▲ 13%
Expenses on congestions	0	3	1	▼ 92%
Expenses on electricity consumption in PTG substations	14	15	14	▼ 6%
Expenses regarding the functional system services	16	13	12	▲ 29%
Expenses on Inter TSO Compensation (ITC)	20	17	18	▲ 19%
OPCOM administration expenses	0	0	0	
Repairs and maintenance	**85**	**88**	**89**	▼ 4%
Personnel expenses	**179**	**212**	**186**	▼ 16%
Other Expenses	**193**	**141**	**150**	▲ 37%
Depreciation	**312**	**323**	**318**	▼ 4%
Operational costs inclusive of depreciation	**1,026**	**996**	**975**	▲ 3%

The total operational expenses (including depreciation) registered in 2017 rose by 3% compared to the similar period of the previous year (1,026 mil lei, up from 996 mil lei).

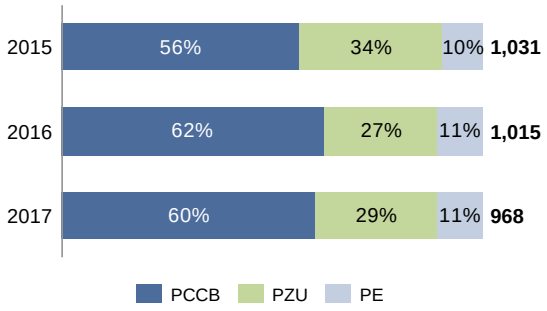
System operation cost

System operation costs registered a 11.7% decrease in 2017 compared to 2016, from 231 mil lei to 258 mil lei, mainly due to the increase in OTC expenses.

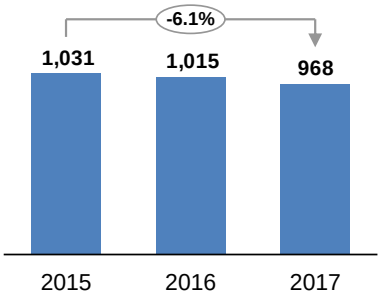
The total cost with the acquisition of energy necessary to cover the own technological consumption increased by 13.06% in 2017 compared to 2016. The positive evolution of the total cost in 2017 was determined by the increase in prices on the Day-Ahead Market (DAM), Intraday Market (IDM) and Balancing Market (BE) for the acquisition of electricity for the own technological consumption, from 180.3 lei/MWh in 2016, to 213.7 lei/MWh, against the background of a ca. 4.6% decrease in the electricity quantity necessary to cover OTC in the PTG (from 1,015 GWh in 2016, to 968 GWh in 2017).

Average prices with which Transelectrica procured energy for its own technological consumption registered increases in 2017 compared to 2016 for procurements on the Centralized Market for Bilateral Contracts ("CMBC") 2.5%, the spot market ("DAM") - 47.1% and the balancing market ("BE") - 22.3%.

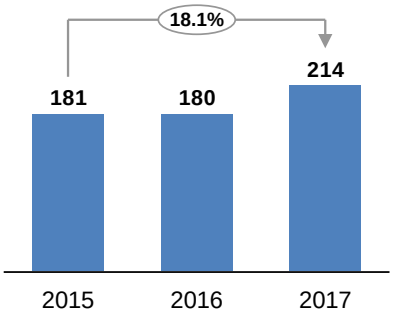
Procuring mix depending on the quantities purchased from markets (GWh)



Quantities purchased from markets (GWh)



Average unit price of energy purchased for OTC (mil lei)



Congestions

Congestions (network restrictions) are requests for electricity transmission beyond the technical capacity of the network, requiring corrective actions from the transmission and system operator and occur in the situation in which, in the programming of the operation or the operation in real time, the power flow between two nodes or system areas leads to the non–compliance with the safety parameters in the operation of a power system. Congestions are managed by changing the network topology and, as a last resort, by re-dispatching the electricity output. Output redispatch leads to disrupting the merit order resulting on the Balancing Market, and additional costs are borne by Transelectrica. This is the measure applied by Transelectrica only when circumstances require maintaining the operational safety of the transmission system.

In 2017, the congestion value decreased by 3 mil lei compared to the 2016 value due to the extreme meteorological conditions of January 2016 in Dobrogea.

Expenses regarding the functional system services

The expenses on the functional system services represent the non-contracted international exchanges of electricity with the neighboring countries and the expenses on unplanned exchanges on the day-ahead market (DAM).

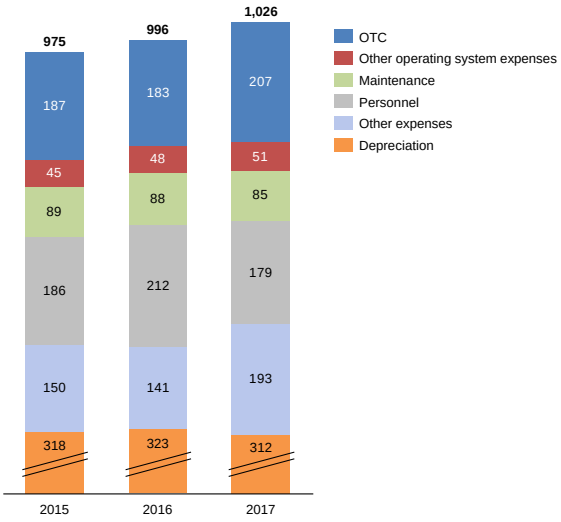
The ca. 26.7% increase in expenses regarding functional system services was determined by the increase in expenses on the balancing market and the day-ahead market in terms of unplanned electricity exchanges (exports) with neighboring countries interconnected in the NPS, due to the price increase on the centralized electricity markets.

Repairs and maintenance

Expenses on maintenance works decreased by 3.7% in 2017 (from 88 mil lei in 2016 to 85 mil lei in 2017) without an impact on the operational safety of the NPS.

The annual maintenance program for 2017 was carried out providing priority to works/services that lead to increasing the operational safety of installations, or to completing the contracted works/services and those contributing to the good operation of installations. We must also take into account the perspective of implementing the remote control and supervision program for electric installations, which requires the rehabilitation of electric equipment and will lead to reduced personnel and operational expenses.

Expenses generated by the allowed profit activities (mil lei) according to the Decision no.6 of the Ordinary General Shareholders Meeting /30.04.2018



Zero-profit activities

Summary of revenues from zero-profit activities

Mil. lei	2017	2016	2015	17/16
Operational revenue	**1,887**	**1,463**	**1,585**	▲ 29%
Technological System Services	582	649	662	▼ 10%
The Balancing Market	1,305	814	923	▲ 60%

In 2017, revenues from technological system services decreased by 66 mil lei compared to 2016 as a result of reduced tariffs applicable to such services starting with July 1st, 2016 and July 1st, 2017, but also due to a proper administration of system services under operational safety conditions of the NPS.

In 2017, revenues from the balancing market registered an increase of 491 mil lei compared to 2016, determined by:

- the high degree of unpredictability and volatility of production from renewable sources (especially wind).
- over-contracting / subcontracting on the markets prior to the balancing market (given that PRE s did not have significant notification imbalance values) and reduced participation / trading on the intra-day electricity market. The increasing of the negative imbalance registered at the level of the suppliers of electricity on the balancing market, ie increasing the imbalance between the notified net contractual position and the actually supplied energy;
- the very low temperatures recorded in the first quarter of 2017, which generated the recording of higher values of the electricity consumption in the operation of the NES;
- the increase in electricity consumption amid the severe weather phenomena recorded in July and August 2017 (heat in late July and early August, strong wind with storm in July, so the production in wind power plants varied a lot during the day and with large production variations from one hour to the next;
- Hydraulic evolution (low hidraulicity):

Summary of expenses from zero-profit activities

Mil. lei	2017	2016	2015	17/16
Operational Costs	**1,966**	**1,375**	**1,561**	▲43%
Technological System Services	661	561	638	▲18%
The Balancing Market	1,305	814	923	▲60%

Expenses with technological system services carried out have registered a 100 mil lei increase in 2017 compared to 2016, determined by the higher purchase prices for technological system services on the competitive market compared to the regulated purchase prices.

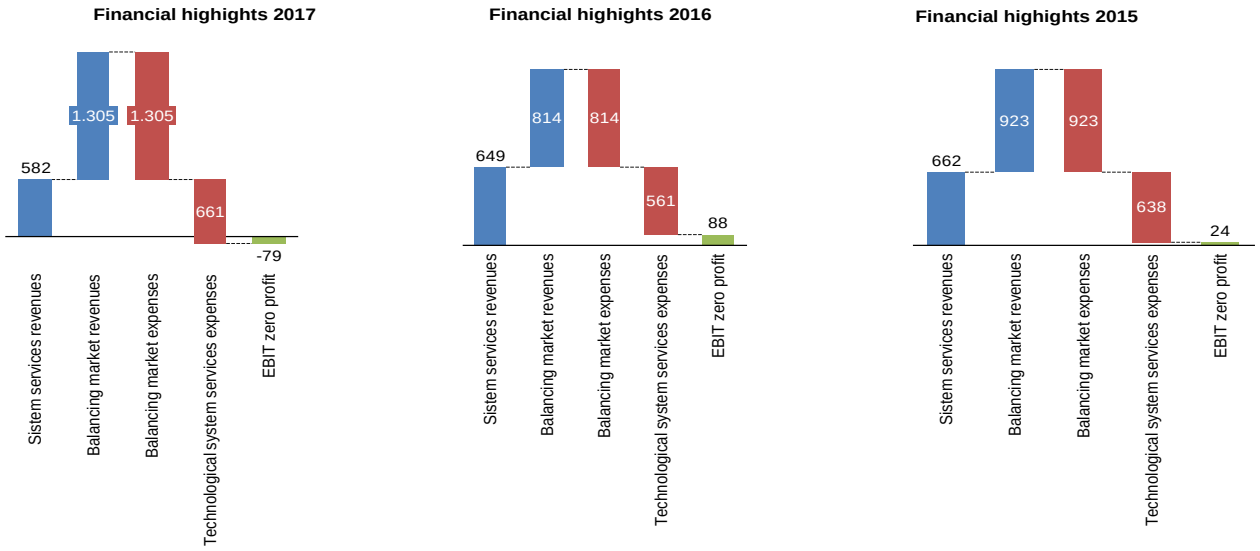
The technological system services are purchased by the Company from producers in order to comply with the operational security limits of the NPS and of the quality of the electricity transmitted at the parameters required by the technical norms in force. The contracting of these services is performed:

- under regulated regime, based on Government and ANRE decisions;
- through competitive mechanisms.
- According to GD no. 138/April 8th, 2013 on the adoption of measures regarding the electricity supply security, the Company purchased technological system services according to the terms of the regulations issued by the National Energy Regulatory Authority (ANRE), as follows:
- For the period January 1st - March 31st, 2017, the purchase of technological system services was conducted in the regulatory regime (slow tertiary reserve) according to GD no. 844/November 9th, 2016, as subsequently amended and supplemented, by which the "Winter Program in the Energy Sector for Assuring the safety and stability of the NES" was approved.
- In the timeframe January 1st - June 30th, 2017, the purchase of the ancillary services has been conducted under regulated regime from SC Hidroelectrica SA (ANRE Decision no. 1035/June 22th, 2016) and from SC Complexul Energetic Hunedoara SA (ANRE Decision no. 1034/June 22th, 2016).
- In the timeframe July 1st – December 31st, 2017, the purchase of the technological system services has been conducted under regulated regime from SC Hidroelectrica SA (ANRE Decision no. 906/June 22th, 2017) and from SC Complexul Energetic Hunedoara SA (ANRE Decision no. 907/June 22th, 2017).

Transelectrica re-invoices the value of the technological system services purchased from producers, to the electricity suppliers licensed by ANRE, who include this cost further down the supply chain to the end consumer who ultimately benefits from these services.

Balancing market expenses result from trades made on this market, being fully covered by revenues from the balancing market.

Results of zero-profit activities (mil lei)



Financial result

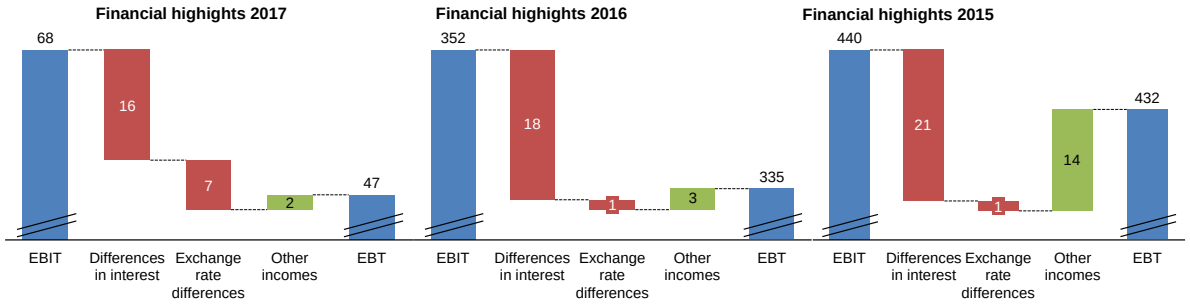
The net financial result (loss) registered by the Company as of December 31st, 2017 increased by 4.1 mil lei compared to 2016.

The increase of the net financial result (loss) regarding the exchange rate differences in 2017 compared to 2016, amounting to 6 mil lei, was influenced by the evolution of the exchange rate of the national currency in relation to foreign currencies in which the Company has contracted bank loans for financing the investment programs (Euros, Dollars).

Exchange rate evolution

Lei	31-Dec-17	31-Dec-16	31-Dec-15	17/16
1 EUR	4.6597	4.5411	4.5245	▲ 2.6%
1 USD	3.8915	4.3033	4.1477	▼9.6%
100 JPY	3.4574	3.6834	3.4453	▼6.1%

Figure 12: Financial results (mil lei)



Balance sheet – financial position according to the Decision no. 6 of the Ordinary General Shareholders Meeting/30.04.2018

Mil. lei	2017	2016 restated	2015	17/16
Fixed Assets				
Property, Plant and Equipment	3,044	3,190	3,341	▼ 5%
Intangible assets	16	14	35	▲ 8%
Financial assets	78	78	56	0%
Long-term receivables	0	10	0	n/a
Total	**3,138**	**3,292**	**3,432**	▼ 5%
Current assets				
Inventories	32	30	34	▲ 5%
Customers and assimilated accounts	819	852	723	▼4%
Other financial assets	0	135	70	n/a
Cash and cash equivalents	521	934	974	▼ 44%
Total	**1,371**	**1,951**	**1,802**	▼ 30%
TOTAL ASSETS	**4,509**	**5,243**	**5,234**	▼ 14%
Shareholders' equity				
Share capital	733	733	733	▼ 0%
Retained earnings	1,259	1,602	1,488	▼ 21%
Reserves	726	772	809	▼ 6%
Total	**2,718**	**3,108**	**3,029**	▼13%
Non-current liabilities				
Loans	195	502	635	▼ 61%
Other liabilities	484	503	532	▼ 3%
Total	**684**	**1,005**	**1,167**	▼ 32%
Short-term liabilities				
Loans	317	138	167	▲ 129%
Trade payables	700	874	776	▼ 20%
Other liabilities	91	118	95	▼ 23%
Total	**1,108**	**1,130**	**1,038**	▼ 2%
Total liabilities	**1,792**	**2,135**	**2,205**	▼ 16%
SHAREHOLDERS' EQUITY AND LIABILITIES	**4,509**	**3,738**	**5,234**	▼ 14%

Assets

Fixed assets registered a ca. 5% decrease at the end of 2017, mainly following the registration of tangible and intangible asset depreciation and due to the increase of the amounts related to property, plant and equipment in progress.

In 2017, the Company recorded an increase in value of property, plant and equipment in progress, particularly represented by the investment works in high voltage electricity lines, and the biggest transfers from tangible assets in progress to tangible assets are mainly represented by the commissioning of the investment objectives, as follows:

Tangible assets were not revalued during 2017.The management concluded that the

market prices didn't change significantly compared to 2016, when the Company conducted the last revaluation, and there is no indication of impairment of the tangible assets held by the Company both from internal and external sources.

On December 31st, 2017 the Company no longer registers long-term receivables representing trade receivables with maturity of over 1 year that have been spread up for payment, associated to the bonus type support scheme for high-efficiency cogeneration promotion, following the integral collection of the amount of 4.6 mil lei representing the overcompensation for the year of 2016, amount that should have been collected starting with the month of October 2018, according to the concluded agreements.

Current assets Current assets recorded a 30% decrease as of December 31st, 2017 (1,371 mil lei) compared to the value registered as of December 31st, 2016 (1,951 mil lei), mainly determined by the 44% decrease in cash and cash equivalents (521 mil lei as of December 31st, 2017 compared to 934 mil lei as of December 31st, 2016) and the annulment of bank deposits with maturity over 90 days, which on December 31st, 2016 amounted to 135 mil lei (recorded under "Other financial assets").

On December 31st, 2017, the current customers in the operational activity and balancing market registered a decrease compared to December 31st, 2016, which was mainly determined by:

– the decrease in the electricity quantity delivered to consumers in December 2016, compared to December 2017;

- decrease of the average tariff approved by ANRE for these services

On December 31st, 2017, the Company registered receivables to be collected from the bonus type support scheme for promoting the high-efficiency cogeneration in a proportion of approximately 26% (December 31st, 2016 – 22%) of the total trade receivables.
The customers from the bonus type support scheme for promoting the high-efficiency cogeneration registered an increase in the receivables on December 31st, 2017, mainly determined by the receivables amounting to 139.9 mil lei, registered according to the ANRE Decisions on the overcompensation of the activity regarding the support scheme for the year 2016, for which invoices were issued in the month of March 2017.
In the timeframe January 1st – December 31st, 2017, the amounts related to the bonus type support scheme have increased compared to December 31st, 2016, mainly due to the overcompensation decisions for 2016, issued in 2017.

On December 31st, 2017 the Company registered receivables amounting to 168.8 mil lei, represented by the invoices issued under the bonus type support scheme for high efficiency cogeneration, out of which:
– overcompensation for the period of 2011 – 2013 in the amount of 76.7 mil lei, namely from RAAN – 63.4 mil lei and CET Govora SA – 13.2 mil lei;
– undue bonus for 2014 amounting to 3.9 mil lei, namely from RAAN – 2 mil lei, CET Govora – 1.9 mil lei;
– undue bonus for 2015 amounting to 0.5 mil lei, namely from CET Govora – 0.53 mil lei.
– overcompensation for 2015 in the amount of 9.7 mil lei, namely from Electrocentrale Oradea (debt taken over by Termoficare Oradea);
– undue bonus for 2016 amounting to 56.7 mil lei, namely from Electrocentrale Bucuresti – 56.7 mil lei;
– cogeneration contribution not collected from the suppliers of energy consumers, amounting to 2 mil lei, namely from: Transenergo Com – 5.8 mil lei, PetProd – 4.3 mil lei, Romenergy Industry – 2.7 mil lei, RAAN – 2.4 mil lei, Arelco Power – 2.4 mil lei, UGM Energy – 1.8 mil lei, CET Govora – 0.9 mil lei, KDF Energy – 0.9 mil lei, and others.
For discharging the receivables generated by the overcompensation and the undue bonus, the Company requested the reciprocal compensations from the qualified producers in the support scheme. For producers (RAAN, Electrocentrale Bucuresti, CET Govora) that have not agreed to this way of discharging the reciprocal receivables and debts, the Company has applied and continues to apply the provisions of Article 17 (5) of the Order of

ANRE Chairman no. 116/2013 approving the Regulation on determining the way to collect the contribution for high-efficiency cogeneration and payment of the bonus for the electricity produced in high-efficiency cogeneration.

On December 31st, 2017, other receivables amounting to 116.5 mil lei mainly include:

– interest on late payments computed for clients in default of payment, amounting to 65 mil lei (of which the amount of 26 mil lei represents penalties related to the support scheme); The highest interests on late payments have been registered by the following clients: RAAN (16.9 mil lei), SC CET Govora (9.6 mil lei), SC Eco Energy SRL (8.9 mil lei), SC Petprod SRL (8.9 mil lei), Total Electric Oltenia (3.3 mil lei), Arcelor Mittal Galati (2.3 mil lei), Also Energ (2.1 mil lei). Impairment adjustments were recorded for the interest on late payments calculated for the late payment on receivables from the operational activity;

– compensations owed by suppliers for not delivering electricity (Arelco Power 2.8 mil lei and Enol Grup 2.5 mil lei).

– Impairment adjustments were recorded for the compensations owed by suppliers from operating activities;

– down payments made to the supplier ELCOMEX – IEA SA amounting to 31.2 mil lei for which penalties amounting to 0.69 mil lei have been calculated. The down payments have been granted to the supplier ELCOMEX - IEA SA for performing the projects.

The down payments made to ELCOMEX – IEA SA are secured with the insurance policies issued by Asito Kapital S.A.

On April 7th, 2017 the Court of Constanta, Section II Civil, by Hearing protocol no. 294/2017, upheld the application for a declaration of insolvency of the debtor Elcomex – IEA SA, naming Pricewaterhouse Coopers Business Recovery Services IPURL as insolvency administrator.

Given that to the date of drafting the financial statements, the amounts guaranteed by ASITO KAPITAL SA for the payment of down payments have not been recovered, on December 31st, 2017 the Company registered impairment adjustments amounting to 31.18 mil lei.

– receivables from OPCOM representing VAT for the contribution in kind to the subsidiary's equity, amounting to 4.5 mil lei;

– deferred expenses amounting to 4.8 mil lei mainly represented by the advances on contracts concluded with the suppliers of electricity needed for covering the own technological consumption for future periods (3.3 mil lei), a guarantee fee for the BEI 25710 loan and commission of ING credit granting, maintenance and technical assistance, rents;

– other long-term receivables amounting to 4.5 mil lei, out of which 4.2 mil lei represent guarantees for temporary occupation of the land calculated and retained in accordance with Article 39 (1), (2) and (5) of Law no. 46/2008 on the Forestry Code, in order to achieve the investment objective Resita – Pancevo (Serbia) 400 kV OHL.

– receivables to be recovered from ANAF in the amount of RON 44 mil lei.

Shareholders' Equity and Liabilities

Long-term liabilities have registered a 32% decrease in 2017, as a result of reimbursements performed as per the maturity dates and loan agreements (from 1,005 mil lei as of December 31st, 2016 to 684 mil lei as of December 31st, 2017).

At the same time, **short-term liabilities** have registered a 2% decrease (from 1,130 mil lei as of December 31st, 2016 to 1,108 mil lei as of December 31st, 2017). This situation is mainly determined by:

- the increase in the current portion of long term credits, including interests related to long and short-term borrowings and liabilities (from 138 mil lei as of December 31st, 2016 to 317 mil lei as of December 31st, 2017)
- the 20% decrease in trade payables (from 874 mil lei as of December 31st, 2016 to 700 mil lei as of December 31st, 2017), due to:
- the decrease of liabilities to suppliers from the operational activity – energy, as a result of the payment of outstanding obligations on the electricity market as of December 31st, 2016
- the decrease of liabilities to suppliers on the balancing market, as a result of the decrease in trade volume on the balancing market in December 2017 compared to December 2016
- the decrease of the contribution for high

efficiency cogeneration – the "Different creditors" category amounting to 32 mil lei as of December 31st, 2017 mainly represents the net position of the support scheme for high-efficiency cogeneration, decreased from 134 mil lei in December 31st, 2016 as a result of the decrease of the contribution for high-efficiency cogeneration.

Shareholders' equity

Shareholders' equity registered a 13% decrease determined by the decrease of the revaluation reserve (500 mil lei as of December 31st, 2017 compared to 549 mil lei as of December 31st, 2016) and the 21% decrease in retained earnings (1,259 mil lei as of December 31st, 2017 compared to 1,602 mil lei as of December 31st, 2016).

The retained earnings arising from the correction of the accounting errors adjusted by the recording of the loss resulting from the additional payment obligations recorded in the ANAF-DGAMC Tax Inspection Report is in the amount of RON 75.7 mil lei. Thus, according to Address no. 1649/ 16.04.2018 in 2017, the retained earnings were adjusted by the amount of RON 75.7 million representing additional payment obligations calculated up to 31.12.2016 out of the amount of RON 99 mil lei established by ANAF-DGAMC in their Tax Inspection Report.

Cash flow

Cash flow according to the Decision no. 6 of the Ordinary General Shareholders Meeting /30.04.2018

Mil lei	2017	2016	2015	17/16
Operational activity				
Recording loss in retained earnings from correction off accounting errors	(75)	-	-	n/a
Results for the year	28	272	360	▼89%
Adjustments for cash flows from operating activity	403	453	448	▼11%
Cash flow before changes in current assets	**356**	**725**	**808**	**▼51%**
Changes in current assets	(41)	(119)	83	▼66%
Paid interests and taxes	(30)	(91)	-86	▼67%
Net cash from the operational activity	**96**	**515**	**805**	**▼81%**
Investment activity				
Purchase of tangible and intangible assets	(183)	(172)	(213)	▲ 6%
Collections from unused advances	-	30	(30)	n/a
Collections from the investment activity	8	8	19	0%
Other financial assets	135	(65)	79	**n/a**
Cash used in the investment activity	**(40)**	**(199)**	**(14)5**	**▼80%**
Financing activity				
Net (repayments)/collections from borrowings and bonds issuance	(134)	(162)	(197)	▼17%
Special dividends paid ccording to.OG 29/2017	(170)	-	-	n/a
Paid dividends	(166)	(194)	(205)	▼14%
Cash used in the financing activity	**(470)**	**(357)**	**(402)**	**▲32%**
Net decrease in cash and cash equivalents	(413)	(41)	258	▲ 907%
Cash and cash equivalents as of January 1st	**934**	**974**	**716**	**▼ 4%**
Cash and cash equivalents at the end of the year	**521**	**934**	**974**	**▼44%**

Indicators

Profitability, liquidity, risk and activity indicators according to the Decision no. 6 of the Ordinary General Shareholders Meeting/30.04.2018

Indicator	Calculation formula	2017	2016	2015
Profitability indicators				
a) EBITDA in total turnover	EBITDA / Turnover	0.13	0.25	0.26
b) EBITDA in shareholders' equity	EBITDA / Shareholders' equity	0.14	0.22	0.25
c) Gross profit ratio	Gross profit / Turnover	0.02	0.12	0.15
d) Rate of return on capital	Net profit / Shareholders' equity	0.01	0.09	0.12
Liquidity indicators				
a) Current liquidity indicator	Current assets / Short-term liabilities	1.24	1.73	1.74
b) Quick ratio indicator	Current assets - Inventories / Short-term liabilities	1.21	1.70	1.70
Risk indicators				
a) Debt ratio indicator	Debt capital / Shareholders' equity	0.19	0.21	0.26
b) Interest coverage ratio	EBIT / Interest expenses	3.15	14.65	15.75
Activity indicators				
a) Rotational speed of debts – clients	Customers average balance x 365 / Turnover	71.41	72.68	70.61

Transelectrica®

Societate Administrată în Sistem Dualist

Annual Report 2017

ANNUAL REPORT

on the stand-alone financial statements of

CNTEE "TRANSELECTRICA" SA

drafted according to Order no. 2844/2016 of the Ministry of Public Finances, as subsequently amended and supplemented and according to Law no. 24/2017 on issuers of financial instruments and market operations and to Annex 32 of Regulation no. 1/2006 issued by National Securities Commission,

for the financial year concluded on December 31st, 2017

Report date:	March 28st, 2018
Issuer:	CNTEE TRANSELECTRICA SA, Two-Tier Company
Registered office:	Bucharest, No. 33 Gen. Gheorghe Magheru Blvd., 1st district, ZIP code 010325
Operational office:	Bucharest, No. 2 - 4, Olteni Street, 3rd District, ZIP code 030786
Telephone/fax:	021 303 5611/ 021 303 5610
Unique registration code:	13328043
Number in the Commercial Register:	J40/8060/2000
LEI Code (Legal Entity Identifier)	254900OLXOUQC90M036
Company's establishment date:	July 31st, 2000/GEO 627
Share capital:	733,031,420 lei, subscribed and paid
Trading regulated market for the issued securities:	Bucharest Stock Exchange, Premium Category
Main features of the issued securities:	73,303,142 shares with a nominal value of 10 lei/share dematerialized, registered, ordinary, indivisible shares, freely tradable from August 29th, 2016 under the TEL symbol 20,000 bonds with a nominal value of 10,000 lei/bond, registered, dematerialized and unsecured bonds, traded at the BSE, the Debt Securities sector – 3rd Category, corporate Bonds under the TEL 18 symbol; Maturity date December 19th, 2018.
Total market value:	1,799,592,136 RON (24.55 lei/share as of December 31st, 2017)
Applied accounting standard:	International Financial Reporting Standards
Audit:	The stand-alone financial statements are audited

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REPORT ON THE LEADERSHIP STRUCTURES

2017

Message from the Board of Supervisors

In 2017, the National Power Grid Company "Transelectrica" SA continued its power transmission grid development plan by completing a series of works relevant for the operational security of the national power system, such as the modernization of the Tihau 220/110 kV substation or the technical upgrade of the Campia Turzii 220/110/20 kV transformation electrical substation. Towards the end of 2017 the Company also completed the connection between the Romanian power line portion (Resita – Romanian-Serbian border) and the one in Serbia (Pancevo – Romanian-Serbian border), which represents an important step in improving the energy interconnection degree of our country.

Transelectrica's goals for the following years is completing several projects pertaining to the technical upgrade and extension of the power transmission grid, so that the grid is well-sized for the transmission of power forecasted to be generated, imported, exported and shipped. One success in this regard was obtaining a 27 million euro grant from the European Commission for the construction of the Cernavoda – Stalpu power line, which shall contribute to increasing the interconnection capacity between Romania and Bulgaria and to integrate wind power in the Dobrogea region. For the commissioning of the Cernavoda – Stalpu power line, which will have a length of ca. 160 km, we must construct the Stalpu 400 kV substation and extend the Cernavoda and Gura Ialomitei substations. The Cernavoda – Stalpu line project is a major investment objective performed by the National Power Grid Company Transelectrica SA which will be completed in 2020.

In order to maintain the operational security of the power system, Transelectrica concluded a bilateral agreement with the transmission and system operator from Bulgaria, Electroenergien Sistemen Operator – ESO – EAD, regarding the assurance of cross-border capacity delivery under emergency conditions. The agreement foresees the creation of an emergency helping mechanism which may be used by the both countries should a critical situation occur in the national power system.

The National Power Grid Company Transelectrica SA was also actively involved in the energy policy of the European Union, by participating at the energy summit CEEP. The summit took an in-depth approach to the opportunities and challenges in the industry resulted from the implementation of two legislative packages pertaining to the sustainable energy security and "clean energy for all Europeans".

Both by the activities carried out in 2017, and by the activities planned out for the following years, including an increased involvement for the implementation of annual investment plans and increasing the weight of the criteria for completing the maintenance and investment works in the assessment of the management's activities, the Company seeks to ensure the operational security of the National Power System and to complete the 400 kV national powerring.

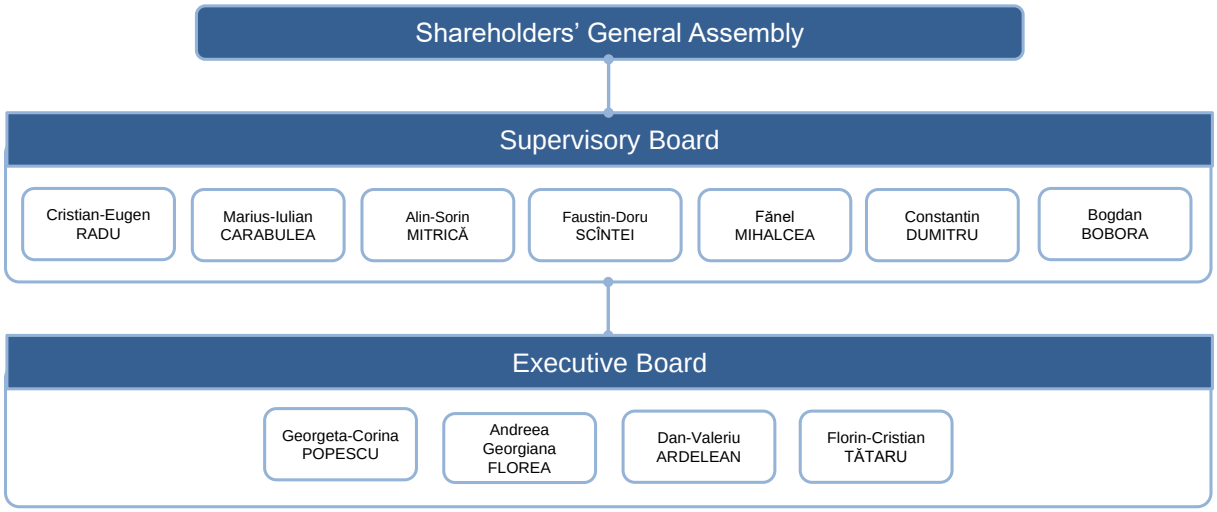
Cristian Eugen Radu

Chairman of the Board of Supervisors

Board of Supervisors

The National Power Grid Company Transelectrica SA ("CNTEE Transelectrica SA", "Transelectrica" or "Company") is a joint stock company organized and operating in accordance with Romania's laws, being managed under two-tier system according to the decision of July 18th, 2012, of the Shareholders' General Extraordinary Assembly by a Directorate (5 members) under supervision of a Board of Supervisors (7 members).

Figure 1:Organizational structure



As of the date of drafting this Report, the Board of Supervisors' structure, with a mandate duration of 4 months, namely until March 30th, 2018, is the following:

Cristian-Eugen RADU , Chairman of the Board of Supervisors

At the meeting from May 31st, 2017, the members of the Board of Supervisors of CN Transelectrica SA elected Cristian-Eugen RADU for the position of Chairman of the Board of Supervisors. During his professional career he has held management and supervisory positions such as: Chairman of the Board of Supervisors of Complexul Energetic Oltenia, Chairman of the Board of Supervisors of BTT S.A., special manager of SC Delta Sistems SA, National Sales Director at Carpatica Asig SA, General Director of the General Directorate for Logistic Support Management – Authority for State Assets Administration, Director of the Network Management Division – Volksbank Romania, Director of Sales, training and marketing support at BCR Banca pentru Locuinte – BCR Erste, Marketing Director - Raiffeisen Banca pentru Locuinte, Piraeus Bank Romania.

Cristian-Eugen Radu received his MBA from "Katz School of Business", University of Pittsburgh, Pennsylvania, U.S.A., graduated the University of Bucharest, Faculty of History, and the International Management Center, Budapest, Hungary. He also attended a class for "Security and good governance" held at the National Defense College and holds a Green Belt Lean Six Sigma certificate from Ascendis Romania.

Marius-Iulian CARABULEA, Member of the Board of Supervisors

With a wide experience in central public administration, during his professional career he has held positions such as: Deputy Secretary-General of the Government, Secretary-General and Deputy Secretary-General – Ministry of Economy, Secretary-General – Ministry of Tourism, Deputy Secretary-General of the Department for

Water, Forests and Fisheries, Personal Adviser to the Minister's Cabinet delegated for social dialogue with the Ministry of Labor, Family, Social Protection and Elderly, Personal Adviser to the Minister – Ministry of Education and Research.
Marius-Iulian Carabulea graduated the Christian University "Dimitrie Cantemir" - the Faculty for Political Sciences and Political Management, and holds a post-graduate degree from the National Defense College – National University for Defense "Carol I".

Alin-Sorin MITRICĂ, Member of the Board of Supervisors

With a wide experience in local and central public administration, during his professional career he has held a number of positions such as Public Administrator of Dolj County (2008-2013, 2015) and State Secretary at the Ministry of European Funds (between 2013-2015).
At the same time, Alin-Sorin Mitrică has management experience in the private sector as well, with the position of Deputy Director General at SC ANAGRAMA SRL in 2015.

Alin-Sorin Mitrică graduated from the Bucharest University, Faculty of Political Sciences and holds a master's degree in Applied Marketing – Economic Sciences. He also holds a PhD in history.

Faustin-Doru SCÎNTEI, Member of the Board of Supervisors

With a professional experience of 28 years, he has held multiple managerial positions over the years. Since October 2017 he holds the Director position of the Real Estate Department in the Romanian Post National Company. Faustin-Doru SCÎNTEI held the position of Director of the County Post Office Buzau in the periods 2014-2017 and 2009-2011. Between 2011 and 2014 he also held the position of Technical Quality Control Inspector at S.C. Urbis – Serv S.R.L and in 2016 he held the position of member in the Management Board of S.C. Urbis – Serv S.R.L. Faustin-Doru SCÎNTEI graduated the National School of Political and Administrative Studies and between 2007 and 2009 he attended the master's classes in Organizational and Human Resources Management.

Fănel MIHALCEA, Member of the Board of Supervisors

With a solid professional experience of over 40 years in the legal field, holding the positions of First Prosecutor and Deputy First Prosecutor with the Public Prosecutor's Office attached to the Braila Court during several periods between 1996 and 2017.
Fănel Mihalcea graduated the Faculty of Law at the "Al. I. Ioan Cuza" University in Iasi (1971-1975). Between 1987 and 1988 Fănel Mihalcea also attended the postgraduate studies program in the field of Legal Sciences at the "Al. I. Ioan Cuza" University in Iasi, and between 2004 and 2006 he attended the master's studies in Community Law at the "Danubius" University in Galati.

Bogdan BOBORA, Member of the Board of Supervisors
Between September 2005 and May 2017, Mr. Bogdan Bobora served as a Financial Controller at HEIDELBERGCEMENT ROMANIA SA. Since July 2017, Mr. Bobora is a personal counselor to theSecretary of State in the Ministry of Economy. In 2004, he pursued internship in Germany at HEIDELBERG BETONELEMENT GMBH. Mr. Bogdan Bobora is a graduate from the University "Politehnica" Timişoara, the Faculty of Civil Engineering (in English).

Constantin DUMITRU, Member of the Board of Supervisors Mr.Constantin Dumitru has an experience of over 30 years in central public

administration. Since 2017 he holds the position of State Secretary Advisor within the Ministry of Economy. Previously he held the position of Secretary-General Advisor within the Romanian Government.

Constantin Dumitru graduated the Air Force Academy and holds a PhD in National Security – Methods of capitalizing and exploiting intelligence which constitutes and attack on national security.

The members of the Board of Supervisors are elected by the Shareholders' General Assembly, according to legal requirements of quorum and vote majority. On the issuance date of this Report, Transelectrica is not aware of any agreements, understandings or family connections of members of the Board of Supervisors and other persons due to which they could have been appointed directors.
As of drafting this report, Transelectrica has no knowledge of the existence of litigations or administrative proceedings against the Board of Supervisors pertaining to its activity within the issuer or related to the ability of said person to fulfill his/her duties within the issuer.
Transelectrica has no knowledge that a member of the Board of Supervisors held TEL shares as of December 31st, 2017.
Three consultative committees are active in the Board of Supervisors on the date of this report, as of the drafting of this report: a Nomination and Remuneration Committee, an Audit Committee and an Energy Security Committee.

CONSULTATIVE COMMITTEES OF THE BOARD OF SUPERVISORS

Audit Committee

The members of this committee are Marius Iulian CARABULEA, Faustin Doru SCÎNTEI, Sorin Alin MITRICĂ, Constantin DUMITRU and Bogdan BOBORA.

The Audit Committee has as attributions, among others, to monitor the efficiency of internal control, internal audit and risk management systems within Transelectrica, to check and monitor the external auditors' independence, the statutory audit activities to annual financial statements as well as the approaches proposed by external auditors, while coordinating their activity with the internal audit.

The Audit committee monitors the financial and managerial reporting process as well as the financial plan and the preparation of the financial statements and consolidated annual financial statements, monitors and examines the performance indicators of the transmission system and the economic-financial performance indicators of the Company's activities.

The Audit committee plays an important role in the reviews of the monitoring system efficiency, its compliance with the laws and regulations applicable to Company activities and the results of managerial investigations in case of non-compliance.

At the same time, it provides assistance to Board of Supervisors to carry out its supervision and oversight responsibilities on the development and update of the company's general development strategy, it assists the Board of Supervisors in identifying the major development lines in the field and makes recommendations for the major topics to be considered of potential impact in the administration[1] and in the management plan[2].

[1] Up to May 30th, 2017, the *Administration plan drafted by the Board of Supervisors of the National Power Grid Company "Transelectrica"–SA* has been in force, *which includes the administration strategy*

The observance of corporate governance principles set forth in the new Corporate Governance Code of the Bucharest Stock Exchange is a commitment permanently assumed by the Board of Supervisors. Through the Audit committee, the Board of Supervisors aims at enhancing transparency with respect to the activities of organizational entities of the Company by implementing new internal regulations for the Public internal audit and the management of significant risks within CNTEE Transelectrica SA.

Nomination and remuneration committee

The members of this committee are Cristian Eugen RADU, Marius Iulian CARABULEA, Constantin DUMITRU, Faustin Doru SCÎNTEI, Sorin Alin MITRICĂ, Fănel MIHALCEA and Bogdan BOBORA..

With regard to the nomination area, the Nomination and Remuneration Committee coordinates the appointment process of Directorate members and makes recommendations with respect to both the selection of the Directorate members and the provisional occupation of the vacancies within the Board of Supervisors.

The Nomination and Remuneration Committee supervises certain positions in the Company administration and permanently updates the professional competencies of Directorate members. Nomination and Remuneration Committee validates the Company's organizational chart.

As far as the remuneration area is concerned, the Nomination and remuneration committee drafts the remuneration policy for the Directorate and Board of Supervisors members and submits it to the Shareholders' General Assembly for approval.

In the annual report, the Nomination and Remuneration Committee provides the total amount of the direct and indirect remuneration for Directorate and Board of Supervisors members, while observing the proportionality principle with the responsibility and with the time allocated by them to their tasks.

Energy Security Committee

The members of this committee are *Fănel MIHALCEA, Cristian Eugen RADU, Constantin DUMITRU and Marius Iulian CARABULEA.*

The Energy security committee monitors and advises the Board of Supervisors, the Directorate and the Company's specific compartments in the implementation of strategic objectives for the system operator and energy security for the entire National Power System ("NPS"), energy security in the entire PTG and energy security and protection of the critical infrastructure.

Another attribution consists in getting involved, under the mandate of the Board of Supervisors, together with the Directorate, in the dialogue with public authorities having attributions and competencies in the energy security field (Ministry of Energy, specific Parliamentary Commissions).

Changes in the Board of Supervisors

In the period January 1st, 2017 - May 30th, 2017 the Transelectrica's Board of Supervisors membership ("BS" or the "Board") was as follows:

- Dragoș Corneliu Zachia-Zlatea - Board of Supervisors Chairman
- Ovidiu Petrişor Artopolescu – Member of the Board of Supervisors
- Radu Bugică – Member of the Board of Supervisors
- Daniel – Cristian Pîrvulescu - Member of the Board of Supervisors
- Costin Mihalache – Member of the Board of Supervisors

and the Consultative Committees had the following structure:

The **Audit Committee** consisted of the following members: Radu Bugică, Daniel Cristian Pîrvulescu and Dragoş Corneliu Zachia-Zlatea.

The **Nomination and Remuneration Committee** consisted of the following

throughout the mandate, approved by Decision no. 6/2013 of the General Assembly of Shareholders.

[2] Up to September 16th, 2017, the *Management plan* has been in force, approved by Decision no. 37/June 6th, 2014 of the Board of Supervisors.

members: Costin Mihalache, Ovidiu Petrișor Artopolescu and Daniel Cristian Pîrvulescu.

Energy Security Committee

Dragoș Corneliu Zachia-Zlatea, Daniel - Cristian Pîrvulescu, Costin Mihalache, Ovidiu Petrișor Artopolescu.

- ***January 31st, 2017*** – the members of the Board of Supervisors appoint Ciprian BOLOS as provisional member of the Board of Supervisors; this appointment became effective starting with February 1st, 2017 and until May 30th, 2017, the date of expiry of the mandates of the members elected by Decision no. 4/30.05.2013 of the Ordinary General Assembly of Shareholders.
- ***March 27th, 2017*** – the members of the Board of Supervisors take note of Ciprian BOLOȘ's waiver of the provisional member position in the Board of Supervisors, following the resignation, starting with March 27th, 2017
- ***March 29th, 2017*** – pursuant to Decision no. 28 of March 29th, 2017, the members of the Board of Supervisors appoint Ștefan-Valeriu IVAN as provisional member in the Board of Supervisors. The mandate becomes effective as of March 31st, 2017 and expires on May 30th, 2017, the date of expiry of the mandates of the current Board of Supervisors members.
- ***May 30th, 2017*** – the mandates of the current Board of Supervisors members expire, and Decision no. 5 of the Ordinary General Assembly of Shareholders approves the Board of Supervisors' structure of CNTEE Transelectrica SA for a 4-month mandate, as follows:
  - Cristian-Eugen RADU – Board of Supervisors Chairman
  - Marius-Iulian CARABULEA – Member of the Board of Supervisors
  - Ștefan-Valeriu IVAN – Member of the Board of Supervisors
  - Iulius-Dan PLAVETI – Member of the Board of Supervisors
  - Corneliu SOROCEANU – Member of the Board of Supervisors
  - Beatrice AMBRO – Member of the Board of Supervisors
  - Bogdan BOBORA – Member of the Board of Supervisors
- ***May 31st, 2017*** – the members of the Board of Supervisors appointed Cristian-Eugen RADU to the position of Chairman of the Board of Supervisors.

Ștefan Valeriu IVAN is appointed as Chairman of the Nomination and Remuneration Committee and the following are appointed as members:

- Marius Iulian CARABULEA
- Ștefan Valeriu IVAN
- Iulius Dan PLAVETI
- Corneliu SOROCEANU
- Beatrice AMBRO

Beatrice AMBRO IVAN is appointed as Chairman of the Audit Committee and the following are appointed as members:

- Cristian Euge RADU
- Beatrice AMBRO
- Bogdan BOBORA
- ȘTEFAN Valeriu IVAN

Corneliu SOROCEANU is appointed as Chairman of the Energy Security Committee and the following are appointed as members:

- Iulius Dan PLAVETI
- Cristian-Eugen RADU
- Cormeliu SOROCEANU

On the same date, the members of the Board of Supervisors take note of the fact that Luca Nicolae IACOBICI rejected the appointment in the position of provisional member of the Executive Board.

- ***November 9th, 2017*** – Decision no. 12 of the Extraordinary General Assembly of Shareholders of CNTEE Transelectrica SA approves the structure of the provisional members of the Board of Supervisors of CNTEE Transelectrica SA for a four-months term of office, starting with November 30th, 2017, as follows:
  - Cristian-Eugen RADU – Member of the Board of Supervisors
  - Marius-Iulian CARABULEA – Member of the Board of Supervisors
  - Bogdan BOBORA – Member of the Board of Supervisors
  - Beatrice AMBRO – Member of the Board of Supervisors
  - Fănel MIHALCEA – Member of the Board of Supervisors
  - Faustin-Doru SCÎNTEI – Member of the Board of Supervisors

- Alin-Sorin MITRICĂ – Member of the Board of Supervisors

- ***November 28th, 2017*** – according to Decision 75 from November 28th, 2017 the Board of Supervisors members approve the Regulation on the Organization and Functioning of the Board of Supervisors of CNTEE Transelectrica SA, effective as of November 29th, 2017. In the same meeting The Board of Supervisors members take note of the termination of the mandate as Board of Supervisors member of Ștefan-Valeriu Ivan as a result of waiving the mandate granted starting with November 20th, 2017.
- ***December 12th, 2017*** – the Board of Supervisors appoint Cristian-Eugen RADU as Chairman of the Nomination and Functioning Committee and the following are appointed as members:
  - Cristian–Eugen RADU
  - Marius Iulian CARABULEA
  - Fănel MIHALCEA
  - Bogdan BOBORA
  - Alin-Sorin MITRICĂ
  - Faustin-Doru SCĂNTEI

  Beatrice AMBRO IVAN is appointed as Chairman of the Audit Committee and the following are appointed as members:
  - Beatrice AMBRO
  - Bogdan BOBORA
  - Marius Iulian CARABULEA
  - Alin-Sorin MITRTCĂ
  - Faustin-Doru SCÎNTEI

  Fănel MIHALCEA is appointed as Chairman of the Energy Security Committee and the following are appointed as members:
  - Fănel MIHALCEA
  - Cristian-Eugen RADU
  - Marius Iulian CARABULEA

During the meeting of January 10th, 2018, the Ordinary General Assembly of Shareholders of CNTEE "Transelectrica" SA recalls Beatrice AMBRO from the position of provisional member of the Board of Supervisors of CNTEE "Transelectrica" S.A. and appoints Constantin DUMITRU as provisional member of the Board of Supervisors of CNTEE "Transelectrica" S.A, with a mandate duration until March 30th, 2018.

The mandate of the current Board of Supervisors is carried out over a period of four months, starting with November 30th, 2017 up until March 30th, 2018.

Report of the Board of Supervisors

with respect to the stand-alone financial statements executed in accordance to the International Financial Reporting Standards

The Board of Supervisors relies on the corporative governance principles, which state a responsible, professional and ethical attitude of the Company towards all stakeholders. The Board analyzes the Company's strategy and the premises of the environment in which it operates with a view to plan its development and performance, thus providing rigorous articulation of objectives. Within the Board of Supervisors, the Company's Directorate supplied detailed information about the stand-alone financial statements for 2017, the management plan[3], the maintenance schedule and planned investments. We have assessed the significant transactions for Transelectrica during board meetings, using the reports submitted by the Directorate.

Board of Supervisors

Chairman of the Board of Supervisors

[3] Up to September 16th, 2017, the *Management plan* has been in force, approved by Decision no. 37/June 6th, 2014 of the Board of Supervisors.

Message from the Directorate

In 2017, Transelectrica went through multiple transformations and stood up to important challenges. This year however marked the start of a new phase, a new approach in the Company's development. Starting with the second half of the year, our efforts focused on unlocking and accelerating investments, succeeding to promote three Government Decisions on the expropriation of land plots which will allow the performance of essential investment projects, such as: the Cernavoda – Stalpu overhead power line, the Gutinas – Smardan overhead power line and the Ostrovu Mare – PTG overhead power line. Due to these efforts we were able to obtain a 27 million euro grant from the European Commission for the construction of the Cernavoda – Stalpu overhead power line, one of the six objectives which Transelectrica has on the list of projects of common interest, approved by the European Commission in November 2017.

The challenges of 2017 stood in the lowering of tariffs for the transmission and system services, in conjunction with the energy market fluctuations which generated higher costs with regards to the own technological consumption.

It is very important to highlight that Transelectrica is a strategic company providing a public service with a regulated profit, and 2017 was the year in which we started to compensate profits above the ones regulated in recent years. Under these circumstances, in the second half of the year, we developed a vision focused on investments and we channeled our efforts on the substantial improvement of the investments amount, in order to provide sustainability and predictability to the Company.

Essential dimensions for Transelectrica are the European and national ones. Transelectrica is a strategic company for Romania, which also operates outside Romania's borders.

Transelectrica is a part of the European transmission and system operators' family ever since 2003, initially called UCTE and subsequently ENTSO-E, with constant participations in workgroups aimed to integrate energy markets, as well as regional projects. Due to its geographical positioning, Romania – via Transelectrica – represents a regional stability pole for the European network of system services and electricity transmission. In the following period, we aim not only to maintain this regional role, but to strengthen it.

Taking into account its resources, Romania has the right to represent a strong voice at European level from an energy security point of view.

This is one of the reasons for which one of the main objectives of the Company is increasing the interconnection degree. In present day, Romania has a 7.4% interconnection degree, and the target that we must achieve by 2020 is 10%. The completion of the Resita – Pancevo interconnection by the end of 2017 contributed to this objective.

Since January 1st, 2018, Transelectrica must accomplish several conditionalities related to regionalization. We are part of a Regional Security Center and analyses will no longer be conducted on national level, but on regional level. We are part of this regional center together with other powerful European states such as Germany, Belgium, France and Italy.

In 2018, the year of the Great Union centenary, Transelectrica aims to reinvent itself, to consolidate its regional and European position. The implementation of the new grid codes at our level, as transmission and system operator with strategic regional role, shall also redefine our way of reporting and our approach. The national concept with which we are accustomed to operate as transmission and system operator, rises to the regional concept level.

Georgeta – Corina POPESCU
Chairman of the Directorate

The Directorate

At the moment of drafting this report, Transelectrica's Directorate had the following structure:

Georgeta – Corina POPESCU, Chairman of the Directorate

Appointed in the position of Directorate Chairman of Transelectrica starting with June 1st, 2017. With a wide experience in the energy sector, she held various management positions, such as: Member in the Management Board of Electrica S.A. (2015 – 2017), State Secretary within the Ministry of Energy (2015 – 2017), manager of the Bucharest branch of OMV Trading GmbH Viena Austria (2011 – 2015), Director of Regulation and Supervision of the Energy Market within E.ON Romania (2008 – 2011), Director of the Energy Purchasing Department within E.ON Moldova (2007 – 2008) and Head of the Distribution Department within Electrica S.A. (2001 – 2006).

Throughout her professional career, Georgeta – Corina Popescu also carried out activities within Professional Organizations, such as: the International Council on Large Electric Systems, "Insular Cables" Study Committee (CIGRE), the Romanian Association of Electricity Suppliers (AFEER) and the Romanian National Committee – the World Energy Council (RNC-WEC).

In 1991, Georgeta – Corina Popescu graduated the Faculty of Power Engineering, Electric Power Section within the "Politehnica" University, and in 2007 she obtained a management certification from The Open University (CODESC).

Andreea Georgiana FLOREA, Directorate Member

Appointed in the position of Directorate Member of Transelectrica starting with September 17th, 2017.

Throughout her professional activity, Andreea Georgiana Florea held management and execution positions within financial and banking institutions and authorities, such as: The Financial Supervisory Authority - In-charge with financial education (2015-2016)/In-charge with public relations on the capital market (2015-2016); Insurance Management Institute - Deputy Director for Educational Programs (2012-2015); Banca Românească - Rahova branch - Branch manager (2009-2012)/Director of operations (2008-2009); UNICREDIT ROMANIA - Credit Monitoring Officer for Legal Persons (2008); ING BANK ROMANIA, Head of the Credit Analysis and Management Department for Natural Persons (2005-2006)/Credit Analysis Officer for Natural Persons (2003-2004).

Andreea Georgiana Florea graduated the Faculty of Domestic and International Commercial and Banking Relations within the "Romanian-American" University (1999-2003). She also attended several improvement classes in the financial and banking sector, organized by the Romanian Banking Institute and ING BANK.

Florin-Cristian TĂTARU, Directorate Member

Appointed in the position of Directorate Member of Transelectrica starting with September 17th, 2017.

Throughout his professional activity, Florin-Cristian Tătaru held several positions within authorities, public institutions and commercial companies, namely: Member of the Romanian Parliament (2008-2012 and 2012-2016 legislative terms); Chairman-Director General of the Health Insurance Fund Maramures (2001-2005); Chief Financial Officer of the Maramures Forest Office (2009-2011/2016-2017); Relations manager within Banca Comercială Carpatica S.A., Baia Mare branch (2006-2009).

Florin-Cristian Tătaru graduated the Faculty of International Economic Affairs within the Bucharest University of Economic Studies (1986-1990). Florin-Cristian Tătaru also graduated three master's degrees: "Health

System Management" at the Bucharest University (2003-2004), "Public policies and European Integration" at the National School of Political Science and Public Administration (2003-2005) and "Banks and Capital Markets" with the Babeș-Bolyai University of Cluj-Napoca (2006-2007). In 2004 he also attended an improvement class in the field of health insurance management, organized by the National Institute of Administration and the National Health Insurance Fund.

Dan-Valeriu ARDELEAN, Directorate Member

Appointed in the position of Directorate Member of Transelectrica starting with September 17th, 2017. Throughout his professional activity, he held several management positions within commercial companies, such as: S.C. "Dav Project&Consulting" S.R.L - Director (2014-2017); S.C. Infoconcept S.R.L - Project Manager (2014-2015); S.C "Duo Design" S.R.L - Project Manger (2011-2013); S.C. "Lara Oil" S.R.L. - Director (2003-2011); Romcontrol Oradea Agency - Director (2001-2003).

Dan-Valeriu Ardelean also has experience in the academic field, holding the position of graduate assistant between 1993 and 1996 and assistant lecturer between 1996 and 2000 at the Faculty of Mathematics and Physics within the University of Oradea.

Dan-Valeriu Ardelean graduated the Faculty of Natural Sciences, Physics specialization within the West University of Timisoara and a master's degree organized by the University of Oradea, Biophysics specialization. Dan Valeriu Ardelean also holds a specialization in spectroscopy and lasers from the University of Timisoara.

As of drafting this report, Transelectrica has no knowledge of the existence of litigations or administrative proceedings against the Directorate members pertaining to their activity within the Company or related to the ability of said person to fulfill his/her duties within the Company.
No member of the Directorate held shareholdings in the Company's share capital as of December 31st, 2017.

Changes in the Directorate of Transelectrica:

March 13th, 2017 – the Chief Executive Officer, Ion-Toni TEAU (Directorate Chairman) waived his mandate. Even though the request for waiving the mandate was starting with April 26th, 2017, the termination of the mandate contract took place by mutual agreement of the parties as of May 31st, 2017.

March 29th, 2017 – taking into account the selection procedure of a new member in the Company's Directorate, in line with the provisions of GEO no. 109/2011 on the corporate governance of public companies, as subsequently amended and supplemented, by Decision no. 26/29.03.2017 the Board of Supervisors appointed Georgeta-Corina POPESCU as member in the Company's Directorate.
The term of office of Georgeta-Corina POPESCU was granted for the period left until the expiration of the replaced member's mandate, namely until September 16th, 2017.

April 20th, 2017 – taking into account Ion-Toni TEAU's renouncement to his mandate as member and Chairman of the CNTEE "Transelectrica" SA Directorate starting with April 26th, 2017, he was requested to terminate the mandate contract no. C419/November 13th, 2014, by mutual agreement of the parties, on May 31st, 2017. Ion-Toni TEAU, member and Chairman of the CNTEE "Transelectrica" S.A. Directorate, accepted the request of the Board of Supervisors on April 21st, 2017, and his mandate contract as member and Chairman of the CNTEE "Transelectrica" S.A. Directorate will be terminated on May 31st, 2017.

April 28th, 2017 – the members of the Board of Supervisors approve the mandate contract to be concluded with Georgeta-Corina POPESCU, Directorate member.

May 29th, 2017 – the members of the Board of Supervisors appoint Luca-Nicolae IACOBICI to the position of provisional member of the Directorate of the Company starting with June 1st, 2017, with a limited mandate period until September 16th, 2017, or until the appointment of a new Directorate member pursuant to GEO no. 109/2011 on the corporate governance of public enterprises. At the same time, starting with June 1st, 2017, Luca-Nicolae IACOBICI is appointed to the position of Directorate Chairman (alternatively called Chief Executive Officer – "CEO" – of the Company Transelectrica SA); the mandate becomes effective only under the condition that he will sign the statement of acceptance before a notary public. The mandate is granted until September 16th, 2017.

May 31st, 2017 – the termination by mutual agreement of the mandate contract concluded with Ion-Toni TEAU as member and Chairman of the CNTEE Transelectrica SA Directorate, on May 31st, 2017.
Taking into account that up until May 31st, 2017, Luca-Nicolae IACOBICI did not expressly accept the mandate as member of the Directorate, in order to ensure the continuity of the Company's activity, Georgeta-Corina POPESCU is appointed to the position of Chairman of the Directorate (alternatively called Chief Executive Officer – CEO – of the Company), starting with June 1st, 2017.

June 12th, 2017 – Luca-Nicolae IACOBICI informed the Company that he will not accept the mandate of provisional member of the Directorate. Thus taking into consideration the non-fulfilment of the condition pertaining to the appointment of a Directorate member stipulated in Art. 153^12 para. (3) from the Companies Act no. 31/1990, republished, as subsequently amended and supplemented, the Board of Supervisors ascertains the vacancy for the position of member in the Company's Directorate starting with June 1st, 2017; the Directorate will carry out its activities with its four active members.

June 13th, 2017 – the Board of Supervisors revokes the appointment of Luca Nicolae IACOBICI to the position of member of the Company's Directorate and ascertains the vacancy for the position of member in the Company's Directorate starting with June 1st, 2017.

September 15th, 2017 – taking into account the termination, by reaching the final term, of the Directorate member mandates of CNTEE Transelectrica on September 16th, 2017, for the following persons: Georgeta-Corina Popescu, Constantin Văduva, Mircea-Toma Modran and Octavian Lohan pursuant to Art. 64^2 (1) from GEO no. 109/2011 on the corporate governance of public enterprises, as subsequently amended and supplemented, the Board of Supervisors appointed the following persons as provisional Directorate members:

- Georgeta-Corina POPESCU
- Andreea Georgiana FLOREA
- Dan-Valeriu ARDELEAN
- Florin TĂTARU

The mandate is granted for a 4-month period with the possibility of extension, for solid reasons, for another 2 months. The mandate duration shall not exceed the completion date of the selection procedure for the Directorate members of the National Power Grid Company "Transelectrica"–SA, pursuant to Art. 642 of GEO no. 109/2011, if the procedure will be completed within this interval.

Pursuant to Art. 18 (4) of the Articles of Association of the National Power Grid Company "Transelectrica"–SA, Georgeta – Corina POPESCU is appointed as Directorate Chairman, alternatively called Chief Executive Officer – "CEO" – of the Company. She will hold this position starting with the date in which her position as Directorate member enters into force.

The Directorate's provisional members, appointed on September 15th, 2017, signed the statement of acceptance of their mandated on September 15th, 2017, and their appointment entered into force on September 17th, 2017, as per their statements of acceptance of mandates.

At the meeting of January 15th, 2018, the Company's Board of Supervisors decided the extension of the mandate contract of the provisional members of the Directorate, namely up to March 16th, 2018.

Statement of the persons responsible

To the best our knowledge, the stand-alone financial statements as of December 31st, 2017 have been issued according to the applicable accounting standards (International Financial Reporting Standards as approved by the European Union) and provide a correct and realistic view of CNTEE Transelectrica's assets, bonds, financial position, profit and loss account, and the Directorate Report comprises accurate information true to real facts with respect to the Company's development and performance, as well as the description of the main risks and uncertainties specific to the activities performed.

Directorate,

Georgeta – Corina	**Andreea Georgiana**	**Dan-Valeriu**	**Florin-Cristian**
POPESCU	**FLOREA**	**ARDELEAN**	**TĂTARU**
Directorate Chairman	**Directorate Member**	**Directorate Member**	**Directorate Member**

Key figures

FINANCIAL		
3,060 mil lei	▲12% y/y	Revenues
304 mil lei	▼55% y/y	EBITDA
(8) mil lei	▼n/a	EBIT
(48) mil lei	▼n/a	Net loss

OPERATIONAL		
2.18 %	▼0.14pp y/y	OTC
59.8 TWh	▼1.5% y/y	Internal output
54.75 TWh	▲2.3% y/y	Charged energy
2.90 TWh	▼43% y/y	Net export*
56.9 TWh	▲2.3% y/y	Net load

HUMAN RESOURCES	
2,180	Average number of employees

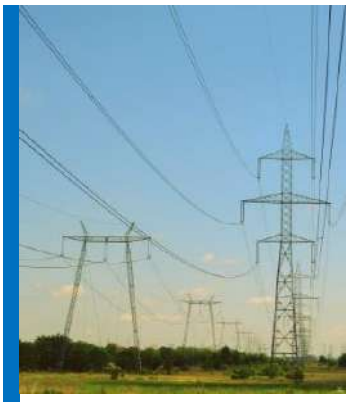
* net export is calculated as the balance of cumulated cross-border (export-import) physical flows across borders
Note: For the ease of reading and understanding the results, some figures presented in graphs and / or tables use mil. lei as a unit of measure and are rounded to this unit. This convention for presentation may result, in certain cases, in minor differences between the totals and totals obtained by summing up the component elements

Important events

Jan

Transelectrica as Transmission System Operator is mandated to apply the technical and commercial safeguard measures according to art. 6, paragraph (3) of the Regulation on the establishment of the safeguard measures in crisis situations occurring in the functioning of NES approved by the ANRE Order no. 142/2014.

Feb



Mar

On March 5th, 2017, at 18:39, due to the failure of an equipment (breaker) at the 220/110 kV Hăşdat station, there were several triggerings to equipments belonging to CNTEE Transelectrica SA in the Valea Jiului area (in stations 220 / 110 kV Hăşdat, 220/110 kV Baru Mare and 220 kV Paroseni which led to the remaining without voltage (power?) of a part of Hunedoara County, where the coal mines belonging to the Hunedoara Energy Complex are supplied with electricity. Refueling all consumers was conducted very quickly, at 6:50 p.m.

Apr

May

On May 30th, 2017, the OGM no.5 decision approved the composition of the temporary members of the Supervisory Board of CNTEE Transelectrica SA for a four-month term.

On May 31st, 2017, the members of the Board of Supervisors appointed Mr. Cristian-Eugen RADU as the Chairman of the Supervisory Board.

Jun

Transelectrica SA participated at the third edition of the Energy Strategy Summit 2017, which brought together the most influential decision makers in the Romanian energy industry for an analysis of national, european and corporate strategies.

ANRE publishes Order 48/2017 regarding the approval of the average tariff for the transport service, the tariff for the system service, the zonal tariffs related to the transport service and the regulated price for reactive electrical energy, practiced by the Company.

Jul

On July 5th, 2017, Fitch grants the Company a stable BBB rating as a recognition of the Company's efforts to achieve operational excellence and for the responsible approach towards the business environment in which it operates.

On July 28th, the upgrading works were completed at the 220/110 kV Tihău Station, which has as its main functions the transit of necessary power to the North Transylvanian area.

Aug

The European Commission approves the financing of the Crossbow project, in which Transelectrica is a partner together with the Romanian Energy Center. Transelectrica is a partner in this project with the Romanian Energy Center, coordinated by the Spanish Group ETRA Investigation Y Desarrollo SA, together with 8 Transmission System Operators (TSOs) from Central and South Eastern Europe

Sep

CNTEE Transelectrica SA marked on the 26th of September 2017, the 50th anniversary of the commissioning of the 400/220/110 kV Gutinaş Station, one of the most important stations in Romania, which provides power to the whole northeast area of the country.

The CEO of CNTEE Transelectrica SA, Ms. Georgeta-Corina Popescu, participated at the sixth edition of the CEEP Energy Summit in Tallinn (Estonia) on September 20th 2017. Together with CEEP members Mrs. Georgeta-Corina Popescu participated in discussions with Maroš Šefčovič, Vice-President of the European Commission, responsible for the Energy Union.

Oct

On October 3rd, 2017 the Company signed with the system and transport operator in Bulgaria, Electroenergien Sistemen Operator - ESO - EAD, the Bilateral Agreement on Ensuring the Delivery of Emergency Transboundary Energy for Maintaining the Functional Safety of Power Systems in Romania and Bulgaria

On October 11th, 2017, Fitch maintains the BBB rating for the Company, a stable outlook, one step above the country's rating (BBB- / stable outlook)

Nov

CNTEE Transelectrica SA participated at the first energy ministerial and energy conference in the framework of China - Central and Eastern Europe ("16 + 1") co-operation format, hosted by Romania.

CNTEE Transelectrica SA started on Friday, November 17, 2017, the construction works of the "Stelian Gal" Energy Excellence Center in Sibiu, with an investment of about 5 million lei from own funds.

On November 16th 2017, the Company inaugurated the 220/110/20 kV Transformer Electric Station in Turzii Câmpia (Cluj County), refurbished with an investment of about 42 million lei, from its own funds.

Dec

On December 8th, 2017, the Company published the announcement of the first stage of consultation under the PICASSO (Platform for the International Coordination of Automated Frequency Restoration and Stable System Operation) project. The public consultation consists of two stages, the first stage ending at the end of the year 2017, the second stage being scheduled for mid-2018.

Transelectrica®

Societate Administrată în Sistem Dualist

Management Report

1. Business model

1.1. Position on the electricity market

Transelectrica was established as Romanian legal person under GD no. 627/July 13th, 2000 on the reorganization of the National Electricity Company CONEL SA, published in Romania's Official Gazette 357/31.07.2000. This decision was issued in accordance with GD no. 138/2000 on the restructuring plan in the energy sector, which fully separated the electricity transmission and dispatch activity from the electricity generation, distribution and supply activities.

Upon establishment, the Company had a share capital of 4,959,822,000 thousand former Lei, fully paid on the date of establishment and divided into 49,598,220 registered shares amounting to 100,000 former Lei.

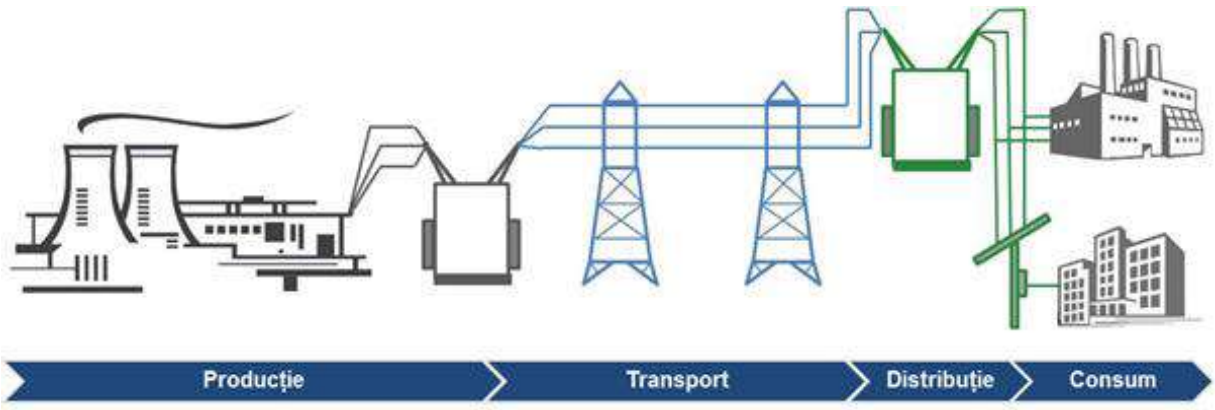
In accordance with the Electricity and Natural Gas Act no. 123/2012, as subsequently amended and supplemented, the electricity transmission activity constitutes a public service of national interest. Electricity transmission is performed by transmission and system operators which are legal persons certified by the competent authority according to legal provisions. The Power Transmission Grid (PTG) existent on Romanian territory is the public property of the Romanian State in terms of the assets assigned to Transelectrica and they constitute returnable goods, according to the assignment nature and legal provisions.

In its capacity of transmission and system operator, Transelectrica operates according to License no. 161/2000 for the provision of electricity transmission and system services and for the management of the balancing market, amended by ANRE Order no. 802/2016.

The concession over the PTG and the land plots it is located on was granted for 49 years under concession agreement no. 1/29.06.2004, concluded between the Ministry of Economy in its capacity of grantor authority and CNTEE Transelectrica SA, in the capacity of grantee.

In the value chain of electricity activities, Transelectrica holds the central place of transmission and system operator, which are natural monopoly activities situated between producers and suppliers – the main players of the competitive electricity markets. The electricity transmission activity is not the only natural monopoly in the electricity value chain, the distribution activity as network operation is also a natural monopoly.

Figure 2: Electricity value chain



Transelectrica has the mission to provide the public service of electricity transmission while maintaining the operational safety of the national power system under non-discriminatory access conditions for all users; by developing the electricity transmission infrastructure, the Company becomes an active participant to the sustainable development of the national power system and facilitates the operation and integration of energy markets.

The key role of Transelectrica is of transmission and system operator (TSO), together with the roles of balancing market administrator, metering operator as well as capacity allocation operator on interconnection lines.

Basic activities relate to infrastructures of strategic importance in the electricity sector, which include multiple elements of critical infrastructure. Thus, the transmission services have the electricity transmission network as support and dispatch activities, including the balancing activities, use the dispatch and metering infrastructure for support.

The activities of Transelectrica are regulated under primary legislation (the national framework being Law no. 123/2012, as subsequently amended and supplemented, while the European one being Directive 2009/72/EC and Regulation no. 714/2009) and secondary legislation issued by ANRE - substantiated by licenses, establishment permits, tariff-setting methodologies (ceiling type for transmission and cost plus for system operation, tariffs, framework agreements, procedures and others).

Business profitability comes from the return of the asset regulatory base, which depends on the regulated rate of return and the asset regulatory base ("ARB").

The business model corresponds to the standard profile of a TSO and is designed uniformly at European level under the European strategy and legislation, applied in all community countries and transposed as such in the national legal framework.

TSO type companies are subject to an European certification process as transmission and system operators. The certification procedure can be mainly implemented in accordance with three possible models: ownership unbundling - OU, independent system operator - ISO, and independent transmission operator - ITO.

Today, pursuant to ANRE Order no. 164/07.12.2015 published in the JO no. 908/08.12.2015, Transelectrica has been finally certified as transmission and system operator of the national power system and it operates in accordance with the ownership unbundling model.

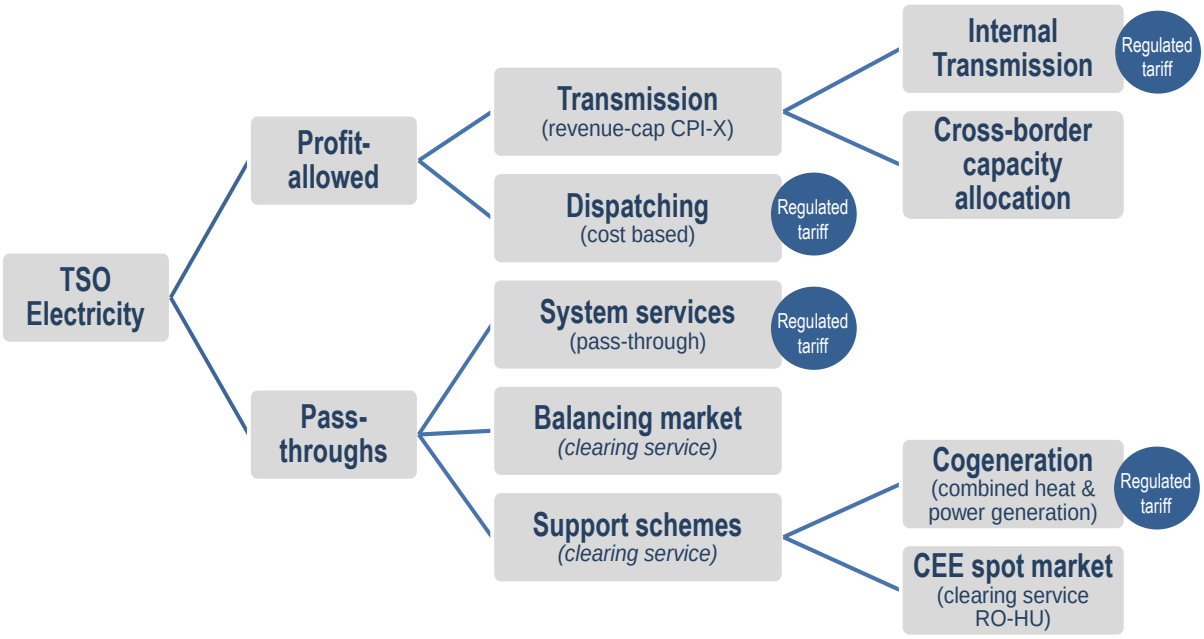
The notification with respect to such certification was submitted to the European Union that published it in the EU Journal on 08.01.2016, in accordance with Article 10 (2) of Directive 2009/72/EC.

In accordance with the certification conditions as transmission and system operator as per the ownership unbundling model, the Company's shareholders representing at least 5% of the Company's share capital will exercise their rights ensuing from Company shares while observing the provisions of Law no. 123/2012 regarding the non-simultaneous exercise, directly or indirectly, of control or right over an economic operator that performs any of the generation or supply activities.

1.2. Portfolio of activities and tariff-setting model

Transelectrica's portfolio includes allowed profit activities (transmission services plus functional system services) and zero profit activities (technological system services, balancing activities, support schemes), all activities being regulated by ANRE.

Figure 3: Portfolio of activities



The activities provided in the graph above in the "zero profit category" are designed using neutral bases against the Company's profit, according to the applicable regulatory framework.

Revenues associated to technological system services are estimated using the respective tariff with a view to fully cover the costs associated to activities. Similarly, the cash flows associated to the support scheme administration to promote high-efficiency cogeneration rely on the contribution set by ANRE, estimated in order to fully cover the costs associated to the support scheme administration.

In case annual non-null positive or negative results are reported from the activities of technological system services, determined by differences between the forecasted values used for tariff calculation and actual values, the neutrality of such activity against the company profit is re-established within a multi-annual timeframe by means of proper adjustments included in the tariffs.

Allowed profit activities

Transmission

Domestic transmission

- ANRE regulated activity;
- Tariff reviewed and updated annually;
- The tariff associated to the transmission activities is determined using default settings for multi-annual periods (usually 5 years) according to a revenue cap incentive model;
- The revenue cap model enables recovering operational and investment costs as well as obtaining the financial return dedicated to the proper remuneration of financiers, in accordance with the general risk of regulated activities performed by Transelectrica;
- Certain cost components included in the tariff calculation are capped at levels preset by ANRE (according to certain operational efficiency requirements), the superior efficiencies obtained by Transelectrica being partially retained by the Company using a distribution mechanism of additional profit with the users of transmission services.

Interconnection management

- This is an activity related to cross-border available transfer capacities allocation along interconnection lines with the power systems of neighboring countries;
- The allocation mechanism relies on a competitive system using the price offered by the participants on the energy market for the available cross-border transmission capacity, applicable in cases when the capacity demand exceeds the available level offered on the market.
-

Functional system services

- ANRE regulated activity;
- Dispatch operations of the NPS in order to maintain the operational safety level of the system (the system is maintained under stable output-consumption balance, while also keeping system parameters within preset margins that should provide a safe and stable operation of the NPS, operational scheduling to cover load) using the technical operational management infrastructure of the NPS, which is the EMS – SCADA system as well as the telecommunication, remote control, protection and control systems;
- The tariff for functional system services is set annually beforehand by ANRE, using a cost-plus model that enables recovering operational and investment costs as well as obtaining the financial return dedicated to the proper remuneration of financiers, in accordance with the general risk of regulated activities performed by Transelectrica.

Zero profit activities

Technological system services

- ANRE regulated activity;
- Planning and procurement of power reserves necessary for the permanent provision of the output/load balance in order to ensure the operational safety of the NPS, from producers or consumers that may be disconnected;
- The tariff for the technological system services is annually set beforehand by ANRE using a zero-profit model ("pass-through") designed to fully recover the costs necessary to procure system reserves, with the possibility to keep a part of potential savings obtained when procuring power reserves under competitive terms.

Balancing market

- The market administration activity by which the generation and the load are balanced in real time;
- The procurement of control power from dispatchable generating units and full recovery of balancing costs from balancing responsible parties;
- The recovery of costs is performed under zero-profit regime.
-

Other activities

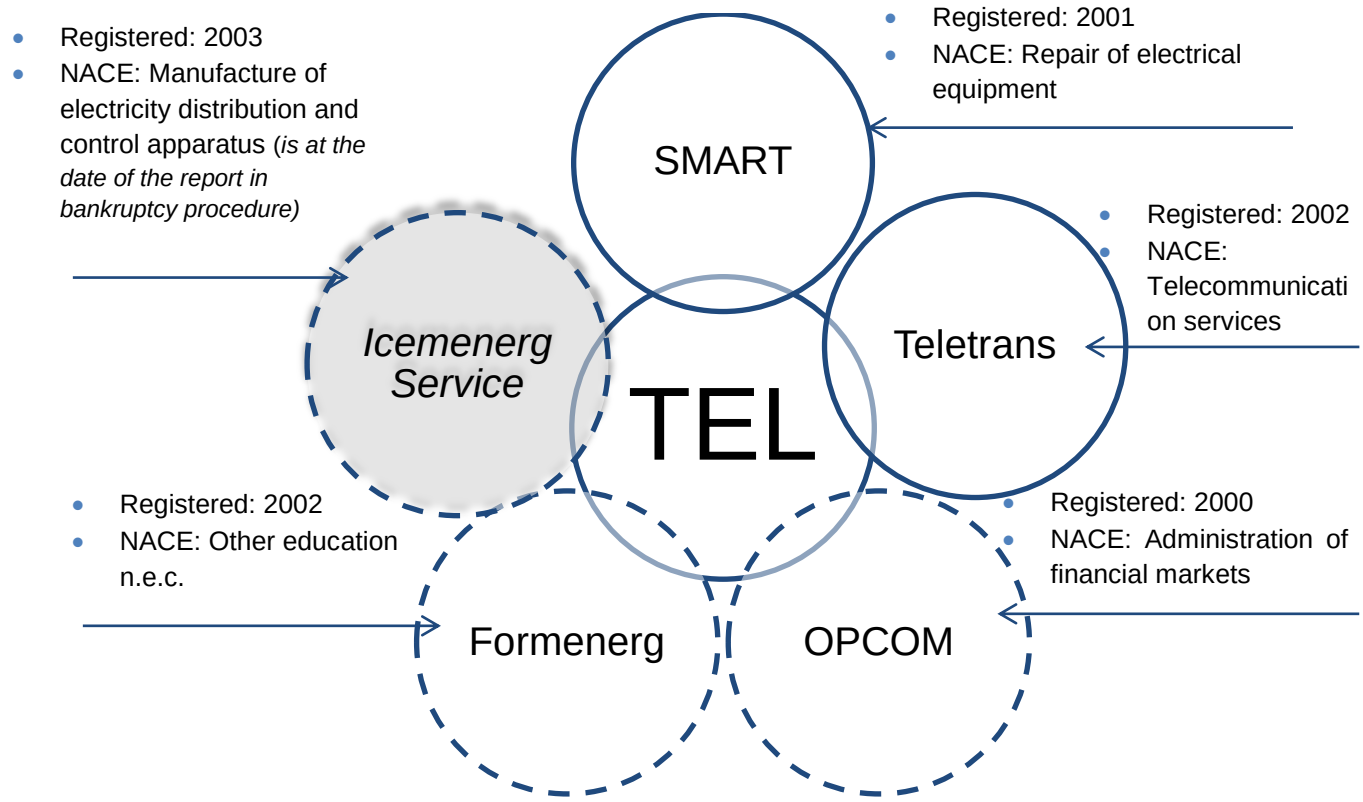
Cogeneration

- The administration of the support scheme for promoting high-efficiency cogeneration. The purpose of this support scheme is to promote highly efficient systems cogenerating heat and power, with the advantage of a more environmentally friendly electricity production;
- The role of Transelectrica under the support scheme is to collect the contribution from the suppliers of electricity consumers and to pay the bonus to the qualified producers of electricity and heat under cogeneration;
- Costs are recovered under a zero-profit regime except for the administration costs recognized by ANRE.

Shipping agent of the Romania-Hungary connection on the regional electricity market

- The compensation-settlement activity (shipping agent role) on the regional electricity market (price coupled market in the central-east European area, including the markets from: The Czech Republic, Slovakia, Hungary, Romania) in the day-ahead trading horizon (day-ahead market). Transelectrica carries out the financial clearing function on the Hungarian border, an important part in the settlement chain of energy traded on the wholesale market between Romania and Hungary (export and import).

2. Group structure



On the date of this report, Transelectrica has four subsidiaries in its structure; they are Romanian legal persons, organized as joint stock companies where the Company is the sole shareholder, namely: OPCOM[4], Formenerg, Teletrans, and Icemenerg Service (is at the date of the report in bankruptcy procedure).

In the case of Smart, following the increase of its share capital on December 23rd, 2014 by the Management Board of Smart with the value of land plots for which certificates authenticating the ownership rights have been previously obtained, the Company became the major shareholder with a 70% shareholding of the subsidiary's share capital.

Among the Company's subsidiaries, only Smart and Teletrans are included in the Group's financial consolidation perimeter. Formenerg and Icemenerg-Service have not been taken into consideration for the consolidation because according to the applicable accounting legislation, the impact of their activities is considered as being insignificant for the purpose of the consolidation, while OPCOM is subject to ANRE regulations and holds an independent position on the energy market, and therefore Transelectrica does not have control over it.

The subsidiaries participating to the consolidation perimeter (Smart and Teletrans) began procedures with a view to implement the corporative governance principles, in accordance with the regulations of GEO no. 109/2011 on the corporate governance of public enterprises.

[4] According to GEO no. 86/2014, as subsequently amended and supplemented, the Ministry of Economy is mandated to initiate and approve, as the case may be, all operations and steps necessary in order to transfer the shares held by the National Power Grid Company "Transelectrica" - S.A. in the Company "Gas and Electricity Market Operator OPCOM" - S.A. and the Company for Training Romanian Power Engineers FORMENERG - S.A. to the state private property and the administration of the Ministry of Economy, Trade and Tourism, while observing the applicable legal provisions.

Thus, the recruited managers will be made responsible and remunerated according to the administration and management plans (which should include optimum administration/management structures) as provided in GEO no. 109/2011. By implementing the corporate governance principles, the Company intends to increase the efficiency of the two Subsidiaries' activities.

SMART

The main object of activity of the SC SMART SA subsidiary is reviewing and repairing of live apparatus and equipment, transformers and autotransformers, as well as the remedy of incidents in electric installations and micro-production of electric equipment. The Company has 8 subsidiaries with no legal personality, situated in the same locations as Transelectrica's branches.

- As of December 31st, 2017, the share capital amounts to 55,036 thousand lei, of which 38,528 thousand lei is subscribed and fully paid up by Transelectrica. The results of SMART are consolidated with the Company's financial results.
- According to letter no. 165/13.01.2015 (registered at Transelectrica under no. 1552/14.01.2015) transmitted by the subsidiary, starting with 30.12.2014, when the capital had been increased by contribution in kind with the value of the land plots for which certificates authenticating the ownership rights were obtained, the shareholder structure is the following:
  - CNTEE Transelectrica SA – 70.005% - 3,852,860 shares
  - The Romanian State through the Ministry of Economy – 29.995% - 1,650,770 shares.

TELETRANS

SC Teletrans SA was established under Decision no. 13/04.12.2002 of Transelectrica's General Assembly of Shareholders, pursuant to Law no. 31/1990 and the Orders no. 3098 and no. 3101 of 23.10.2002 issued by the Ministry of Industry and Trade.

- TELETRANS shares are 100% held by Transelectrica.
- Based on the Articles of Association and the applicable legislation, Teletrans holds the ANCOM certificate for networks or electronic communications service provider since 2002 (GEO no. 679/2002), allowing it the right to provide the following electronic communications services:
- Public electronic communications networks (starting with November 11th, 2004);
- Publicly available electronic communications services: (i) Leased lines services and (ii) Electronic communications services, other than telephony and leased lines (starting with July 1st, 2003);
- Private electronic communications networks and services (starting with January 15th, 2003).
- The TELETRANS staff also holds certifications relevant for the operation and management of IT&C systems dedicated to critical infrastructures.

As of December 31st, 2017, the share capital amounts to 6,874 thousand lei, Transelectrica being sole shareholder. The results of Teletrans are consolidated with the Company's financial results.

FORMENERG

The SC FORMENERG SA subsidiary is a company whose main object of activity is training personnel from the energy sector. Among its clients are Transelectrica, GDF SUEZ Energy Romania, Romgaz, Transgaz Medias, Nuclearelectrica and Hidroelectrica.

The company provides a wide range of short-term courses (a week or two) in fields such as public procurement, human resources, finance-accounting, marketing and communication, operation, maintenance, energy strategy, natural gas, IT, legislation, licensing of electricians etc.

The share capital is 1,948 thousand lei, fully paid up, represented by 194,842 shares of 10 lei nominal value each.

ICEMENERG – SERVICE

On the date of June 9th 2017, the Bucharest Court of Appeal, Civil Division VII, ordered the bankruptcy procedure through the simplified procedure of the debtor, ICEMENERG SERVICE - SA Subsidiary, designating Solvendi SPRL as a temporary liquidator.

The Company recorded an impairment adjustment in the amount of 493 thousand lei in 2016,for the shares held at SC ICEMENERG SERVICE SA

The Icemenerg Service SA subsidiary focuses on the design, manufacture and distribution of metering, running and control apparatus meant for the power system, being ISO 9001 and IQ NET certified by SRAC ROMANIA (licensed by ANRE).
The client portfolio includes the big companies in the industry such as Electrica, Transelectrica, Nuclearelectrica, Termoelectrica and Hidroelectrica.

- The share capital amounts to 493 thousand lei, fully paid up on August 22nd, 2003, represented by 49,300 shares of 10 lei nominal value each.
- By Order no. 855/10.12.2004 of the Minister of Economy and Trade (on instituting the special administration procedure and financial supervision), starting with 23.12.2004 the special administration and financial supervision procedure was instituted in the SC ICEMENERG – SERVICE SA subsidiary during the privatization period of ICEMENERG – SERVICE SA, subsidiary of Transelectrica, with a view to determine the manner of administration and management as well as the measures to be taken in order to expedite the company's privatization process.
- Decision no. 1/28.02.2017 of the General Assembly of Shareholders approves the default of the company in simplified form.

OPCOM

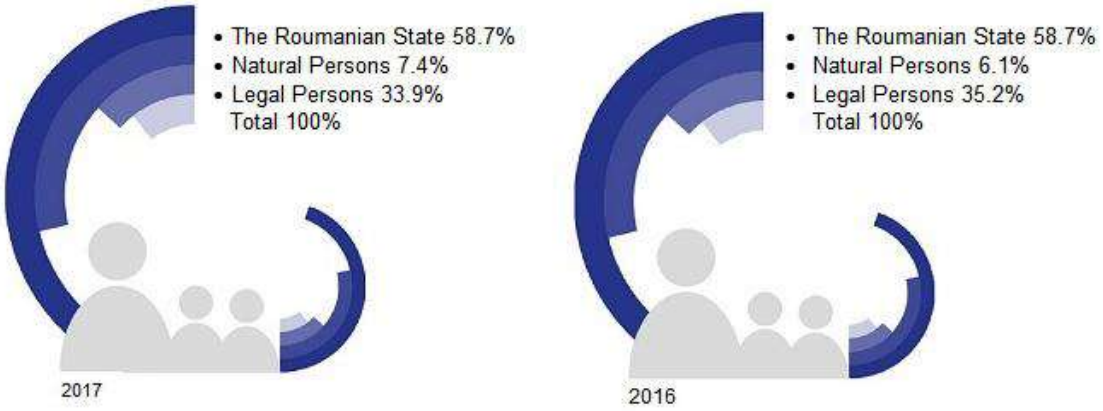
OPCOM was established under GD no. 627/2000 on the reorganization of the National Electricity Company SA as subsidiary whose sole shareholder is Transelectrica.

- As of December 31st, 2017, the share capital amounts to 30,687 thousand lei.
- The main activities of OPCOM are: organizing, managing and supervising the centralized electricity markets as well as managing and supervising of the centralized market from the natural gas sector.
- Transelectrica does not exercise actual direct control over the decision making mechanisms of OPCOM, whose administration is performed according to ANRE regulations.

3. Transelectrica on the capital market

3.1. Shareholding structure

Figure 4: Development of the shareholders structure in 2017



As of December 31st,2017, the position of the Company's shareholders includes the holding of DEDEMAN SRL of 5.72% (at december 31st, 2016 the ownership was below 5%).

3.2. Share price evolution

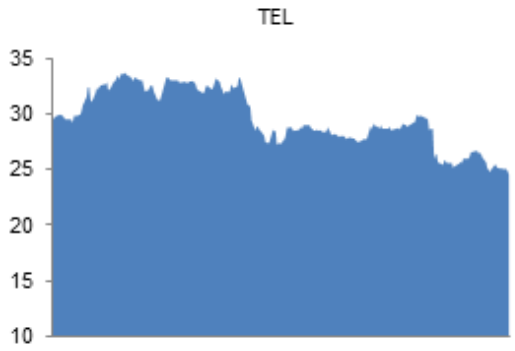
2016 has been an important year for Romania's capital market. On September 29th, 2016, the decision of FTSE Russell was published, according to which Romania was included on the list of countries with substantial potential to transfer to the "emerging market" status from that of "frontier market" it now has. The decision was taken after the amendments and changes made both in the capital market legislation and also in the regulations specific to this market, adding the conjugated efforts made by NBR, BSE, ASF, PFM and the Central Depositary. To this effect, investors' interest is expected to grow, as they usually avoided this market in favor of others.

Throughout 2017, the Transelectrica share (TEL symbol) showed a relatively stable evolution, with price fluctuations ranging from 24.55 lei/share to 33.7 Lei – the maximum being reached on February 27th, 2017 and March 1st, 2017. Compared to the overall stock market performance (BET index), and also to the companies constituting the BET-NG index, TEL shares showed a superior performance in the first quarter of the year, while the period between the second quarter and the end of the year showed an inferior - even negative - performance compared to the BSE indexes, as a result of the market's reaction to the lowering of the Company's results, which came as a result of the two-step reduction of the regulated transmission tariff: on July 1st, 2016 and July 1st, 2017.

Transelectrica is also included in the local stock exchange indexes (BET, BET-XT, BET-NG, BET Plus, BET-TR, BET- BK, ROTX) and in the international indexes DowJones Wilshire Global Indexes (Dow Jones Wilshire Global Total Market Index SM, Dow Jones Wilshire Romania Index SM, Dow Jones Wilshire Electricity Index SM).

Figure 5: Share price development to BET and BET-NG indexes in 2017

Figure 6: Share price development in 2017



The total return for shareholders (TSR) for 2017 amounted to -0.22% as a result of the share price reduction at year-end.

Table 1: Stock-exchange information 2015-2017

Indicator	31.12.2017	31.12.2016	31.12.2015
Number of shares	73,303,142	73,303,142	73,303,142
Stock exchange capitalization (mil lei)	1,800	2,140	2,137
Stock exchange capitalization (mill euro)	386	471	472
Maximum price (lei/share)	33.7	31.15	32.47
Minimum price (lei/share)	24.55	26.40	25.19
Price at the beginning of the year (lei/share)	29.2	29.15	29.27
Price at year-end (lei/share)	24.55	29.20	29.15
Profit per share (lei/share)	0.65	3.72	4.91
PER	(37.53)	7.86	5.93
P/BV	0.66	0.69	0.71
Gross dividend per share (lei)	-	2.257	2.65
Special gross dividend per share (lei)*	2.330	-	-
Dividend return**%	-	7.73	9.09
Free Float %	41.31	41.31	41.31

*as per allocation of Other reserves

**dividend return proposed for approval in the General Assembly of Shareholders was calculated using the most recent share price of December 31st, each year.

Share ID data: ISIN **ROTSELACNOR9**; Bloomberg **TEL RO**, Reuters **ROTEL.BX**

3.3. Bonds

In 2017, the fourth interest coupon was paid associated to the inaugural bond emission of 2013. This was the first major financing transaction on the capital market using credit instruments (emission of unsecured bonds amounting to 200 mil lei with fixed interest, five years maturity).

Introducing bonds in the financing mix had beneficial effects in the mid- and long-run, diversifying the financing options and thus reducing the credit restriction risk along traditional channels (for instance by reaching the maximum credit allocations, in case of relation banks).

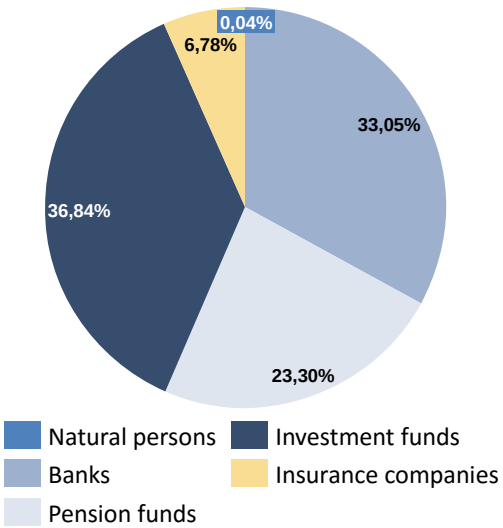
Starting with January 16th, 2014, corporate TEL bonds have been traded on the Bucharest Stock Exchange (BSE), Debt Securities section – 3rd category - Corporate bonds, symbol TEL18.

Table 2: Main characteristics of the bonds issued by Transelectrica

Symbol:	TEL18
Type:	registered, dematerialized unsecured bonds
Number of bonds:	20,000
Nominal value:	10,000 lei
Total value of issue:	200,000,000 lei
Interest rate:	6.1%
Interest payment:	Annually.
Interest payment dates:	19.12.2014; 21.12.2015; 19.12.2016; 19.12.2017; 19.12.2018
Maturity date:	19.12.2018

The structure of corporate bond holders as of December 5th, 2017, the reference date for the coupon payment, was as follows:

Figure 7: Structure of corporate bond holders as of December 31st, 2017



During the fourth accumulation year, the interest associated to the bonds was paid in accordance with the Offer Prospectus and was made by Banca Comercială Română SA, in its capacity of payment agent, on December 19th, 2017 to the holders of Transelectrica bonds registered on the reference date December 5th, 2017 in the Register of corporate bond holders registered with the Central Depositary S.A.

3.4. Dividends

In 2017, the value of shareholders' dividends distributed from the profit of 2016 amounted to 165 mil lei. The dividends were calculated while observing the legislative provisions applicable to the profit distribution for majority State owned companies, based on a distribution rate of 90% (pursuant to the Government approved Memorandum) and in line with the dividends distribution policy of CNTEE Transelectrica SA.

On the request of the shareholder the Romanian State, on the grounds of Decision no. 11/October 16th, 2017 of the General Assembly of Shareholders, dividends were distributed amounting to 171 mil lei from the unallocated profit highlighted in the balance of the account "Other Revenues – Own sources of funding from profits".
The following table illustrates the dividend distribution of the Company's accounting profit in the 2015-2017 timeframe:

Table 3: Profit distribution 2015-2017

Indicator		2017	2016	2015
Net result	mil lei	(48)	175	360
Distributed dividend	mil lei	-	336	194
Gross distribution ratio*	%	-	90	75
Actual distribution ratio**	%	-	124	54.0
Gross dividend per share	lei	-	2.257	2.650
Special dividend per share***	lei	171	-	-

** The gross distribution ratio was approved by Decision of the General Assembly of Shareholders*
*** The actual distribution ratio takes into account the sums allocated to legal and other reserves, as well as fiscal facilities.*
**** Special dividend accordingly with GD 29/2017*

The payment of the dividends towards shareholders is performed to the value net of tax, according to the provisions of the Romanian Tax Code.
The tax is withheld, declared and paid to the State budget by the Company.

Transelectrica suspended the payment of the due and unclaimed dividends corresponding to the financial year of 2013, as a result of the 3-year prescription deadline.

3.5. Rating

On May 23rd, 2017, the credit rating agency Moody's Investors Service published the updated credit opinion by which it assessed Transelectrica's current and future capacity to carry out its obligations to creditors.

The current credit opinion maintains the Company's rating at the last year's level, namely Ba1.

The Company's rating remains only one step below Romania's country rating, thus recognizing the improved financial performance and solid operational results of Thus, the Agency's assessment between 2015 and 2017 mirror its positive appreciation for the the Company and ensuring future financing premises under optimal cost conditions for the good performance of the investments undertaken for the third regulatory period.

This action comes as a continuation of the improvement of the rating communicated by Moody's and a decisive factor was starting the optimization process of the financing structure by introducing bonds denominated in lei in the financing mix. The inaugural emission achieved both an extended maturity of resources and a diminished currency risk.

gradual improvement of Transelectrica's financial profile.

Starting with January 2017, the Company concluded an agreement with the international credit rating Company Fitch Ratings.

On July 5th, 2017, Fitch grants the Company the BBB rating, representing a stabile perspective, recognizing the Company's efforts to reach operational excellence and the responsible approach towards the business environment in which it operates. On October 11th, 2017, Fitch maintains the BBB rating for the Company, a stable outlook, an assessment which is one step above the country's rating (BBB–/stable outlook).

Table 4: Transelectrica Rating

	2017	2016	2015
Moody's Investors Service	Ba1 stable	Ba1 stable	Ba2 stable
Fitch	BBB stable	-	-

3.6. Investor relations

In the context of implementation of corporate governance rules and best practices, Transelectrica has committed to an active communication with shareholders and investors, using in this respect several communication channels and dedicated interfaces. The Company is aware of its important responsibility in the position of publicly traded company.

The diversity of shareholders and the presence in the main indexes published by BSE emphasize exigencies with regards to transparency, information relevance and its quick dissemination, as well as maintaining an uninterrupted dialogue with the investor public.

Thus, shareholders and investors have access to relevant information for their investment decisions by accessing the dedicated section from Transelectrica's internet page (financial statements, periodical reports and presentations), by written electronic correspondence and phone calls by dedicated contacts.

The Company also keeps in touch with investors by direct meetings periodically organized by the company to present its results, direct meetings upon request from investors or their brokers and similar direct meetings when the company participates to events dedicated to individual or institutional investors, organized by the Bucharest Stock Exchange or by the financial investment service companies.

According to the financial calendar published by the Company at the beginning of the calendar year, Transelectrica organizes quarterly meetings with shareholders, investors, financial analysts and journalists.

Throughout 2017, Transelectrica participated to conferences dedicated to individual investors, events dedicated to institutional investors and direct meetings organized upon request of certain investors and/or brokers. Overall, Transelectrica attended 5 international conferences and participated in several direct meetings with investors.

Transelectrica shares are monitored by the research departments of the main financial investment service companies active on the regulated market managed by the Bucharest Stock Exchange. The Company is always in touch with the analysts of companies that have included Transelectrica in their research portfolio.

4. Risk management

4.1. Risk management policy

The Integrated Risk Management System was implemented in the Company as provided in the strategic requirements for the operational safety and continuity of the NPS, which represents a fundamental condition for a sound internal managerial control. The Company addresses risk management in a proactive manner, thus the Directorate reasonably ensures that objectives will be achieved by managing possible threats. To this effect, potential losses are detected and managed before the occurrence of events of likely negative impact, with the anticipated preparation of the technical, operational and financial solutions specific for mitigating or counteracting these possible losses.

The Company's risk management observes the applicable legal and regulatory requirements to provide risk control capacities according to the risk profile of the Company, with a view to identify, assess, manage, monitor, notify, consult and report risks:

- Order no. 400/2015 of the Secretary General of the Government (OSGG) amended and supplemented by OSGG no. 200/2016 and OSGG no. 530/2016 approving the *Code of internal/managerial control of public entities*
- The regulator's requirements and other requirements derived from its capacity as Company listed on the Bucharest Stock Exchange or required by rating agencies or auditors

The set of risk management solutions used by Transelectrica aims at assisting the organization in reaching its objectives and contributing to the improved planning by means of risk mitigation measures, comprising the organizational and the financial solutions in an optimized structure. Thus, in organizational terms, risks are kept under control at an acceptable level with reasonable costs, mitigated or even transferred, by means of activities such as:

- Organizing, designing, planning, structuring activities, communication including business continuity measures after the occurrence of a risk. Procedures have also been executed taking into account the principles to be complied with by all employees and labor security and safety measures have been enhanced with a view to mitigate risks;
- Insurance contracts aiming at risk transfer; bank letters of guarantee, financial securities required by Transelectrica's counterparties; financial solutions including share offers, bond emissions and other instruments provided on the capital, insurance and other financial markets.

As part of the Risk Management activities, the following have been achieved in 2017:

- updating the Monitoring commission components in order to implement the Internal/Managerial Control System and the Team managing risks Company-wide;
- measures related to ensuring the organizational and procedural framework undertaken by the heads of organizational units in order to enforce the internal control and risk monitoring measures;
- guidance and control measures.

In 2017, the *Company-wide Risk Register - 2018* was completed and approved by the Directorate, aiming at minimizing the effects of risks the Company is exposed to related to its performance. The *Risk Register* was drafted in accordance with the requirements of Standard 8 *Risk management* from OSGG no. 400/2015 and OSGG no. 200/2016.

The Directorate also completed and approved the *Plan to implement control measures for 2018*. For the implementation of the Internal/Managerial Control System, the Monitoring commission annually analyzes and prioritizes significant risks that might negatively impact the general objectives of CNTEE Transelectrica SA. For 2018, 12 Company-wide significant risks were synthetized and hierarchically classified, which might negatively

impact the general objectives of Transelectrica's functioning.

The Audit Committee's agenda included the risk range to which Company is exposed to. The size and complexity of processes it is involved in, the dynamics of external factors, the cyber threats, the complexity and duration of investment projects, the changes generated by environmental factors over the good operation of the PTG according to the dynamics of changes on the energy markets to contractual partners of volatile financial performance - all these factors provide a highly complex picture with potential risk and threat areas for the Company.

In 2017, the Audit committee was actively involved in the revaluation of the manner in which such risks are identified and assessed for the functional areas of the Company. It has also analyzed the measures plan prepared in order to mitigate and monitor risks and provided recommendations pertaining to the correct identification of risks, their potential technical and functional but also financial impact over the Company's results.

4.2. Objectives of Transelectrica with respect to risk management

The Directorate aims at preserving the continuity of strategic functions as transmission and system operator within the NPS of Romania, even under the most unfavorable circumstances.

Both in direct mode and by the implementation in the branches and subsidiaries, and by transposing the applicable requirements into the service contracts with specialized suppliers, the Company's policy aims at providing operation in accordance with the quality, security and efficiency norms specified in the Technical Code of the PTG and with any other specific applicable regulations, emphasizing on compliance with the employees' safety and health criteria, as well as on the protection and preservation of the property and environment.

The Company's management determined the following strategic objectives in terms of risk management:

- understanding the risks the Company is exposed to, their causes and the possible budget deviations and costs, as well as the impact they might have over general and specific objectives;
- maintaining a safe working environment for employees;
- operating the equipment and installations under safe conditions with no dangers for third parties or environmental impacts;
- implementing the optimal risk control measures.

The main objectives established include:

- improving the Company's risk profile by managing the global risk identification, assessment and monitoring process, while implementing the control necessary in order to maintain risk exposure at an acceptable level;
- eliminating or reducing to a minimum the conditions and practices that might lead to non-attained performance indicators, or to interrupting or limiting Company activities;
- reducing the risk total cost in Transelectrica with a view to contribute to ensuring financial resources necessary for operation expenses, payment of liabilities and completing investments;

Company activities are sensitive to the general economic conditions which might impact the quantity of transmitted electricity and implicitly operational revenues and results. Moreover, the demand for electricity and its price depend on a variety of factors over which Transelectrica has no control, namely:

- economic and political developments at global and regional level;
- the demand of industrial consumers;
- climatic conditions;
- ANRE regulated tariffs for transmission and system services;
- existing laws and regulations.

4.3. Main risks identified

Risk management is integral part of the Company's management and decision making processes, contributing to a higher degree of objective achievement by better planning taking into account the risks and by measures hedging and controlling the potential negative effects over the Company's financial performance owed

to the unpredictability of the economic and financial environment.

During the upgrading process of the *Risk Register* the level of risk exposure was observed to be the same as the previous year and the residual risks were generally kept at the same level compared to the previous assessment. The risks identified in previous years are kept under control accordingly. Several risks have been reformulated in the meaning of densification, in order to better match them with Transelectrica's objectives.

4.3.1.Technical and operational risks

The substantiation of technical risks or those resulting from non-compliance with existing procedures or systems, generated by the employees' behavior or by external events – including hazard, might negatively impact over the Company's activities, representing a hindrance in reaching the proposed results and also impacting the Company's financial situation:

- risks related to the NPS operation;
- malfunctions of the telecommunication systems, of monitoring, metering and operating platforms of the NPS;
- improper execution of preventive and corrective maintenance;
- malfunctions of the EMS/SCADA system;
- achievement below planned quantitative and qualitative levels of the Annual Investment Program.

4.3.2.Financial risks

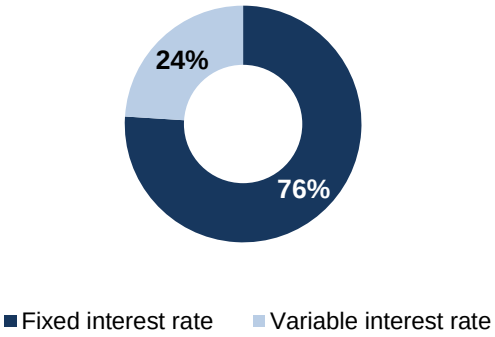
In terms of financial risk management, the risks faced by the Company with the most significant impacts over financial results come from the financial instruments: interest rate risk, currency risk, credit risk and liquidity risk. Another risk that might impact the Company's performance is associated to the provisions of financing agreements.
The main risks the Company can be faced with while carrying out its activities are summarized further:

4.3.2.1. Interest rate risk

The Company has concluded (short and long-term) credit agreement to finance investment programs and to sustain operational activities.

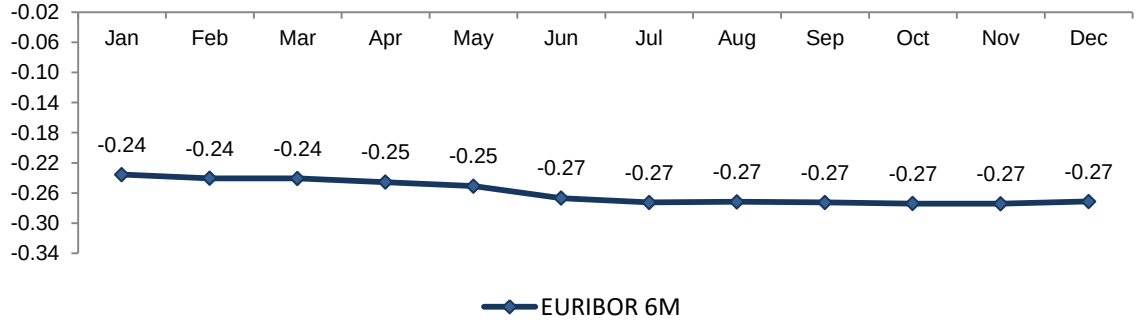
The variable component of the interest rate associated to the credits drawn by the Company can influence both the cash flows from operational activities and profitability, if the values of international indexes based on which the interest rate is calculated on are significantly modified.

Figure 8: Debt structure by types of interest as of December 31st, 2017



During 2017, the 6-month EURIBOR registered a historically minimum value reaching -0.22% (at the end of 2016) and -0.27% at the end of 2017.

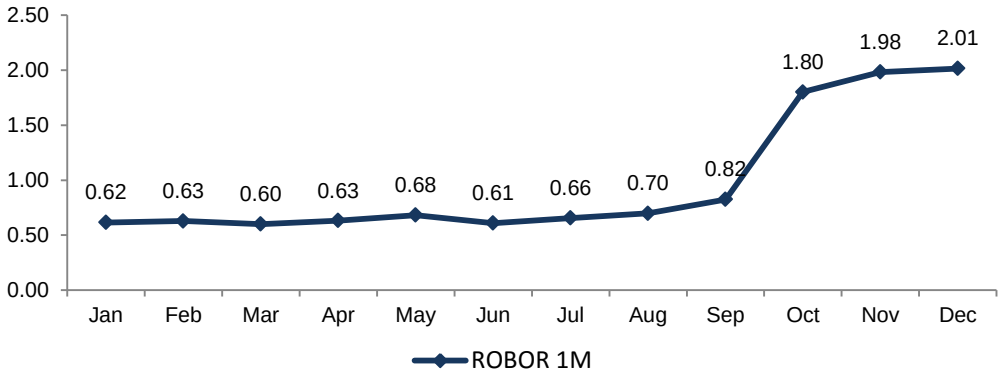
Figure 9: EURIBOR 6M (%)



On the national banking market, one-month ROBOR shows an ascending trend, accentuated in the last quarter of the year. This ascension occurred under the conditions of intensive containment of the structural liquidity surplus on the monetary market, under the simultaneous action of the main autonomous liquidity factors. A big importance was the change in the evolution of the lei account balance of the Treasury and the operations of non-residents on the local financial market. The increase of ROBOR is also caused by the exchange rate, which rose due to the fiscal policy instability. This determined the decrease of investors' trust, taking into consideration the context of depreciation of other regional currencies.

Figure 10: ROBOR 1M(%)

Figure 10: ROBOR 1M

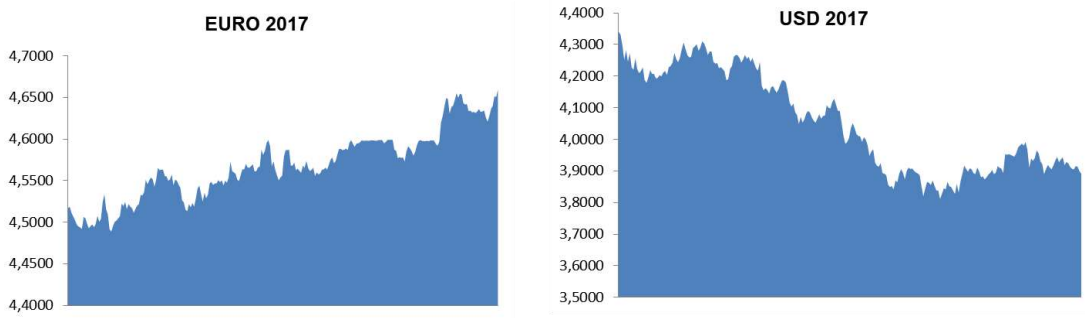


4.3.2.2. Exchange rate risk

The functional currency of the Company is the Romanian LEU. The Company is exposed to the exchange rate fluctuations caused by revaluating assets and liabilities denominated in another currency, but also by modifications in the interest and principal payments as a consequence of credits contracted in other currencies.

Throughout 2017, there were periods of higher volatility with time intervals of appreciation of the leu, followed by periods of unfavorable fluctuations against the background of external events. From the beginning of the year, the national currency depreciated against the euro by 2.98% and appreciated against the dollar by 7.58%.

Figure 11: Development of exchange rates



Consequently, in 2017 the revenues from exchange rates differences amounted to 11.43 mil lei, while expenses amounted to 18.66 mil lei.

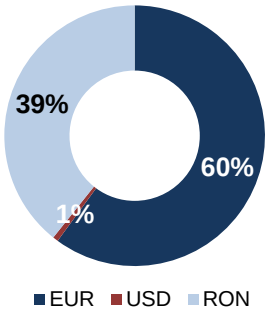
The general impact of these exchange rate differences is a 7.23 mil lei loss.

Table 5: Total exposure in the financial position statement

mil. lei	Total	RON	EUR	USD	JPY
December 31st, 2017 (mil lei equivalent)	509	200	306	3	509
December 31st, 2016 (mil lei equivalent)	636	200	425	11	636

In 2017, the bank debt decreased from 636 mil lei to 509 mil lei against the background of principal payments under contracted credits, as well as the Company's reduced indebtedness. Credits denominated in EUR remain further at a high level of 60% in the total credits, while credits in lei are situated at 39%, showing a 25% increase compared to last year.

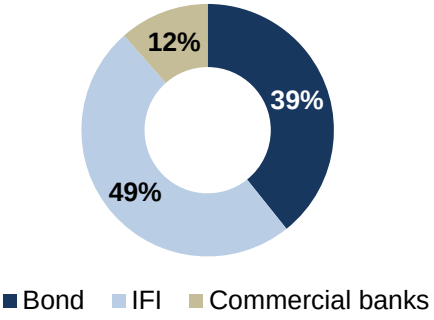
Figure 12: Debt structure by types of currency as of December 31st, 2017



4.3.2.3 Risk associated to the provisions from financing agreements

The Company concluded financing agreements with international financing institutions (IFI) and with commercial banks in order to finance investment projects and to support certain operational activities, as part of its business. Financing contracts include clauses with respect to: compliance with financial indicators, control changes in the Company, pari-passu type clauses, etc.

Figure 13: Debt structure by types of financial institutions as of December 31st, 2017



The potential breach of these clauses might entail, based on a preliminary notification and a reasonable amount of time, the anticipated credit payment as certain credits include penalty clauses in case of repayment in advance. To this date, the Company has received no advance repayment notification for breaching the obligations undertaken.

4.3.2.4 Liquidity risk

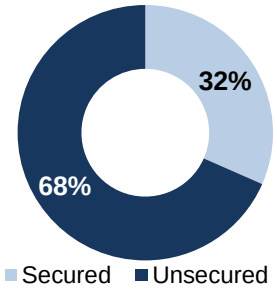
Due to the liquidity risk, the Company might be faced with difficulties when fulfilling the obligations associated to financial liabilities settled in cash or by transfer of other financial assets. The provisions from the Company's financing agreements can limit its financial and operational flexibility.

A cautious policy managing the liquidity risk implies preserving enough liquid resources in order to cover liabilities as they reach maturity, as well as to provide available financing by means of proper credit facilities.

The liquidity risk is diminished by the introduction of the Company's financing mix of unsecured instruments (unsecured corporate bonds and loans offered by international

financial institutions), which significantly reduce the dependence on the limitations and constraints of the banking environment and the need to secure commercial credits.

Figure 14: Debt structure by types of financial institutions as of December 31st, 2017



Another component of the liquidity risk comes from the opportunity cost of financial investments towards the liquidity excess that the Company might have at a certain moment. In this respect, the Company's management was permanently concerned with investing this excess liquidity in low risk but satisfactory return instruments. The average return obtained in 2016 corresponds to market conditions.

4.3.2.5 Credit risk

The is the risk by which the Company incurs a financial loss because of a contractual partner's incapacity or refusal (client or counterparty under a financial instrument) to carry out his contractual obligations. This risk results mainly from trade liabilities and cash and cash equivalents.

Managing the counterparty risk results from a systematic approach of the Company's management in the context of external factors influencing the risk reduction: decentralization of the energy sector where generation, transmission, distribution and supply are distinct activities, and the client interface is provided by the supplier; electricity is traded on two market segments in Romania: the regulated market and the competitive market.

The internal measures the Company applied in order to keep credit risk under control and reduce it include: diversifying the client portfolio, monitoring the clients creditworthiness, as well as insurance contractual measures.

The company has enforced a series of policies that ensure that the sale of services is performed towards customers with an appropriate creditworthiness or that their obligation to provide financial guarantees covering the default risk is included in their commercial contracts. The value of receivables, net of the adjustments for value losses and including guarantees, represents the maximum amount exposed at the risk of collection.

The risk of not collecting these receivables is relatively limited given the structure of the clients' portfolio, the monitoring of the receivables duly receipt and other measures taken in order to increase the collection degree, considering the contractual framework and the applicable ANRE regulations.

4.3.2.6 Risk of not collecting the amounts constituted as guarantee within the investment projects

In 2017, a new risk was identified as a result of the fact that some contractors can no longer continue to perform certain projects. This risk is substantiated by not collecting the amounts resulted from the enforcement of underlying guarantee instruments for guaranteeing the down payments received by the contractors within the investment projects.

The main cause for this type of risk results from the existence of several banking institutions or insurance companies which offer guarantee services without having the financial capacity to respect the obligations undertaken with the guarantee instruments issued.

The strategy adopted Company-wide is to claim damages from the contractor and to sue the company who issued the guarantee instrument and did not reimburse the Company for the amount requested by the enforcement of the guarantee instrument.

4.3.3 Strategic risks associated with the regulatory framework

The tariff (price) risk associated with the regulatory framework (including the volume risk) and the risks associated with the non-implementation of network codes within the deadline and in compliance with their provisions.

4.3.3.1 Tariff (price) risk associated with the regulatory framework

Taking into account the position of regulated natural monopoly, the price risk associated with the regulatory framework is an important factor which might influence the Company's activities, having a negative impact on the Company's operational results, financial position and perspectives.

The price risk also has a structural component, namely the manner to determine the tariff (the capacity to fully and quickly recover the costs) and a component regarding the transparency of regulatory acts, as well as the history of tariff setting decisions.

In the period between 2014 and 2017, a substantial improvement was noticed both in the recovery capacity of costs (in particular the own technological consumption) and of the transparency of regulatory acts (the tariff calculation mode and the communication between the Company and the regulator), with noticeable effects on the financial performance. Nevertheless, the regulatory risk is still maintained by the existence of a historical risk marked by unfavorable regulatory conditions and an insufficient degree of transparency in tariff setting.

The improved regulatory framework of the transmission tariff, mainly with regards to cost recovery, has been the main factor in the improvement of the Company's credit rating in 2017 (BBB as per releases of the Fitch rating agency, one step above the rating obtained by the Romanian Government).

4.3.3.2 Volume risk

The volume risk is an important component of the regulatory risk.

The current tariff-setting system is monomial (with only one billing component: energy) and thus generates a high exposure of revenues to the volume of power circulated in the network. When the cost base associated to the transmission activity is prevailingly fixed (variable costs represent ca. 20% from total recognized costs, the ca. 80% majority component being determined by fixed infrastructure costs: investments, maintenance), the discrepancy created between the cost base structure and the mechanism generating revenues may lead to large revenue deviations from the regulated income approved by ANRE *[note the substantial excess revenue registered in the first tariff year (2014-2015) of the current regulatory period (2014-2019) produced against the background of increased power quantity circulated in the network, circumstances which led to a proportional negative correction (>100 million lei representing >10% of the regulated revenue of transmission activities) and this impact in the tariff had to be subdued by spreading out the correction over the 4 years remaining from the regulatory period - by derogation from the tariff-setting methodology]*. Such deviations are corrected by means of ex-post tariff adjustments, thus a risk occurs of major fluctuations in the revenue from one year to another and such disturbance is further transmitted to the profit level (as the cost base is prevailingly fixed).

ANRE launched a project to simulate the effects of introducing the binomial tariff system (which provides two billing components: energy and power). This simulation is planned for 2017- 2018, while the binomial tariff-setting system is to become effective in 2019.

Throughout 2017, between January 1st and October 31st, the simulation was carried out according to ANRE Decision no. 71/2017 between the TSO and the distribution operators.

The tariff system considered for implementation provides the important benefit of correlation between the cost base structure (fixed vs. variable costs) and the structure of the mechanism generating revenues (fixed vs. variable revenues). The volume risk will be

substantially subdued by the implementation of the binomial tariff.

Risk control/mitigation measures: sound foundation, within the limits of the applicable methodology, of the requests to include in the tariff certain cost levels sufficient to cover costs necessary for regulated activities; rapid response to ANRE proposals in order to amend the existing regulatory framework by analyzing the impact of their implementation over the Company and proposing adjustments as required with a view to protect Company interests.

4.3.4 Network codes implementation risk

Taking into account the novelty and complexity of the Company-wide implementation of provisions from European Regulations on networks codes, the implementation risk provides a component related to the failure to comply with certain set dates and another component related to noncompliant implementation of certain provisions of these network codes.

This risk may be substantiated in unfavorable reports from ENTSO-E and ACER with respect to the Company's implementation of certain provisions from network codes. Later on, depending on the seriousness of such nonconformity and the lack of proper feedback, the European Commission may initiate infringement actions which may translate into penalties of 10% from the Company's turnover.

4.3.5 Risks associated with the unpredictability of Energy Markets

- the price risk owed to the energy market might lead to cost rises associated to OTC.
- counterparty risk - the risk of not collecting receivables (a client's incapacity or refusal to carry out its contractual obligations);
- forecast risk - a hazard risk related to external events (sudden changes in the atmospheric conditions or in PTG circumstances), thus determining the increase of OTC.

4.3.6 Legality risks resulting from changes in the legal, political, regulatory framework, the social environment or the Company's internal policies

- failure to comply with legal conditions, fraud risk;
- lack of defense of the Company's legitimate rights and interests;
- distortion: failure to notify about noncompliance with legality;
- risks associated to licenses, contractual risks, including fines from authorities or compensating payments;
- disputes;
- improper execution of user connection processes to public electricity grids;
- failure to comply with the regulatory or contractual terms, mainly determined by difficulties to obtain rights over land plots.

4.3.7 Security risks

- risks associated with the security and protection of ICN/ICE critical infrastructures;
- deficiencies in the management of emergency situations and in the administration, application, update and testing of the Emergency response under the Business Continuity Plan;
- risks associated with the security of classified information: improper access and movement in the Company's security areas;

4.3.8 Personnel risks

- deficiencies in hiring activities, the relations with the Social Partner, the administration, compensation and provisions of benefits, professional training and development;
- impacts over the health condition and security of personnel;
- strikes or other forms of interruption of activities;
- failure to complete, in full or in part, the Annual program for professional training.

4.3.9 Environmental protection risks

- environmental pollution;
- improper waste management.

Human resources

5.1 Personnel structure

Throughout recent years, the personnel structure maintained constant in terms of average number of employees. In accordance with its operational license, Transelectrica does not usually hire temporary employees. The operation of electric substations of the PTG and the provision of dispatch services of the NPS are performed by operational personnel organized under working hours with permanent shifts.

Throughout 2017, a total of 75 persons were hired to replace the personnel leaving the Company by joint parties' agreement and retirement.

Table 6: Average number of employees with individual labor contract of indefinite period

Year/indicator	2017	2016	2015
Average number Employees	2,180	2,180	2,180

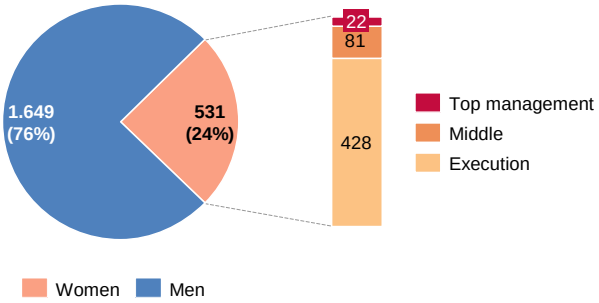
The number of employees with higher education is slightly decreasing compared to the previous period (-3% compared to 2016). In the current year, the share of personnel with higher education represents 60% of the total number of employees, and 40% are personnel with secondary education, generally with an electric power profile.

Table 7: Structure of personnel by education level

Education level	2017	2016	2015
Higher education	1,308	1,317	1,283
Secondary education	872	863	893
Elementary education	0	0	4
TOTAL	**2,180**	**2,180**	**2,180**

Analyzing the employee structure by gender, we can see that three quarters of the total number of employees are represented by men. Out of the 531 women that worked in Transelectrica as of December 31st, 2017, 22 hold positions of top management and 81 are in middle management, together covering 19% of the feminine gender personnel.

Figure 15: Structure of personnel by gender



The personnel aged over 40 further represent more than half of the total employees, the registered share being 56% between 2015 and 2017.

47 years old

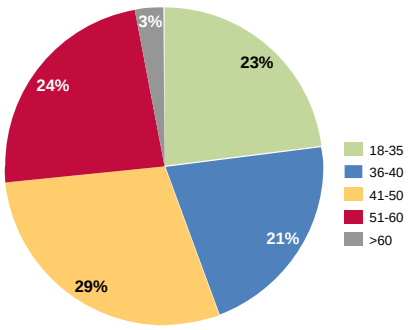
Average age in 2017

During the same period, the percentage of employees aged between 18 and 35 remained constant compared to the previous year

Table 8: Structure of employees by age categories

Age [years]	2017	2016	2015
18-35	502	502	526
36-40	466	468	441
41-50	628	624	585
51-60	516	518	554
>60	68	68	74
TOTAL	**2,180**	**2,180**	**2,180**

Figure 16: Structure of personnel by age



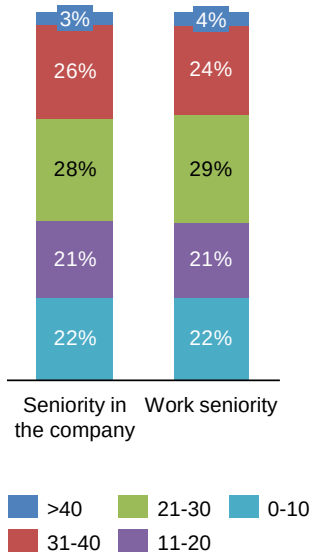
Taking into consideration the activities of strategic interest performed by the Company, most of the employees have between 21 and

40 years seniority, being experienced employees that bring added value to Transelectrica's entities.

Table 9: Structure of employees by work seniority

Work seniority [years]	2017	2016	2015
0-10	485	487	484
11-20	450	451	446
21-30	634	635	639
31-40	524	525	524
>40	87	82	87
TOTAL	**2,180**	**2,180**	**2,180**

Figure 17: Number of employees by seniority groups



As far as Company activities are concerned, more than half of the employees have over 20 years' seniority, and those with over 30 years' seniority represent 29%.

Table 10: Structure of employees by their seniority in the Company

Seniority in Transelectrica [years]	2017	2016	2015
0-10	488	488	472
11-20	451	453	453
21-30	614	616	616
31-40	557	558	563
>40	70	65	76
TOTAL	**2,180**	**2,180**	**2,180**

Table 11:Structure of personnel by categories

Staff categories	Number of employees
Operative and operational personnel (standardized activity), of whom:	
NPD	182
Operational personnel in transformer substations, remote control and operational centers	978
Admission-reception personnel	117
OMEPA personnel directly involved in production activities – operational centers, solving non-conformities, tele-metering systems, relations with market participants	41
Personnel directly involved in organizing and monitoring the operations of substations	415
Personnel for support activities and executive management	**447**
TOTAL	**2,180**

The operative and operational domain has the greatest share within personnel categories, namely 79%. The greatest concentration of these is provided by operational employees, with 56%.

5.2 Professional training

Professional training activities of CNTEE Transelectrica SA employees carried out in 2017 according to the "Annual professional upkeep, training and improvement program of Company employees". The professional training program was structured as a result of the identification of necessary training in order to maintain an adequate training level of employees with a view to increase their performances and those of the organization overall. Therefore, the professional training programs have been adapted to the Company's needs and the theme was in accordance with the legislative changes or novelties occurred in the main interest fields of CNTEE Transelectrica SA.

In 2017, the Company registered ca. 641 attendances to professional training classes carried out by external trainers and ca. 351 attendances to internal training classes (for the operational staff, heads of substations etc.).

The majority of attendances to classes organized throughout 2017 was in the technical field, with an attendance of ca. 63%

to technical classes carried out with external trainers. The Company also envisaged the need to train employees according to the changes required by the enforcement of norms on sectoral public procurements, the novelties occurred in the field of human resources, the development of the energy market, but also the need of authorization/reauthorization for certain employee categories or the training of internal auditors.

The objective of these training programs was to increase the level of expertise necessary to carry out the activity of Transmission and System Operator, by ensuring the NPS operation under maximum security and stability conditions, complying with quality standards and thus realizing the electricity national market infrastructure and guaranteeing the regulated access to the electricity transmission grid, under transparent, non-discriminatory and equidistant conditions for all market participants.

The professional training activity was carried out according to the applicable legal regulations and the particularities and complexity of activities and processes within the Company, in order to obtain a high quality standard of personnel training.

The table below provides the costs associated to the attendance at training courses with external training providers and the number thereof.

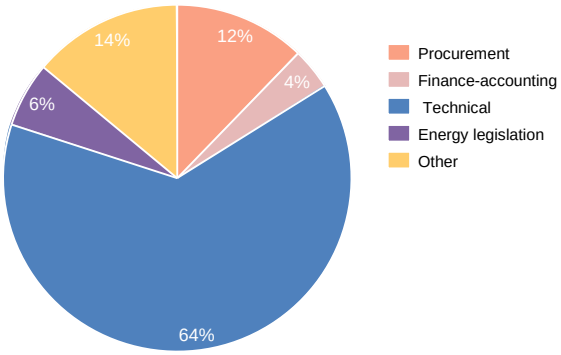
Table 12: External professional training courses and expenses with the trainer

Indicator/Year	2017	2016	2015
Number of participants	522	270	651
Number of attendances	641	413	988
Expenses (mil lei)	0.29	0.20	0.68

Particular attention was paid to training programs dedicated to operative and operational personnel, and the organized activities aimed at permanent training and improvement in fields that require a continuous adaptation to economic and technological changes, improved professional performance on the job and acquiring new abilities as necessary for the operational processes of new power equipment and systems.

In terms of the number of attendances to the programs organized with external training providers, the greatest share was registered in the technical area, namely 64% of total Company-wide attendances.

Figure 18: Distribution of course attendances by field



5.3 Trade union representation

Company employees are affiliated to the Trade Union of Transelectrica, which is part of the National Federation of Electricity Trade Unions UNIVERS, in its turn affiliated to the National Union Block (NUB). Currently, more than 90% of all employees pay the monthly subscription to the trade union.

A collective labor agreement was concluded between Transelectrica and its employees, valid until December 31st, 2018; it regulates the individual and collective employment relationships as well as the parties' rights and obligations with respect to:

- concluding, executing, amending, suspending and terminating the employment relationship;
- working time and resting time;
- wages;
- labor health and security, working conditions;
- professional training;

- social protection of employees and other rights;
- rights and obligations ensuing from employment relationships;
- mutual recognition, employer's rights and obligations and those of trade union organizations.

In order to settle the issues that might occur in the application of the applicable Collective Labor Agreement ("CLA"), to avoid employment conflicts and to create an organizational framework that allows keeping permanently in touch for the preparation of CLA negotiations, the parties negotiated to meet at any time needed in the joint Commission employer - Trade Union. The joint commission operates in accordance with its own regulation.

5.4 Research and development activities

With a view to provide NPS operation under maximum safety and stability conditions according to the quality standards specified in the transmission license, the Company needs research, support studies and consultancy to ground the decisions and to implement new technologies similar to what is found worldwide and/or specific to the Romanian power system.

Transelectrica annually finances its own study and research programs. For 2017, the allocated funds were between 0.1 and 0.2% of the Company's turnover (the range 2-5% is practiced by similar international companies).

Studies approved within the Company which are included in the Annual Program for Studies and Research 2017 (APSR 2017) are well grounded and necessary for the completion of the following objectives:

- fulfilling the requirements associated with the regulatory framework (e.g. ANRE License no. 161, Law no. 123/2015 on electricity and natural gas, Technical Codes, regulatory framework associated with the TSO etc.).
- grounding the Company's decisions pertaining to:
- PTG development (PTG development plan 2018-2027), management of PTG assets:
    - operational behavior of PTG equipment and installations;
    - extending the lifetime of or replacing assets;
    - improving the grounding of long-term investment decisions (e.g. Cost-benefit methodologies and analyses);
    - increasing the efficiency of maintenance works;
    - technical support;
- NPS and PTG dispatch management under efficiency and safety conditions;
- Detailed and global analysis of expenditures associated with fulfilling the TSO role;
- Knowledge and implementation of methodologies, standards and good practice elements for increasing the efficiency of the Company's strategic development vision;
- Analysis of the work conditions of the TEL personnel involved in the PTG operation.

The need to promote APSR 2018 works was carefully analyzed in terms of obligations occurred through the fulfillment of the licensed TSO role and of opportunities for improving the decisions related to operationalization of the Company's vision in terms of system operation and asset management.

Works carried out via the Annual Program for Studies and Research 2017, which registered expenses amounted to 760,566 lei, are annually reported to ANRE:

In the draft Statement of Expenditure and Revenue for 2018, the amount submitted for approval to the Directorate was of 1.5 mil lei.

6 Perspectives and challenges

The perspective of the following years is characterized by an European context marked by significant investment and institutional efforts in order to continue the cross-European integration of energy markets. Safe consumer supply, diversified energy sources, increased economic competitiveness, affordability of the energy price, the fight against climatic changes and energy efficiency remain the main issues on the European energy agenda.

In this complex configuration including a very wide range of stakeholders (European and national institutions, direct participants on the energy markets from the generation, supply, consumption side), the role of electricity transmission grids in reaching the aforementioned desiderata is of major importance.

An efficient European electricity market depends, among others, on the capacity of national power systems to host new energy flows under safe operational conditions and low prices. Such flows are piloted by a market characterized by extreme dynamics and increasing cross-border integration.

At the national level, the objectives and actions of Transelectrica will be aligned to Romania's energy strategy, which for the time being is under wide review, and will sustain and facilitate its implementation.

The aforementioned context is focusing Transelectrica's concerns and efforts in order to consolidate the safe electricity supply of domestic consumers and to actively participate in the integration process of the single electricity market at European level.

In addition, we mention the following group-wide directions: optimizing and increasing the efficiency of the administrative capacity, further implementation of the corporate governance principles, investigating the development opportunities for the business portfolio.

Consolidating the safe electricity supply of domestic consumers and increasing the energy efficiency of the transmission grid

- Refurbishing the Power Transmission Grid (PTG) - Transelectrica aims at expediting the upgrade and refurbishment process of the entire equipment and installation pool from transformer substations and to modernize the dispatch systems it currently operates.
- Over the next 10 years (a timeframe covered by the 2018-2027 edition of the PTG development plan - a document subject to public consultation and ANRE approval in the following months), Transelectrica aims to operate an equipment and installation pool with a high degree of reliability and energy efficiency. The advantages of a modern and highly reliable equipment pool are increasing the transmission service capacity (grid availability, interruptions frequency and duration) and lowering the grid operation and maintenance costs (operation, maintenance and internal energy consumption);
- Continuing the investments with a view to complete the 400 kV national ring, which will increase the nation-wide safe consumption supply, especially in areas characterized by an important local deficit of electricity generation, namely the areas where electricity consumption is only partially supplied by the power plants located in those areas (Transylvania, Moldova); the deficit of these regions is covered by electricity transmission over great distances from areas of excess generation;
- Increasing the PTG transmission capacity in order to integrate the electricity generation in conventional and/or renewable power plants, estimated to be built in areas that currently are or in the near future tend to become excess zones compared to the local electricity demand;

Developing the single electricity market at European Union level (active support for the integration of the single electricity market)

- Expediting the investment projects into Romania's transmission infrastructure with the highest European relevance (projects declared of common interest in the EU electricity transmission sector), mainly oriented towards increasing Romania's cross-border interconnection capacity with the power systems of neighboring countries;
- Participating into the inter-regional integration processes of electricity markets in all time horizons specific to electricity trading (spot market, day-ahead market, intra-day market, real time balancing market between electricity output and consumption);
- Active participation to the European standardization process of network access via grid codes, the operation of electricity grids as well as the calculation and allocation of cross-border exchange capacity and balancing energy systems - grid codes represent common rules established at European level and applied in all European states, developed with a view to enable the uniform and efficient operation of the electricity market to the general benefit of European consumers; grid codes are developed in the European Network of Transmission System Operators (ENTSO-E) according to the priority areas determined by the European Commission (EC) and based on the framework guidelines issued by the Agency for the Cooperation of Energy Regulators (ACER);

At the beginning of 2018, all eight grid codes were approved by EU Regulations. EU Regulations cover three main fields of the electricity sector: grid connection, market functioning and power systems operation. In terms of the regulations in the field of market functioning, Romania is part of two cross-border exchange capacity calculation regions (the Romania-Hungary border in the CORE region[5], the Romania-Bulgaria border in the SEE region[6]).

Within the CORE region, Transelectrica aims to get actively involved in the governance and decision making mechanisms at regional level by entering the shareholding of the existing regional security center.

Exploring the business growth potential by extending the current portfolio

- Grid regulation operations in foreign energy sectors: analyzing potential procurements of share packages in other similar companies or concluding partnerships with local operators in the form of independent commercial entities for the construction and operation of electricity grids;

[5] The CORE region comprises of a series of borders which mark market areas in which electricity trading is carried out via a transmission capacity allocation process (according to the ACER Decision no. 6/2016)

[6] The SEE region comprises of a series of borders which mark market areas in which electricity trading is carried out via a transmission capacity allocation process (according to the ACER Decision no. 6/2016)

Transelectrica®

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Operational Report

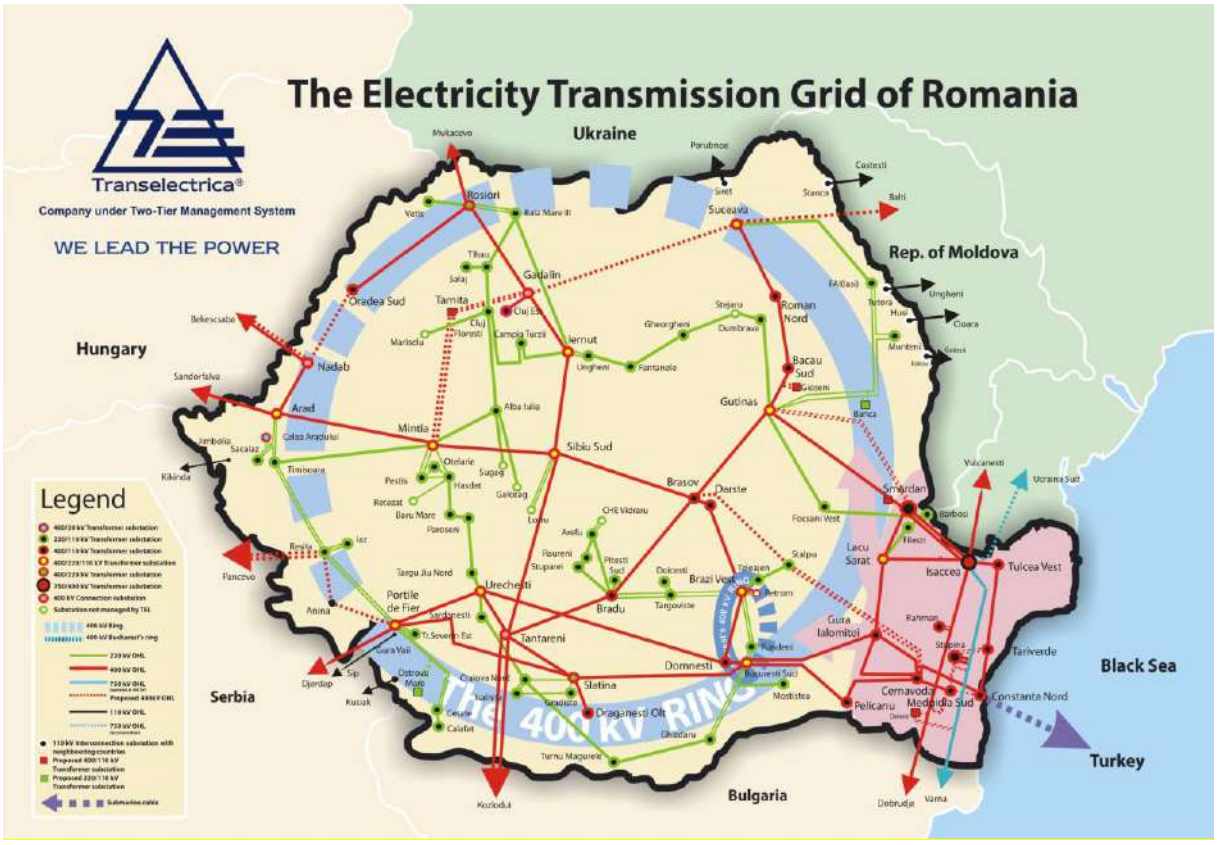
7 Operational data

7.1 Network configuration

The power transmission grid ("PTG") is an electric network of national strategic interest of nominal line voltage above 110 kV and it consists of all lines plus their support, control and protection elements, electric substations as well as interconnected electric power equipment.

The PTG provides interconnection between producers, distribution networks, large consumers and the neighboring power systems.

Figure 19: The Power Transmission Grid



A good part of overhead lines ("OHL") and of the electric transformer substations constituting the PTG was built between 1960 and 1970, with the technologies of that time.

The power capacities quantity, in accordance with the license for provision of electricity transmission services and system services, is presented in the following table:

Table 13: Power capacities quantity

Voltage (kV)	Substations (no.)	Installed capacity (MVA)	OHL (km)
400	38	21,435	4,915.227
220	42	14,123	3,875.644
750	1	2,500	3.108
110	-	-	40.418
Total	**81**	**38,289**	**8.834.397**

The Company aims at maintaining the quality of the transmission and system services under economic efficiency conditions, as well as the operational safety of the national power system, in accordance with the applicable regulations and the standards jointly undertaken at European level.

The investments made to date allowed maintaining, under proper conditions, the dispatch managed infrastructure and the electricity market infrastructure: the national optical fiber network, the EMS-SCADA monitoring and management system, the metering system of the electricity amounts traded on the wholesale market, IT trading and settlement platforms. The modernization program of the entire network is underway, in accordance with the highest European standards using upgrade and refurbishment works for the most important electric substations of the PTG, as well as developing the transmission capacity over interconnection lines.

Under the new 10 years' development plan of the Power Transmission Grid (2016-2025), submitted for ANRE approval in 2016, the Company intends to include 40 transformer substations in refurbishment processes during the next 10 years, so that at the end of 2025 Transelectrica will operate an equipment pool brought up to date in technological terms, with a high degree of reliability and energy efficiency.

7.2 Selected operational data

The energy balance of the NPS

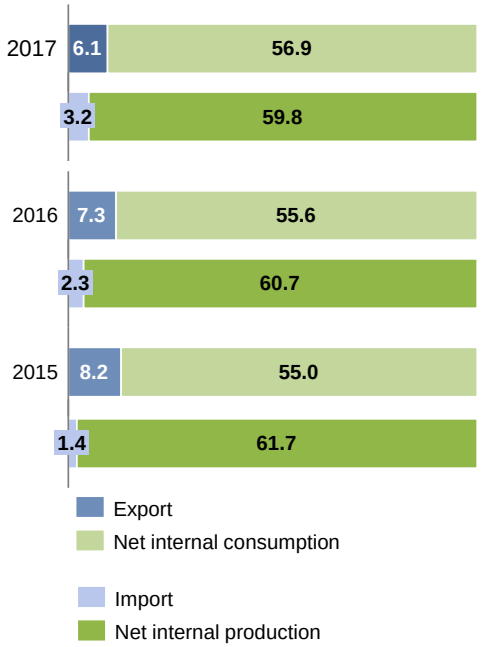
Table 14: Energy balance

TWh	2017	2016	2015
Net output	59.8	60.7	61.7
Import	3.2	2.3	1.4
Export	6.1	7.3	8.2
Net load*	56.9	55.6	55.0

** Values do not include the consumption of auxiliary services from the power plants generating electricity;*

The value of the net load includes the losses from transmission and distribution networks, as well as the consumption of pumps from the pumping storage hydropower substations.

Figure 20: Energy Balance (TWh)



In 2017, the net internal consumption[7] increased by 2.3% compared to the similar period of the previous year against the background of a ca. 1.4% decrease of the net electricity generation compared to the similar period of 2016.

The physical cross-border exchanges for export decreased by 16.7% compared to the similar period of 2015, while the cross-border flows for import registered an increase of ca. 39.3%.

National generation units pool

In 2017, the gross capacity installed in power plants registered a 0.1% decrease compared to the same period of 2016.

The capacity installed in renewable energy power plants rose by approximately 0.2%, from 4,525 MW installed on December 31st, 2016, to 4,535 MW installed on December 31st, 2017.

[7] *Values do not include the consumption of auxiliary services from the power plants generating electricity; the value of the net load includes the losses from transmission and distribution grids, as well as the consumption of pumps from the pumping storage hydropower substations.*

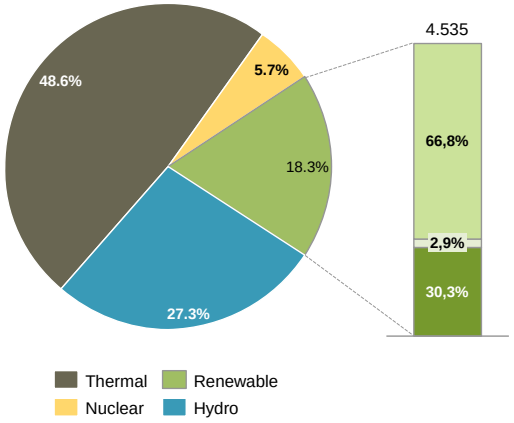
Table 15: Installed capacity (gross values)

MW	2017*	2016	2015
Thermal[8]	12,029	12,032	12,011
Nuclear	1,413	1,413	1,413
Hydro	6,761	6,744	6,731
Renewable[9]	4,535	4,525	4,400
Total	24,738	24,714	24,555

** Values registered on January 1st, 2018*

The structure of the generation pool for 2017 is presented below:

Figure 21: Installed capacity in 2017 (24.738 gross value)



Mix of electricity generation

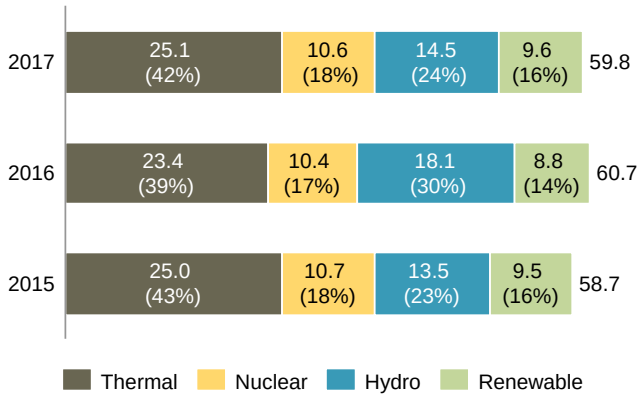
In 2017 compared to 2016 the Company registered an increase of the thermal and renewable components. The weight of the hydro component registered decreases (14.5 TWh compared to 18.1 TWh in 2016). Structurally, the thermal component accounted for 42% of the generation mix, while the nuclear and renewable generation accounted for 18% and 16% respectively.

Table 16: Mix of net electricity output

TWh	2017	2016	2015
Thermal[10]	25.1	23.4	25.0
Nuclear	10.6	10.4	10.7
Hydro	14.5	18.1	16.5
Renewable[11]	9.6	8.8	9.5
Total	59.8	60.7	61.7

[8] Hydrocarbons and coal
[9] Wind, biomass, solar
[10] Hydrocarbons and coal
[11] Wind, biomass, solar

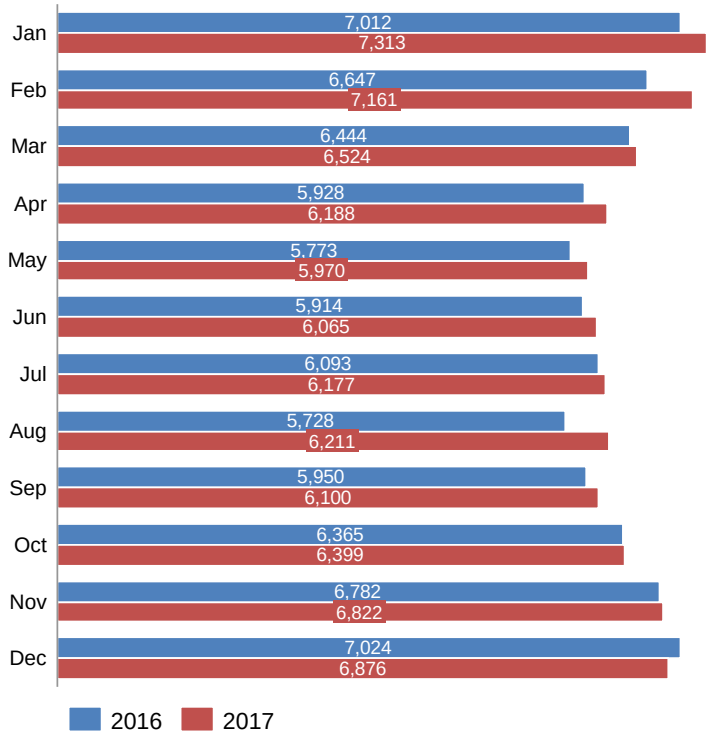
Figure 22: Generation mix 2015 – 2017 (TWh)



Net load

Each month, the net average load of electricity in 2017 registered increasing trends compared to 2016.

Figure 23: Net average load (MWh/h)



The net maximum hourly load corresponding to 2017 was registered in January, with the same trend of last years when the maximum values were registered during winter months.

Figure 24: Net maximum hourly load (MWh/h)

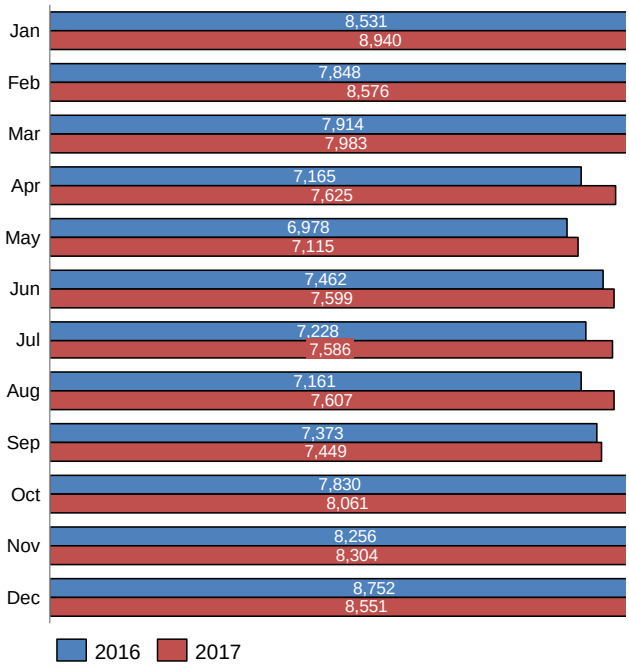


Table 17: Maximum load

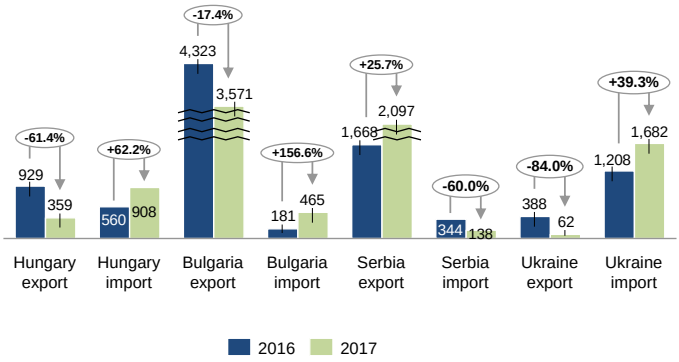
Year	Month	Value *(MWh/h)*
2017	Jan	8,940
2016	Dec	8,752
2015	Jan	8,488

Commercial electricity exchanges

The development of commercial exchanges with neighboring countries is mainly influenced by the development of prices on the European electricity markets, but also by the availability of generation capacities and the value of net cross-border exchange capacities.

In 2017, the trend registered during previous years was maintained with a net export of 2.9 TWh, decreasing compared to 2016 (5 TWh).

Figure 25: Cross-border flows 2017 (GWh)



In 2017, the cross-border flows registered fluctuating developments along borders with Bulgaria, Serbia, Hungary and Ukraine.

- compared to 2016, the physical export flows decreased along the border with Bulgaria (-17%, -752 GWh), Hungary (-61%, -570 GWh) and Ukraine (-84%, 326 GWh), while a +26% increase was registered along the border with Serbia (+429 GWh)
- in terms of import, the Company registered increases along the border with Hungary (+62%, +348 GWh), Bulgaria (+157%, +284 GWh) and Ukraine (+39%, +474 GWh), while a 60% decrease was registered along the border with Serbia (-206 GWh).

Usage of the total allocated capacity

Throughout 2017, out of the total capacity allocated as a result of interconnection capacity auctions (as a result of annual, monthly, daily and intraday allocations), the degree of usage for export was lower compared to 2016. The average export values registered were 54% along the border with Hungary, 76% along the border with Serbia and ca. 30% along the border with Bulgaria. Developments registered in 2015 have been influenced by the day-ahead market coupling in Romania, Hungary, the Czech Republic and Slovakia. At the end of 2014 the explicit daily allocation was replaced by the implicit allocation on the Romania – Hungary border. The introduction of the coupling mechanism did not impact the method to determine, harmonize and offer the available capacity on the borders.

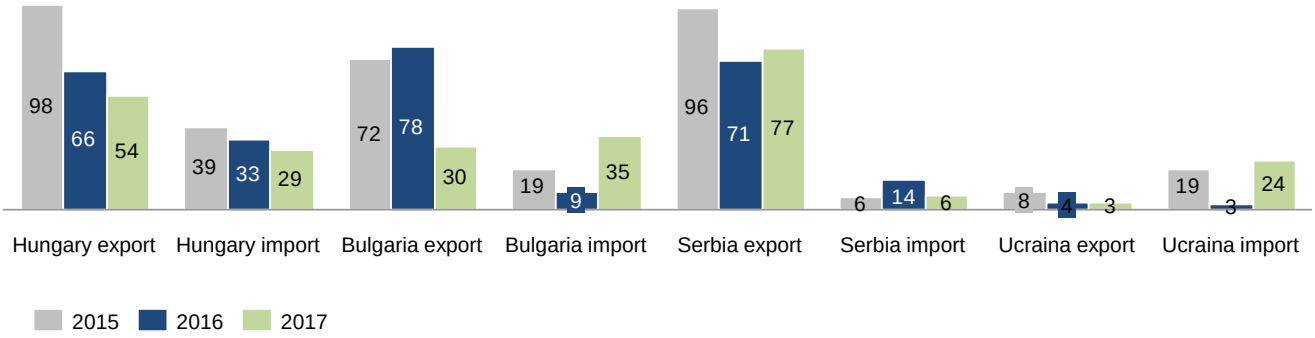
Given the higher interest of electricity suppliers to use the cross-border export capacities to Hungary gained in the annual and monthly auctions, low values resulted for the available capacity for daily allocations on the export direction to Hungary, while a high capacity was freed for import from Hungary using the clearing mechanism.

Table 18: Cross-border interconnections (usage of the total allocated capacity, %)

Border	Direction	2017 [%]	2016 [%]	2015 [%]
Hungary	export	54.4	65.8	98.1
	import	28.8	33.3	38.5
Bulgaria	export	29.9	77.6	72.4
	import	34.9	8.6	18.7
Serbia	export	77.5	71.1	96.1
	import	6.3	14.0	5.8
Ukraine	export	3.4	3.6	8.0
	import	23.9	2.6	18.8

The values presented in the table represent annual averages calculated as simple arithmetical averages of the average monthly values

Figure 26: Degree of usage of the total allocated capacity (%)



Development of own technological consumption recorded in the power transmission grid

The development of the own technological consumption ("OTC") in the PTG is influenced by several factors independent from Transelectrica's activities, such as: meteorological conditions, output structure vs. load location, physical import/export flows along NPS borders. The lowest values (compared to the energy contour input) are registered in droughty years, given that the low level of the hydro component determines the usage of primarily gas fired electric power plants and thus a better structure is obtained for generation, while Corona losses are reduced.

Table 19: OTC development

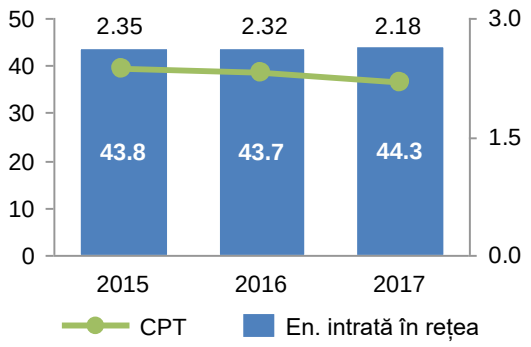
		2017	2016	2015
Energy input in the grid	GWh	44,337	43,674	43,758
Losses	GWh	965	1,012	1,030
OTC	%	2.18%	2.32%	2.35%

Factors that determined the OTC development (%) in 2017 compared to the previous year

In 2017, the quantity necessary to cover the OTC in the PTG (965 TWh) dropped by ca. 4.68% compared to the same period of 2016 (1,120 TWh), being a mixture of better meteorological conditions, physical import/export flows and the output structure.

Compared to the energy contour input, losses slightly decreased from 2.32% in 2016 to 2.18% in 2017.

Figure 27: OTC developtment (2015 – 2017)



Monthly OTC development in 2017

Maximum level – March:

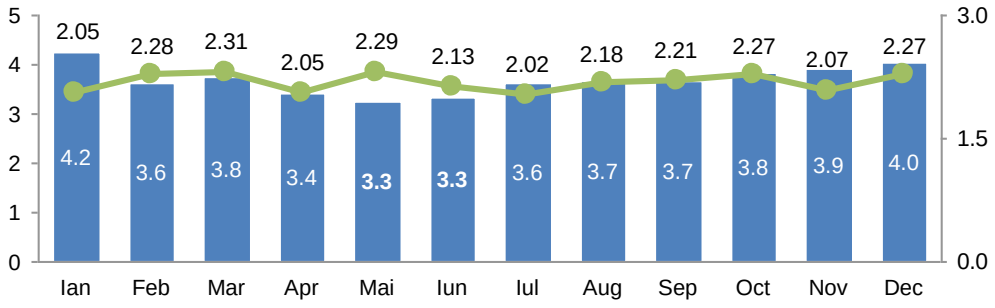
In March, the OTC has recorded its maximum value of 2.31%.
The low amount of energy contour input directly contributed to a higher OTC percentage.
The OTC development in the first part of the year was influenced by the more favourable meteorological conditions, more advantageous generation flows and structure and lower quantities of rainfall.

Minimum level – July:

On a monthly level and compared to the PTG input energy, the minimum OTC value was in July, namely with 2.02% (72.864 GWh). The decisive factor for the small amount of losses was represented by the more advantageous re-emergence of physical flows on the borders, which led to the reduction of the transmission of remote energy.

In absolute values, there have been three months with low, approximately equal values: April (70.141 GWh, namely 2.05% of the electricity input in the PTG), June (70.460 GWh, namely 2.13 % of the electricity input in the PTG) and July (72.864 GWh, namely 2.02% of the electricity input in the PTG). In April, the decisive factor for the losses decrease was represented by the more advantageous re-emergence of generation, which led to the reduction of the transmission of remote energy. In June, the losses decrease was favoured by the advantageous physical flows and meteorological conditions which led to the decrease in Corona losses. In July, the small amount of losses were the result of the decrease in PTG energy contour input and the advantageous re-emergence of physical flows on the borders, which led to the reduction of the transmission of remote energy.

Figure 28: OTC monthly development in 2017



8 PTG development

Expediting investments is the top priority for the Board of Supervisors and Directorate members, being motivated by the very financial circuit determining financial performance in accordance with the ANRE approved tariff-setting methodology and applicable to the Company, which determines provision of financing sources for operational and investment activities.

PTG development plan – 2016-2025 timeframe

The "PTG development plan for 2016-2025" ("PTG Plan") approved by ANRE relied on analyses on PTG operational regimes in future years, based on mid- and long-term scenarios about consumption development, generation units pool and exchanges with neighboring systems.

To determine the needs of grid enhancement during the time horizon of the PTG development plan, the actual balancing possibilities of the output-consumption balance were taken into account, as well as the assumption that regulations will provide correlation between the promotion system and the national strategic objectives, so that the total installed capacity in wind and photovoltaic plants can be brought to a level close to the one required in order to provide an efficient and sustainable development.

Through their specific features, PTG infrastructure projects need a higher period of preparation and completion, therefore results become tangible only after a certain number of years.

Experience shows the usual complete cycle of an investment project (starting with the initial design stage, elaborating the feasibility study, the terms of reference and technical project, up to project execution and commissioning) in order to carry out/refurbish one electric substation takes 5 years on average, while building a new electric line requires 9 years.

The generation park in the Dobrogea region has shown a rapid development. Many wind and photovoltaic power parks were built. There are also plans for two more nuclear units in NPP Cenavoda. Consequently, there is a need for the consolidation of the internal network segment providing power transmission to the consumption and storage centers situated in the west and northern parts of the region. Starting from an output of ca. 3,000 MW from new parks in Dobrogea (regardless of the source used - WPP, PHPP, NPP Cernavoda, TPP Braila, TPP Galati), the need occurred to enhance the network capability to discharge the power. Depending on the exact location of plant projects that will be built and on the distribution manner of plant loads in the remaining parts of the NPS, this need can occur for a value of 2,500 MW/3,500 MW.

Network development should take into account solutions that enable eliminating the congestions along the main directions of power flows between generation centers in the eastern part of the country and the western consumption and storage centers, which correspond to the following transmission corridors:

- N-S corridor interconnecting Dobrogea and Moldova;
- E-W/S corridor interconnecting Dobrogea and Bucharest + limit area/south of the continent;
- E-W corridor interconnecting Moldova and NPS to the west.

Developing generation capacities based on renewable sources leads to intensified exchanges between systems and increasingly fluctuating power flows across vast regions. The experience of last years and the forecast of the following period indicates a high demand of Romania's network at the borders with Serbia and Hungary, both for exchanges between the NPS and these systems and for the transit crossing the NPS network. Increasing the exchange capacity at the western interface

of the system is required in order to provide the infrastructure necessary for electricity exchanges in the region. Projects increasing the interconnection capacity with the Republic of Moldova are under review as well, therefore the volume of power exchanges currently carried out by means of radially connected consumption/output islands, with very limited values, can increase to significantly greater values.

Enhancing Romania's interconnection capacity will facilitate the export of generated energy in certain time intervals by wind and photovoltaic plants of the NPS which exceed domestic demand. Also, an additional transmission capacity will be placed at the disposal of market participants in order to export the output available in thermal power plants competitive on the energy market or to import cheaper energy available on the market during certain hourly intervals.

The steady-state regime and steady-state stability reviews showed the monitored sections S4 (supply section of the N-W Transylvania region) and S5 (supply section of the Moldova region) present a high risk of operation close to the maximum admissible power in the section, both in the mid- and in the long-term, thus proving the need to enhance each one of these sections. To this effect, enhancing the power transmission grid by completing the 400 kV ring between the north-eastern and north-western parts of the NPS is beneficial with respect to increasing power reserves of steady-state stability both for sections S4 & S5 and for section S3 (common transmission section Dobrogea+Moldova and the remaining NPS). Several areas were also identified where local safety problems of consumption supply are estimated and additional injection capacities should be installed from the 400 kV network towards the lower voltage network (Iernut, Sibiu).

Projects included in the PTG development plan – 2016-2025 timeframe

In accordance with the competencies and attributions established in the Electricity and Natural Gas Act no. 123/2012 and with the Conditions associated to License no. 161 for electricity transmission and provision of system services, the National Power Grid Company "Transelectrica" SA plans the development of the power transmission grid, taking into account the current stage and the forecasted development of consumption, the generation units pool and the electricity exchanges, and biannually drafts a Development plan for the next ten successive years.

The latest approved edition of the Ten years' development plan refers to the 2016-2025 timeframe. This was approved by ANRE under Decision no. 1251/2016 and by the Ministry of Economy under Agreement no. 4953/C6B/2016.

The PTG Development Plan represents a highly important document for the Company's activity which identifies and proposes the development and modernization projects for the power transmission grid in the following ten years, in correlation with the forecasted development of electricity consumption, while observing the applicable technical norms.

The main objectives which, when achieved, lead to the need to develop the PTG are:

- Increasing the interconnection capacity with other systems;
- Increasing the transmission capacity between the eastern part (Dobrogea) and the rest of the interconnected NPS;
- Safe consumption supply from deficit areas at standardized quality and safety parameters;
- Refurbishment and upgrade of existing substations.

The following main projects were identified and the adequacy of the following PTG developments was verified, for which the completion terms took into account the time necessary to carry out the investments:

Increasing the cross-border interconnection capacity

Increasing the exchange capacity along Romania's western interface is planned for the following network developments:

PCI "Romania–Serbia Group, between Resita and Panchevo", also known as "Mid Continental East corridor", which includes the following projects of common interest:

- Resita (RO) – Panchevo (Serbia) 400 kV OHL d.c. (at the date of the report, the line was received and will be operational by the end of 2018);
- Portile de Fier – Resita 400 kV OHL and extending the Resita 220/110 kV substation by building a new 400 kV substation;
- Converting the Resita – Timisoara – Sacalaz – Arad 220 kV OHL d.c. to 400 kV, including the construction of the Timisoara and Sacalaz 400 kV substations.

Increased transmission capacity between the eastern region (especially Dobrogea) and the rest of the interconnected power system, and system integration of the power generated from RES and other sources in Dobrogea

PCI "Bulgaria–Romania Group, capacity increase", also known as "Black Sea corridor", which includes the following projects of common interest:

- Smardan – Gutinas 400 kV OHL d.c.;
- Cernavoda – Stalpu 400 kV OHL d.c., with one input/output circuit in Gura Ialomitei.

The documentation for accesing funds via the financial instrument Connecting Europe Facility (CEF) was drafted and submitted in 2017 to the European Commission for the project of common interest Cernavoda-Stalpu 400 kV OHL d.c. Taking into consideration the importance the project has in the region, its contribution to the increase of cross-border exchange capacity between Romania and Bulgaria, as well as its maturity degree, following the analysis and evaluation process of the received financing requests, the European Commission, via the Innovation and Networks Executive Agency (INEA), adopted in January 2018 the decision to finance 50% of the total estimated eligible costs of this project.

Other projects increasing the discharge capacity from Dobrogea:

- Stupina – Varna 400 kV OHL and Rahman – Dobrudja 400 kV OHL input/output connection in the Medgidia Sud 400 kV substation;
- Extending the Medgidia Sud 400/110 kV substation and refurbishing the 110 kV substation in order to increase the breaking power of switches in correlation with increasing the short-circuit current;
- Gadalin – Suceava 400 kV OHL s.c.;
- Stalpu – Brasov/Darste 400 kV OHL;
- Converting the operational voltage of the Brazi Vest - Teleajen – Stalpu 220 kV OHL to 400 kV (built for 400 kV), including the construction of the Stalpu and Teleajen 400 kV substations;
- Medgidia Sud - Constanta Nord 400 kV OHL d.c.
- Suceava – Gădălin 400 kV OHL s.c.
- Replacing conductors of the Stejaru - Gheorghieni - Fantanele 220 kV OHL;
- Increasing the transmission capacity of the 8 km long segment with smaller section on the Bucharest Sud - Pelicanu 400 kV OHL;
- Increasing the transmission capacity of the 53 km long segment with smaller section on the Cernavoda - Pelicanu 400 kV OHL.

Integrating the power generated from other power plants in the NPS

To provide safe discharge of power from HPP Portile de Fier II, an agreement was made with S.C. Hidroelectrica SA to discharge at 220 kV by building the Ostrovul Mare 220 kV substation, and the 220 kV OHL d.c. connecting Ostrovul Mare to the Portile de Fier - Cetate 220 kV OHL.
To provide safe discharge of power from the thermal power plants Craiova and Isalnita, a

plan was made to increase the transmission capacity of the Isalnita – Craiova 220 kV OHL circuit 1 (9.6 km).

Safe consumption supply from deficit areas

- Installing the second 400/110 kV transformer in the Sibiu Sud substation in order to reserve the single injection from PTG in the Sibiu area;
- Instaling the second 400/220 kV, 400 MVA AT in the substation Iernut in order to provide consumption supply in the N-V area of the country, since there is not enough installed capacity in the power plants of the area;
- Replacing the active conductors of the Bucharest Sud – Fundeni 220 kV OHL d.c. to increase the admissible transmitted power;
- Replacing the 110/10kV, 25 MVA T3 & T4 with 110/(20)10 kV, 40 MVA transformers in the Fundeni substation.

The completion of the Suceava-Balti 400 kV OHL is planned for the interconnection with the system from the Republic of Moldova

The general energy cooperation framework between Romania and the Republic of Moldova is regulated by the Memorandum of Understanding concluded in 2015 between the governments of the two countries. In 2016 the Working Arrangement was signed between CNTEE Transelectrica SA and ÎS Moldelectrica in order to complete the interconnection projects via Back to Back substations also mentioned in the Memorandum of Understanding:

1. Isaccea (RO) – Vulcăneşti (RM) 400 kV OHL (existing line) new Vulcanesti-Chisinau 400 kV d.c., Vulcanesti Back to Back substation;
2. Suceava (RO) – Bălţi (RM) 400 kV OHL s.c. and Balti Back to Back substation;
3. Iasi (RO) – Ungheni – Straseni (RM) 400 kV OHL s.c. and Straseni Back to Back substation.

Out of these projects, the first two have the highest change of completion. The first project is included in the Projects of Mutual Interest (PMI) list, promoted for the Energy Community. The Suceava-Balti 400 kV OHL might be completed after the synchronous interconnection of the systems from Ukraine and the Republic of Moldova with the continental system or as a necessary measure for the synchronous interconnection, should this result from the studies.

4. Suceava (RO) – Bălţi (RM) 400 kV OHL s.c. and Balti Back to Back substation;
5. Iasi (RO) – Ungheni – Straseni (RM) 400 kV OHL s.c. and Straseni Back to Back substation.

Out of these projects, the first two have the highest change of completion. The first project is included in the Projects of Mutual Interest (PMI) list, promoted for the Energy Community. The Suceava-Balti 400 kV OHL might be completed after the synchronous interconnection of the systems from Ukraine and the Republic of Moldova with the continental system or as a necessary measure for the synchronous interconnection, should this result from the studies.

Refurbishment and modernisation of existing substations

A significant number of existing substations are/will be included in a sustained refurbishment and upgrade plan for installations and equipment:

- Bucuresti Sud 10 kV,
- Bradu 400/220/110/20 kV,
- Cluj Est 400/110/10 kV,
- Suceava 110/20 kV,
- Vetis 220/110/20 kV,
- Sardanesti 220/110/20 kV,
- Turnu Severin Est 220/110 kV,
- Sardanesti 400/110/20 kV,
- Isaccea 400 kV,
- Arefu 220/110/20 kV,
- Raureni 220/110 kV,
- Dumbrava 220/110 kV,
- Otelarie electrica Hunedoara 220 kV,
- Ungheni 220/110/20 kV,
- Medgidia Sud 110 kV,
- Filesti 220/110 kV,
- Craiova Nord 220/110 kV,
- Baru Mare 220/110kV/MT,
- Iaz 220/110 kV,
- Hasdat 220/110 kV,

- Munteni 400(220)/110/20 kV,
- Focsani Vest 400(220)/110 kV,
- Pelicanu 400/110 kV,
- Bacau Sud 110 kV,
- Roman Nord 110 kV,
- Stalpu 110 kV/MT,
- Ghizdaru 20 kV,
- Fantanele 220/110/20 kV
- Calafat 220/110 kV

Modernisation/replacement of the command control protection system in 4 substations (Sardanesti 220/110/20 kV, Ghizdaru 220/110/20 kV, Draganesti Olt 400/110 kV, Gradiste 220/110 kV).

The following projects are also provided, with a further time horizon:

- Technical upgrade of the Sacalaz 110 kV substation (correlated to the work on the western axis);
- Technical upgrade of the Alba Iulia 220/110kV/MT substation
- Technical upgrade of the Dârste 400/110 kV substation
- Technical upgrade of the Smardan 400/110/20 kV substation;
- Modernisation/replacement of the command control protection system in 19 substations (Oradea Sud 400/110/20 kV, Rosiori 400/220 kV, Targoviste 220/110/20 kV, Salaj 220/110/20 kV, Baia Mare 3 220/110 kV, Tantareni 400 kV, Urechesti 400/220/110 kV/MT, Paroseni 220/110 kV, Pestis 220/110 kV, Nadab 400 kV, Calea Aradului 400 kV, Bucuresti Sud 400/220/110 kV, Turnu Magurele 220/110 kV, Sibiu Sud 400/220/110/20 kV, Gheorgheni 220/110/20 kV, Cluj Floresti 220/110 kV, Mintia 400/220/110 kV, Fundeni 220/110 kV, Cernavoda 400 kV).

8.1 Investments

8.1.1. Investments of 2017

The value of fixed assets registered in the accounts of 2017 amounted to 202.1 mil lei.

The biggest transfers from tangible assets in progress to tangible assets are mainly represented by the commissioning of the investment objectives, as follows:

- Technical upgrade of the Bradu 400/220/110/20 kV substation – 84.9 mil lei;
- Technical upgrade of the substation 220/110/20 kV Câmpia Turzii – 39.6 mil lei;
- Replacing AT and TRAFO in electrical substations – Stage II – 19.8 mil lei;
- Integrated security system in electrical substations, stage IV: The Roșiori 400/220 kV substation, the Oradea Sud 400/110/20 kV substation, the Parosșeni 220 kV substation, the Iernut 400/220/110/6 kV substation and the Gutinaș 400/220/110 kV substation – 17.3 mil lei;
- Urgent repair of the damage to the Iernut – Gădălin 400 kV OHL and the Iernut – Baia Mare 3 220kV OHL – 8.3 mil lei;
- Upgrading the Suceava 110 kV and 20 kV substation – 6.6 mil lei;
- Upgrading the Tihău 220/110 kV substation – primary equipment – 6.4 mil lei;
- Performing the optical fiber communication between the Bradu 400/220/110 kV substation and the Stupărei 220/110 kV station – 2.7 mil lei;
- Motor vehicles 2017 – 2.6 mil lei;
- Connecting the 147 MW Valea Dacilor WPP to the PTG – 2.4 mil lei;
- Replacing the 110/20 kV, 10MVA TRAFO in the Fântânele 110/20 kV substation – 1.1 mil lei;
- Upgrading the SCADA system for the Constanța Nord 400/110/10 kV substation– 0.98 mil lei;
- Creating the coexistence conditions between the Iernut Ungheni 400/220 kV OHL in the 71–72 opening and the Brașov Târgu Mureș–Cluj–Oradea–Ungheni–Ogra highway, km 4+500 km 14+605 – 0.88 mil lei;

- Warehouse for power transformers for system reserves and isolated passages in the security stock of CNTEE "Transelectrica" – SA in the Sibiu Sud 400 kV substation – 0.85 mil lei;
- Upgrading the control building from the Roman Nord 400/110/20 kV substation – 0.68 mil lei;
- Special intervention beams, Universally Anchored Portal type for the 220 – 400 kV voltage, including prefabricated foundations – 0.64 mil lei;
- Movement and protection of the high voltage electrical installations – 220 kV OHL on the route of the Sebeș–Turda highway – 4th lot, the Cluj Florești – Alba Iulia 220 kV OHL (178 – 179 crossing) – 0.62 mil lei;
- Replacing the connectors from electrical substations – 0.57 mil lei;

The balance of tangible assets in progress on December 31st, 2017 is represented by the projects in progress, the most significant being listed below:

- 400 kV OHL interconnecting Reșița (Romania) – Pancevo (Serbia) – 98.3 mil lei;
- PTG connection of the Ivești 300 MW WPP, Fălciu 1 88 MW WPP and Fălciu 2 18 MW WPP via the new Banca (400)/220/110 kV substation – 46.9 mil lei;
- Technical upgrade of the Bradu 400/220/110/20 kV substation – 36.8 mil lei;
- Converting the Porțile de Fier – Reșița – Timișoara – Săcălaz – Arad axis to the 400 kV voltage – stage I – Porțile de Fier – (Anina) – Reșita 400kV OHL s.c. – 20.1 mil lei;
- Extending the services providing business continuity and recovery after disasters – 14.4 mil lei;
- Upgrading the Cluj Est 400/110/10 kV station – 13.3 mil lei;
- Replacing AT and TRAFO in electrical substations – Stage II – 11.6 mil lei;
- Connecting the Isaccea – Varna 400 kV OHL and the Isaccea – Dobrudja 400 kV OHL in the Medgidia Sud 400 kV substation – 10.7 mil lei;
- Integrated security system in electrical substations, stage IV– 10.3 mil lei;:
- Upgrading the Suceava 110 kV and 20 kV substation – 9.7 mil lei;
- Cernavodă – Stâlpu 400 kV OHL d.c. and connection in Gura Ialomiței – 8.4 mil lei;
- Converting the Porțile de Fier – Reșița – Timișoara – Săcălaz – Arad axis to the 400 kV voltage – stage I – Reșița 400/220/110 kV substation – 6.6 mil lei;
- 400 kV HVDC Link (submarine cable Romania – Turkey) – 5.6 mil lei;
- 400 kV OHL Gădălin – Suceava, including the NPS interconnection – 5.7 mil lei;
- Upgrading the command-control-protection system of the Sărdănești 220/110/20 kV substation – 5.7 mil lei;
- Suceava – Bălți 400 kV OHL, for the part of the project on Romanian territory – 4.4 mil lei;
- Technical upgrade of the Hășdat 220/110 kV substation – 4.4 mil lei;
- Reparation of the failure of the 110-120 terminals of the Bucharest Sud – Ghizdaru 220 kV OHL – 4.3 mil lei;
- Gutinaș – Smârdan 400 kV OHL d.c. – 3.2 mil lei;
- Extending the control system with new functions and IT registration of access in the objectives of CNTEE Transelectrica SA – 3.2 mil lei;
- Converting of the Porțile de Fier – Reșița – Timișoara – Săcălaz – Arad axis to the 400 kV voltage, stage II – Reșita – Timișoara – Săcălaz 400 kV OHL d.c. (Timișoara 220/110kV substation) – 3.2 mil lei;
- Connecting the 136 MW WPP Platonești, Ialomița county, to the PTG through constructing a 110 kV cell in the Gura Ialomiței 400/110 kV substation – 2.9 mil lei;
- Assembling the optic fiber and upgrading the system of distance protections on the 400 kV OHL d.c. Țânțăreni – Turceni and the 400 kV OHL s.c. Urechești – Rovinari – 2.8 mil lei;
- Upgrading the Arefu 220/110/20 kV substation – 2.8 mil lei;
- Integrated security system in electric substations, stage III – 2.8 mil lei;
- Upgrading the Râureni 220/110/20 kV substation - 2.8 mil lei;

- Technical upgrade of the Tulcea Vest 400/110/20 kV substation – the construction part – 2.7 mil lei;
- By-passing the Cetate 1 & 2 110 kV OHL in the proximity of the Ostrovul Mare 110/20/6 kV substation – 2.6 mil lei;
- Connecting the 99 MW Dumești WPP and the 30 MW Românești WPP, Iași county, to the PTG, through constructing a 110 kV cell in the FAI 220/110 kV substation – 2.5 mil lei;
- Security solution for implementing the security measures related to classified information – 2 mil lei;
- Upgrading the 110/6 kV substation from the Pești 220/110/6 kV substation – 1.8 mil lei;
- Executive - DCBPA/CPA: Consolidation, upgrading and extension of the CNTEE "Transelectrica" headquarters – 1.6 mil lei;
- Upgrading the hardware and software platforms of the SCADA system in the Slatina 400/220 kV substation – 1.4 mil lei;
- Technical upgrade of the Isaccea 400 kV substation – Stage I – replacing the compensation bobbins, the corresponding cells and the Stupina 400 kV cell – 1.2 mil lei;
- Integrated security system at the new Banca 400/220/110 kV substation – 1.1 mil lei;
- Performing the optical fiber communication between the Pitești Sud substation and the remote control and installation supervision center of TB Pitești (SF) – 1 mil lei;
- Upgrading the SCADA system for the Constanța Nord substation– 0.98 mil lei;
- Upgrading the Dumbrava 220/110 kV substation – 0.93 mil lei;
- Connecting the Stupina 400 kV substation to the PTG and connecting the Isaccea – Varna 400 kV OHL – 0.87 mil lei;
- Replacing the connectors from electrical substations – 0.79 mil lei;
- Ostrovu Mare 220 kV OHL d.c. – PTG – 0.75 mil lei;
- Oradea – Beckescsaba 400 kV OHL – 0.74 mil lei.

The balance of tangible assets in progress on December 31st, 2017 is mainly represented by:

- Implementing a system of Electronic Archiving and Document Management within CNTEE Transelectrica SA – 5.5 mil lei;
- Replacement of EMS SCADA AREVA system components - software component, hardware component – 4 mil lei;
- MIS extension – advanced reporting and budget planning solution – 3 mil lei;
- Upgrading the SCADA system for the Constanța Nord substation– 0.57 mil lei;

On December 31st, 2017, the tangible assets also included down payments amounting to 31.2, granted to the supplier ELCOMEX - IEA SA for performing the projects:

- Connecting the Isaccea–Varna 400 kV OHL and the Isaccea–Dobrudja OHL to the Medgidia Sud 400 kV substation – down payment amounting to 9.9 mil lei;
- Converting the Porțile de Fier – Reșița – Timișoara – Săcălaz – Arad axis to 400 kV – stage I – Reșita 400/220/110 kV substation – down payment amounting to 21.2 mil lei.

The down payments made to ELCOMEX – IEA SA were secured with the insurance policies issued by Asito Kapital S.A.

On April 7th, 2017 the Court of Constanța, Section II Civil, by Hearing protocol no. 294/2017, upheld the application for a declaration of insolvency of the debtor Elcomex – IEA SA, naming Pricewaterhouse Coopers Business Recovery Services IPURL as insolvency administrator. Following the declaration of insolvency of Elcomex IEA SA, CNTEE Transelectrica SA entered on its statement of affairs for the amount of 31.2 mil lei, representing the consideration of the down payment made to SC Elcomex IEA SA for the agreements no. C163/July 29th, 2015 and C255/November 18th, 2015, and other expenses. Starting with June 30th, 2017, the down payments amounting to 31.2 mil lei have been reclassified from "Tangible Assets" to "Receivables".

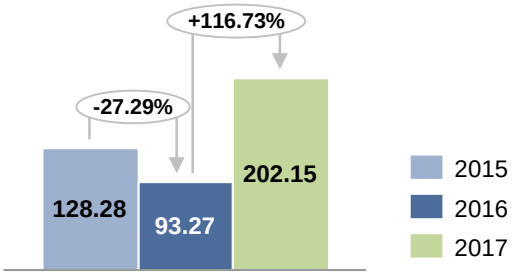
The purchases of tangible and intangible assets[12] in 2017 amounted to 182.9 mil lei, compared to the same period of 2016 when the purchases amounted to 172.8 mil lei.

Table 20: Purchase of tangible and intangible assets

Mil lei	2017	2016	2015
Purchase of tangible and intangible assets	183	172*	214

**The amounts do not include the unused/unpaid advance payment corresponding to the new line section Porțile de Fier – (Anina) – Reșița amounted to 29.6 mil lei*

Figure 29: Value of non-current assets entered in the accounts (VAT free, mil lei)



Total non-current assets

8.1.2. Investment activity and the investment amount in 2017

thousand lei

No.	Types of expenditures	Budgeted	Realized
	Grand total (A + B)	**350,056**	**202,571**
A	**Company's own expenses**	**344,138**	**199,370**
I	Continued investments	**229,458**	**175,077**
II	New investments	**76,346**	**14,592**
III	Other investment expenditures	**38,334**	**9,701**
B	**Investments financed from the connection fee**	**5,918**	**3,201**

8.1.3. Projects started in 2017

The main projects started in 2017 for which agreements have been concluded are the following:

No.	Objective	Contract	Value
1	Technical upgrade of the Domnești 400/110/20 kV substation	C 18/07.02.2017	24,897,000 EURO
2	Upgrading the 110 and 400(220) kV installations from the Focșani Vest substation	C 260/11.12.2017	22,748,075 lei
3	Upgrading the Bacău Sud and Roman Nord 110 kV substations, corresponding to the Moldova 400 kV axis	C 264/14.12.2017	38,079,648 lei
4	Technical upgrade of the Ungheni 220/110/20 kV substation	C 277/21.12.2017	9,168,216 EURO
5	Technology research and development center for working with live equipment (LST) and rapid intervention in the NPS - stage I	C 19/06.06.2017	5,358,890 lei
6	Connection of Turnu Măgurele, Mostiștea, Stălpu, Teleajen substations to the optical fiber network of CNTEE "TRANSELECTRICA" - SA - Batch 2	C 529/26.06.2017	4,277,850 lei
7	Equipment for videowall type display for the control rooms of the dispatching CPD/TPD centers	C 198/11.10.2017	3,717,187 lei

8.1.4. Difficulties occured in starting up the projects

The following difficulties were generally announced in starting up the projects:

- Obtaining GD for starting the expropriation proceedings;
- GD for derecognition as forestry;
- Approvement from local authorities;

[12] *Includes the variations of pending asset suppliers on December 31st, 2016*

- High procedure duration for procurement/continuing tenders/appeals from the bidders.

8.1.5. Short description of the main projects started in 2017

Technical upgrade of the Domnesti 400/110/20 kV substation

The Domnesti 400/110/20 kV substation is of great importance for the PTG (it represents one of the injection points in the distribution network for the Bucharest municipality) and it also represents a power transit node between the Oltenia, Muntenia and Transilvania Sud regions. The 110 kV substation represents both an interconnection and TPP Bucuresti Sud generated power discharge node, and a supply node for an important part of the load in Bucharest municipality.

Taking into consideration the importance of this substation and also the current status of the installation, as well as the applicable legislative requirements, the modernization via technical upgrade is necessary for this substation at all voltage levels, in order to bring it to a security and reliability level adequate for the importance of the region and the energy objective, using the technical capabilities currently available worldwide.

Works consist of the technical upgrade of the entire Domnesti 400/110/20 kV substation, both in the primary and in the secondary part, their integration in the CTSI Bucuresti and NPD/TPD systems, as well as the construction part related to the 400 kV and 110 kV substations. The project also includes the construction of a new command body.

Works in Transelectrica's and ENEL Distribuție Muntenia Sud's adjacent substations are also planned.

Upgrading the 110 and 400(220) kV installations from the Focșani Vest substation

The project's general objective is completing the technical upgrade of the substations related to the two voltage levels:
- Within the NPS, the Focsani Vest transformation electrical substation is an injection node for the supply of zonal consumers (adjecent industrial platforms, Adjud and Marasesti cities) and a node for the reservation of the local consumption zone related to the Focsani municipality.
- The project's objective is subordinated to Transelectrica's view presented in the documents called "General view on the remote control of technically upgraded electrical substations". To this extent, the Focsani Vest 400(220)/110 kV substation will be 100% remotely controlled (with remote control, remote signaling and remote metering) from the NPD/TPD/CTSI headquarters.

Upgrading the Bacău Sud and Roman Nord 110 kV substations, corresponding to the Moldova 400 kV axis

Per Company policy, in order to develop the power system and to implement the Company's strategy for the remote control of electrical substations, taking into account their degree of wear and tear and obsolescence, their technical upgrade to the current level of technology is imminent.
Between 2006 and 2008 the Bacau Sud and Roman Nord substation were upgraded to 400 kV on the Gutinas-Bacau Sud-Roman Nord-Suceava axis. This project however did not include the corresponding 110 kV substations. The Gutinas 110 kV was subsequently refurbished and the refurbishment agreement for the Suceava 110 kV substation is also in an advanced stage.
In order to consolidate the Moldova 400 kV axis it is necessary to refurbish the Bacau Sud and Roman Nord 110 kV substations and their interface with the corresponding 400 kV substations.

Within the modernization project of the Bacau Sud-Roman Nord 110 kV substations, several aspects are taken into consideration, under which: the execution of works for the primary and secondary circuits corresponding to the 110 kV substations and their interface with the corresponding 400 kV substations.
Thus, the primary equipment with a high degree of wear and tear and obsolescence are replaced with newer, more efficient equipment, up to date with the current level of technology. Secondary circuits will be completely upgraded to the level of the current new NTI, which

results in an advanced and highly reliable command-control-protection system which will ensure the remote control of the substation.
Works will be carried out based on the project documentation which will be updated according to the applicable legislation and new requirements.

Technical upgrade of the Ungheni 220/110/20 kV substation

The solution proposed for the completion of these works is based on the disassembly of all equipment currently existing in the substation and the execution of the following main works:

- Replacing the isolation, switches, arresters and command devices, metering transformers (TC and TT) and dischargers with variable resistance for the 220 kV and 110 kV substations;
- For the 20 kV connection the old cells will be replaced with new, more efficient and fully equiped ones, including with security devices specific to each type of equipment

(short-circuiting devices, voltage detectors, electroinsulating rods, special parts for the connection to earth outlets and in short-circuit on the current paths in the points set out after drafting the single wire scheme and its approval by the beneficiary).
In terms of the works for corelating with and integration in SCADA of the AT1 200MVA and Trafo1 25MVA transformation units, the project will take into consideration the existing provisions in the paragraphs/annexes of the documentation approved in TESC for "Replacing the Ungheni substation AT2 200M VA" and "Replacing the Ungheni substation Trafo2 16 MVA".

Technology research and development center for working with live equipment (LST) and rapid intervention in the NPS - stage I

The main goal of the project is the completion of a technology research and development center for working with live equipment (LST) and rapid intervention in the NPS. The first stage includes the completion of the specialized ground with the endowments necessary for the specific training.

8.1.1 Investment programme for 2018 and the estimation for 2019 ÷ 2020

The Company aims at stimulating investments for PTG modernisation and refurbishment as well the increase of the interconnection capacity with neighbouring countries, both to ensure the operational safety of the National Power System and to facilitate electricity exports.

The Company's 2018 Investment Programme and the investment expenses estimated for 2019 and 2020 (AIP 2018) was grounded taking into account the following elements:

- the investment priorities established in the PTG Development Plan - 2016-2025 timeframe;
- the execution schedules of the continued investment projects;
- the proposals received from project managers, branches and entities within the management of CNTEE "Transelectrica" – S.A;
- main risks that might impact the achievement of PAI 2017

The main investment areas

- Refurbishing the existing electricity network, represented by:

-upgrades of electric substations;
-upgrading the command-control-protection systems from substations;
-replacing the autotransformers and power transformers in electric substations.

- Increasing the interconnection capacity, both with neighbouring ENTSO-E countries and with those outside the EU – Moldova, Serbia and completing the 400 kV national ring;
- Integrating the output from the new power plants and eliminating congestions;
- Developing the system operator (dispatching) capabilities;
- Upgrading the IT and telecommunication infrastructure.

Structure of the 2018 investment programme and the estimations for 2019, 2020 are presented in the following table:

Table 21: Investment plan (mil lei, exclusive of VAT), as per SER 2018-2020

No.	Types of expenditures	2018	2019	2020
	Grand total (A + B)	**420,766**	**637,842**	**657,519**
A	**Company's own expenses**	**413,576**	**637,842**	**657,519**
I	Continued investments	**249,627**	**154,389**	**101,705**
II	New investments	**120,065**	**446,857**	**552,309**
III	Other investment expenditures	**43,884**	**36,596**	**3,505**
B	**Investments financed from the connection fee**	**7,190**	**-**	**-**

Detailing the investment expenditures of 2017 by the main chapters of the programme in correlation with the main chapters of the Development Plan is as follows:

Company's own investments: 199 mil lei

The sum allocated to continued investments is 175 mil lei and represents 87.8 % of the Company's own investment expenditures.

8.2.2 Investments financed from the connection fee

Their value shows a strongly decreasing trend due to the impact of the new green certificate legislation, since many renewable energy sources investors gave up the works to connect to the NPS or requested to postpone it even if they had paid the connection fee. Thus, the annual average of this type of projects was 100 mil lei in 2009-2012, period of intensive development of wind parks, but 2017 ended with only 3 mil lei in investments for this type of projects.

8.2 Quality of provided services

In accordance with the Performance standard for electricity transmission and system services approved by ANRE Order no. 17/2007, the key performance indicators for PTG management and operation and for continuity of transmission services are:

99.9981%

Availability of the transmission grid

- transmitted electricity (GWh) and the percentage coefficient of energy losses in the electricity transmission network – values presented in the OTC section (Operational data);

average time of unavailability of installations, determined by scheduled or unscheduled (accidental) events, against km for lines (INDLIN) or MVA for transformers and autotransformers (INDTRA)

Table 22: Performance indicators for the PTG management/operation activity

Indicator	2017	2016	2015
INDLIN (hours/year)			
Total	**158.10**	**186.79**	**184.30**
• Unscheduled (accidental)	11.67	16.88	36.66
• Scheduled	146.43	169.91	147.97
INDTRA (hours/year)			
Total	**182.01**	**204.29**	**155.01**
• Unscheduled (accidental)	18.51	4.91	8.90
• Scheduled	163.50	199.39	146.11

- Energy not supplied to consumers due to disconnections and the average interruption time[13]:

Table 23: Indicators for the continuity of transmission services

Indicator	2017	2016	2015
Energy not supplied (MWh)	289.44	224.69	38.36
Average interruption time (min/year)	2.76	2.11	0.36

[13] AIT – the time equivalent average period, expressed in minutes, during which the electricity supply was interrupted

8.3 Maintenance

Maintenance activities are compliant with the *Maintenance Assurance Program* (MAP) developed pursuant to the Regulation regarding management and organization of maintenance activities approved by Order no. 35/2002 of the National Regulatory Authority for Energy (ANRE), respectively on the basis of the ANRE Order no. 96/2017 (which abolished Order no. 35/2002) the *Regulation regarding preventive maintenance to the PTG installations and equipment* - Technical internal norm of Transelectrica with the symbol NTI-TEL-R001-2007 and the *Annual maintenance programs* (MP).

The MAP provides *activity regulation, introduces the modern concept of activity optimization and running* and is applied to all maintenance components (technical, economic and financial, relational, organizational) as provided to all assets from the PTG. The MAP comprises and maintains *the entire documentation regarding maintenance activities* while providing the framework to elaborate, review and update the documents pertaining to maintenance, as the case may be.

NTI-TEL-R-001-2007 sets out that the application of maintenance work/services must only take place *at appropriate times, according to the necessary quantities and quality*, in such a manner as to comply with the following important desiderata:

- maintaining a proper operational safety level of PTG installations;
- maintaining the intrinsic reliability levels of functional assemblies and component equipment;
- increasing the availability of installations;
- optimizing the total costs during utilization;

This provides *categories* (preventive, corrective) and *levels* (minor, major) of maintenance, fundamental planning principles, general indicative operations, periodicity etc. and constitutes the basis for the development of annual (value and physical terms) maintenance programs.

Annual maintenance programs are grounded on the Maintenance regulation and include all principles of maintenance activities into maintenance work and services, while also providing all necessary financial resources.

Categories, levels and types of maintenance practiced in Transelectrica; selection method for maintenance types

Categories of maintenance

Maintenance services/works are carried out to Transelectrica's electric installations, according to each case:

- preventive – prophylactic for preventing defects, namely to reduce the occurrence likelihood of a defect or degradation;
- corrective – when defects are detected, including all actions meant to restore an installation to the condition which enables to it perform the specified functions,

while aiming at optimizing all objectives proposed for PTG:

- operational safety,
- availability,
- efficiency

as well as the compliance with the Performance standard.

Levels and types of maintenance activities

Maintenance work/services are classified according to the *"Maintenance Assurance Program"*, namely MAP, by *4 levels* (level 1 - 4) which represent the complexity degree of services/works, the necessary tools/machines, the needed qualification for providers/contractors etc.

Levels 1 and 2 represent services/works falling in the *minor maintenance* category - usually supervision, visual control, expertise, inspections and revisions, while levels 3 and 4 represent *major maintenance* - usually repairs.

Preventive maintenance

The basic principle provides that any preventive maintenance action should prevent an accidental unavailability.

The types of preventive (planned) maintenance services/works are classified by levels, as follows:

- level 1 – supervision, periodic control, monitorization, functional tests;
- level 2 – technical review work – RT;
- level 3 – current repair work – RC;
- level 4 – capital repair work – RK.

A particular type of maintenance is *rehabilitation*, defined according to ANRE Order no. 35/2002 as an array of *complex maintenance* works which, without changing the initial technology, restore the technical efficient condition of installations to a level close to the beginning of their lifecycle. In the PTG, rehabilitations are taken into account for electrical substations with replacement of equipment, and for OHL by replacing elements to improve reliability.

Corrective maintenance

Corrective maintenance services/works are classified in two levels - minor maintenance (control, inspection, check-up, measurement, revision activities after accidental events – technical defects and incidents) and major maintenance (repairs and replacements of equipment following accidental events such as incidents that seriously damage the equipment).
Corrective maintenance activities (accidental services/works) are urgently carried out to all installations in accordance with the provider's/contractor's maintenance works/services contractual obligations.
The Company's own experience and that of other electric power systems also provided in CIGRE documents show that, in case of maintenance to complex assets such as the PTG installations/equipment, it is recommended to use a combination of methods grounding the performance of preventive maintenance activities, namely:

- Time Centered Maintenance (TCM) and Evaluation of Time Centered Technical Condition (ESTBT) – visual controls, prophylactic measurements, tests etc. (the name "systematic preventive maintenance" is also used);
- Maintenance Centered on Technical Condition (MBST); the name "conditional preventive maintenance" is also used;
- Monitoring and diagnosis (online or offline);
- Reliability Centered Maintenance (RCM);
- Risk Centered Maintenance – RCM (with a view to prioritize activities);
- Special tests and expertise.

A combination of such methods will be used within PTG, namely:

- Services/works of levels 1 and 2 constitute minor preventive maintenance (mPM) and, depending on the category, voltage and technical characteristics (technology) of functional assemblies and their components, the maintenance will be scheduled in time - by planning at pre-determined time intervals relying on operational experience, while also taking into account their importance within the PTG, and it can be adjusted (tailored) depending on condition and significance;
- Works of levels 3 and 4 constitute major preventive maintenance activities (MPM) and they rely on condition, depending on the technical condition of installations, as determined using various procedures.

Preventive maintenance centered on condition includes determinations/forecasts of technical condition based on the information obtained by means of *supervision, visual controls, expertise, technical inspections and revisions*, which means the primary information obtained from the minor maintenance.
Major preventive maintenance (MPM) to technological installations that provide electricity transmission (considered functional assemblies), is grounded, planned and scheduled in differentiated manner for each functional assembly, while applying the

Reliability Centered Maintenance – RCM principles, a methodology that can also serve to direct the proposals with the needs of new investments.
Annual maintenance programs are carried out providing priority to works/services that lead to increasing the operational safety of installations, or to completing the contracted works/services and those contributing to the good operation of installations. One should also take into account the perspective of implementing the remote control and supervision program for electric installations, which requires the rehabilitation of electric equipment and will lead to reduced personnel and operational expenses.

In 2017 maintenance expenses amounted to 81 mil lei, which include major and minor maintenance, as well as other maintenance expenses.

Table 24: Types of PTG maintenance (mil lei)

Maintenance	Budget 2017	Achievements 2017
Minor preventive	23	24
Minor corrective	45	32
Major preventive	39	25
Total	107	81

The minor preventive maintenance program was fully applied in physical terms, while corrective maintenance was applied to a lesser extent because installations recorded no defects, against an optimum operational background provided by proper preventive maintenance.

The 2017 maintenance program and estimations for 2018-2019

The 2017 Maintenance Program includes management of electric installations operation and the maintenance of non-current property, plant and equipment such as: electric installations and technological buildings (except for the IT & Tc, the remote control and integrated security systems), which constitute the power transmission grid (PTG), when costs are minimized, assets are best used and their performance is increased; preventive, corrective and reliability centered maintenance services/works; services/works in the design stage; and services/works underway. The Program was structured by programs and projects depending on installation types, as follows:

- Services/works to electric substations and power transformers
- Services/works to overhead lines, technological buildings and other power installations
- Services/works specific to the maintenance of electricity metering equipment (making or repairing supply, communication circuits, repairs of equipment for metering and monitoring electricity quality etc.).

The main concern in the application of maintenance programs was and still is to provide operational safety of the NPS by means of:

- updating the maintenance policy, strategy and regulation of CNTEE Transelectrica SA;
- providing preventive and corrective maintenance: (i) minor maintenance based on the contract concluded with Subsidiary SMART; (ii) major maintenance by projects (high power transformer units, OHL, substations and technological buildings) based on contracts concluded with specialized entities;
- using IT applications/databases for operation and maintenance activities;
- optimizing costs, reducing repair times and the unavailability period of installations by concluding the framework agreement no. AC 14/2016, pertaining to the supply of medium and high voltage primary equipment;
- analysis and expert evaluation of the Company's power transformer units. The results were used in order to prioritize their replacement under investment projects.
- optimizing maintenance costs for OHL by making multispectral investigations (in visible, infrared and ultraviolet spectrums),

by laser scanning and replacing defect components.

- introducing modern technologies and methods for diagnosis, supervision and monitoring into maintenance activities, or by general application of solutions resulting from pilot projects such as:
- fixing online monitoring systems on transformer units and OHL;

The 2017 and 2018 estimations for the values of Maintenance Programs took into account the necessary technical work contained in the PTG development plan for the 2016-2025 timeframe, the provisions of the Preventive maintenance regulation to PTG installations and equipment, the requests of Transmission Branches and the increased number of accidental events to OHL.

The efficiency of maintenance activities will be further increased by:

- Continuing the multispectral inspection of OHL and LASER scanning;
- Using non-invasive methods to ascertain the technical condition of electric installations;
- Purchasing intervention poles and concluding a framework agreement to assemble/disassemble them; Concluding a framework agreement for OHL reconditioning in case of damage;
- Coordinating energy audit services for the administrative and technological buildings of Transelectrica.

9 Other activities

Of great importance within the Company are the development of knowledge and promotion of new energy technologies and solutions which have evolved and significantly progressed over recent years, both in terms of concepts and solutions, and equipment.

Thus, Transelectrica became partner in various financing projects via which it may bring important contributions as TSO in this geographical area of Europe and to fulfilling the previously mentioned objectives. Within these partnerships revenues are collected for other types of activities by the Company's experts' contribution.

The Company may carry out activities in the following fields:

- Management of projects financed via non-repayable European Funds, on different axes which correspond to the Company's objects of activity.

10European projects

Regional projects of electricity markets coupling and implicit allocation of cross-border transmission capacity

The challenges Europe is facing in the energy sector include aspects such as increased dependence on imports, limited diversification, high level and volatility of energy prices, increased energy demand worldwide, security risks impacting the generating and transit countries, increasing threats caused by climatic changes, slow progress in terms of energy efficiency, challenges resulting from the ever increasing renewable share as well as the need for higher transparency, a better integration and interconnection on energy markets.

To cope with such issues, Europe needs a clear energy strategy which should be focused on a set of measures meant to ensure the implementation of an integrated electricity market and to achieve the 3 main objectives:

- security of supply
- competitiveness
- sustainability

Emphasis is placed on completing the pan-European energy market integration, consolidating the coordination of national policies, eliminating market barriers and energy isolation, lowering the energy price for consumers, upgrading the infrastructure and drawing investments in the energy sector, focusing on innovative technologies and generation capacities for green energy.

Achieving a fully functional pan-European energy market is crucial in order to maintain the security of supply, to increase competitiveness and to provide affordable electricity prices to all European consumers.

Security of supply is an essential component of public safety and, consequently, is closely connected with the efficient operation of the internal electricity market and the integration of isolated electricity markets from European Union member states.

The target model of the pan-European internal electricity market for the day-ahead timeframe provides the price coupling of these markets based on a unique European coupling solution (the PCR mechanism - Price Coupling of Regions), with implicit allocation of interconnection capacities and calculating such interconnection capacities using power flows (Flow-Based method - FB).

With a view to constitute a truly integrated electricity market, we must continue harmonizing the current rules on capacity allocation, congestion management and electricity trade.

In this context, *Regulation 1222/2015 establishing a guideline on capacity allocation and congestion management* was developed and approved. This document determines the

minimum harmonized norms in order to provide the single day-ahead and intra-day coupling on a pan-European level, thus enabling a more efficient grid usage and increased competition, to the benefit of consumers.

Several initiatives are currently carried out at pan-European level, which aim at coupling the national/regional markets for daily and intra-day horizons, into a single European electricity market and at implementing the implicit allocation mechanisms for cross-border transmission capacities while calculating capacity based on power flows or ATC (available transmission capacity).

On November 15th, 2016, a Memorandum was signed at governmental level for Romania's Participation to the day-ahead and intraday market coupling projects. These projects are currently under development at European level for the implementation of the European energy market.

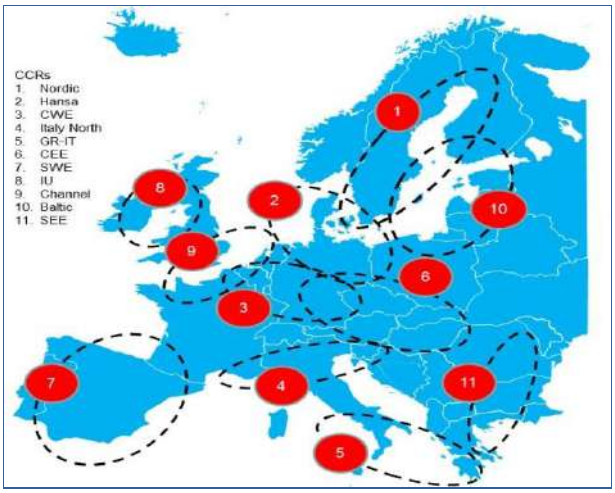
In accordance with Article 2 from *Regulation 1222/2015 establishing a guideline on capacity allocation and congestion management* (Definitions), these regions are defined as "Capacity Calculation Region (CCRs)", meaning "geographic area in which coordinated capacity calculation is applied". Consequently a CCR should include a set of borders of the bidding zone for which capacity calculation will be coordinated by TSOs in accordance with the aforementioned Regulation.

The proposed configuration of cross-border transmission capacity calculation regions (CCR) for all European electricity transmission system borders is a pan-European dynamic and pragmatic approach in the short- and mid-terms, which supports coordination over the borders of bidding zones where the greatest interdependence was noticed.

The CCRs proposed by the European Transmission and System Operators from ENTSO-E and approved at ACER level by all regulators in the industry provide an optimum utilization of the European transmission infrastructure. In the defined CCRs, interdependences between cross-zonal capacities can be modelled with the highest accuracy and efficiency while the best level of such cross-zone capacity can be offered on the market. CCRs provide optimization of cross-zonal capacity calculation and allocation according to Article 3(d) from *Regulation 1222/2015 establishing a guideline on capacity allocation and congestion management*, because CCRs institute coordination within the CCR and between CCRs.

The following figure provides the configuration of the 11 CCRs proposed by ENTSO-E:

Figure 30: Configuration of CCRs



In accordance with ACER decision of November 17th, 2016, during the pan-European approval of CCRs, European regulators required coupling the central-eastern and central-western European regions into a single capacity calculation region - the CORE region.

Transelectrica is a member of this region (RO-HU border), while also being member in the management and working structures of associated projects under the process for establishing the capacity calculation methodologies and later developments in the market coupling and implicit capacity allocation project.

On August 16th, 2016 Transelectrica, together with the 15 Operators of member states in the CORE region, signed a cooperation agreement (CEWE CoA), whereby they express their commitment to cooperate in order to develop a common interconnection capacity calculation methodology and a future implementation base

for the requirements of all grid codes in this most important region defined in Europe.

On August 31st, 2016, Transelectrica signed an Accession Agreement, by which Romania becomes a part in the market coupling project of the central-east European region NWE-CEE FB MC.

The set of regulations in the new energy legislative package is presumably the most complex yet and includes three Notifications regarding Clean Energy for all Europeans, the Acceleration of Innovation in terms of Clean Energy and an European Strategy for Intelligent Transmission Systems. Additionally, the package includes two proposals to review the Regulations concerning the Internal Market in Electricity and the Functioning of the Agency for the Cooperation of Energy Regulators ACER, four proposals to review the Directives concerning Renewable Energy and Energy Efficiency and the Common Rules for the functioning of the Internal Market in Electricity and the Energy Performance of Buildings.

The Commission also adopted five new Regulation proposals concerning the Preparation for and anticipation of risks in the energy sector, the Governance of the Energy Union and three specific proposals concerning Eco-Design.

All these measures, together with the guidelines for implementation and good practice, aim to mobilize 177 billion euro into public and private investments starting with 2021 and to create 900,000 workplaces, thus generating 1% of the GDP over the next 10 years.

At European level there are currently several ongoing initiatives aiming to implement the eight Grid codes adopted by the European Commission and European Parliament within a comitology process carried out in the 2015-2017 timeframe. These are European Regulation documents (directly applicable law at the level of the EU member states) which regulate the functioning of synchronously interconnected energy systems at pan-European level and the harmonization and integration of national electricity markets into the singe European energy market.

In parallel, in the electricity sector, at the Transmission and System Operators level, a series of projects is carried out to investigate several specific aspects in the field of research, development, innovation or challenges pertaining to the implementation of the new legislative package: Clean Energy Package.

The Horizon 2020 program is one of the most important research and innovation programs financed by the European Commission, with a budget of ca. 80 billion euro which will be distributed over a 7-years period (2014-2020).

Within the LCE – 04- 2017 *"Demonstration of system integration with smart transmission grid and storage technologies with increasing share of renewable"* pillar of this project, funds are being allocated for supporting the electricity transmission activity, namely:

- projects are addressed to the ENTSO-E Transmission and System Operators;
- projects must prove a combination of at least two of the following aspects:

- electricity transmission technologies and large scale generation sources management in the context of increasing the renewable energy sources' share;

- large scale storage capacity for transmission grids, including different centrally managed storage technologies;

- communication technologies, real time control instruments in order to increase flexibility in terms of transmission grid operation and to integrate storage facilities, demand-response mechanisms and interfaces with electricity distribution grid operators;

- new perspectives on wholesale electricity markets facilitating the participation of renewable energy sources, active participation as data aggregators in order to reduce grid operation costs;

- project proposals shall include existing regulatory framework analyses, applicable codes and standards, business models and pan-European energy market architecture analysis;

- projects shall support the Horizon 2020 program in the smart grid and storage promotion context.

Given the experience and professionalism proven by CNTEE Transelectrica SA in the electricity transmission system operation, the company was selected by the European Commission to be part of the teams of experts for several European projects, some of which being fully financed from structural funds.

Several of these projects are presented below:

RE-SERVE (Renewables in a Stable Electric Grid) project

European electricity systems are actively involved in finding solutions to use renewable energy sources for system balancing, as sources of system services, with a view to carry out the environmental objectives assumed community-wide.

The underlying technologies for the energy system until 2030 and 2050 are still undergoing research and must be fully developed before they can demonstrate their potential value in the new pan-European energy system.

The topic regarding RES (Renewable Energy Source) integration in the energy system (H2020-LCE-2016-2017 program, subject LCE-07-2016-2017) was launched in the European Commission's research & development program. With budget of 4.9 million Euro, the RE-SERVE project is part of this program and it is fully financed from European funds.

The RE-SERVE (Renewables in a Stable Electric Grid) project aims to investigate new concepts in terms of technological system services, in the context of the large scale integration of renewable energy sources in the power systems and the possibilities to use such sources for systems balancing.

The RE-SERVE project is carried out over a 3-year period (2016-2019) and aims to investigate new concepts in terms of technological system services, in the context of the large scale integration of renewable energy sources in the power systems and the possibilities to use such sources for systems balancing.

This project also aims at implementing renewable energy sources at pan-European level by creating a virtual platform through which the project team members can conduct simulations over different periods of time, based on the data and information provided by the project participants.

The RE-SERVE project caught the attention of the European Commission's evaluators through the relevant topic it approaches - a topic to which CNTEE Transelectrica SA's contribution is considered highly important. Therefore, the company was invited to be part of the project's consortium. The project was rated 14 out of 15 points, thus obtaining full financing from European funds.

CNTEE Transelectrica SA participates in completing the RE-SERVE project on the grounds of the Grant Agreement no. 727481 — RE-SERVE, being part of the consortium designated for this purpose and coordinated by ERICSSON GMBH.

Thus, over the 36-month completion time of the project (October 1st, 2016 - September 30th, 2019), the team involved from CNTEE Transelectrica SA will allocate 20 person-month for completing the activities related to the following work packages:

- WP1 – RES integration at system level
- 4 person-month
- WP2 – Frequency stability in the system
- 4 person-month
- WP5 – Simulation results check
- 11 person-month
- WP6 – Highlighting the legal and regulatory aspects and the RES appropriate business models
- 1 person-month

The performances of the new mechanisms shall be investigated via various laboratory simulations in a virtual testing area. All RE-SERVE work packages take into consideration short-term (2016-2017), mid-term (2020+) and long-term (2030+) simulations.

The project is coordinated by Ericsson GmbH (DE), and consortium members are: TRANSELECTRICA (RO), Romanian Energy

Centre (RO), ESB Networks (IE), Flexible Elektrische Netze FEN GmbH (DE), Gridhound UG (DE), Rheinisch-Westfaelische Technische Hochschschule Aachen (DE), Universitatea Politehnică din București (RO), University College Dublin (IE), Waterford Institute of Technology (IE); the development term is of three years.

CNTEE Transelectrica SA will contribute to WP1, WP2 and WP5 (Work Package) by:

- identifying two applications for the transition to the scenario in which renewable sources would be used up to 100% to generate electricity, studying the implications of scenarios in the system architecture and its functionality, taking into account EU's energy policies and the climatic changes (for instance in the SET Plan);

- contributions to design and completion of applications in two European countries (IE, RO).

Financially speaking, CNTEE Transelectrica SA collected the down payment for this project in September 2016, amounting to 145,312.50 euro, representing 75% of the total fundable amount of 193,750 euro for which the Company is eligible. The difference will be collected after the project completion in 2019, based on the final reporting.

10.1 CROSSBOW project

The project was classified under the European Commission's Horizon 2020 program on research and innovation, namely the LCE – 04-2017 "Demonstration of system integration with smart transmission grid and storage technologies with increasing share of renewable" pillar. The budget amounts to 17 mil euro and is fully financed from structural funds.

The Crossbow project is one of the largest projects financed on this axis with a value of 22,000,000 euro for a 48-month period in which the project must achieve its stated objective.

The project consortium is made up of 24 partners (from 13 countries):

- 8 transmission and system operators from the S-E European region
- 1 distribution operator
- 1 Regional Security Center
- 2 large producers
- 5 universities
- 6 industry partners
- 1 association

CROSSBOW aims at sharing resources for the promotion of the cross-border use of renewable energy and storage units, allowing a higher penetration of renewable energy sources and simultaneously reducing operational grid costs and improving the economic benefits of RES and storage units.

The aim is to demonstrate a series of new but complementary technologies which offer transmission system operators a higher flexibility and robustness through the following advantages:

- a better control over the balancing energy at interconnection points;

- new storage solutions - distribution and centralization - offering ancillary services for the functioning of virtual storage installations;

- improving the information and communication technologies - e.g. a better grid examination to allow flexible generation and demand response requests;

- defining a transnational wholesale market, proposing a fair and sustainable remuneration for clean energy by defining new business models to support the participation of new players and cost reduction.

The project started in November 2017 and is currently in the initial stage, defining the details to be focused on for results maximization with a view on the region's energy interest on the mid- and long-term.

Out of the 8 TSOs, Transelectrica is one of the largest and has an important role in this project, both in terms of the grid and the geographical position.

The company will be active in 15 out of the 20 organized work packages and aims to contribute as much as possible in this project which has a high expectation in terms of the significance of the results for the energy systems in the next decade.

Financially speaking, CNTEE Transelectrica SA collected the down payment for this project in December 2017, amounting to 193,802 euro, representing 48.33% of the total fundable amount of 400,969 euro for which the Company is eligible. The difference will be collected after the project completion in 2021, based on the regular reporting.

The integration and trading of products and services developed via CROSSBOW is planned after a period of no more than 36 months since the project completion. This will contribute to the creation of over 70,000 workplaces, will reduce greenhouse gas emission by 3 metric tons and will increase the energy production from renewable sources by 10% (15,2 TWh).

TERRE project – Trans European Replacement Reserve Exchange

The project is an initiative of the ENTSO-E Transmission and System Operators, started against the background of the Balancing code implementation (*Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing*) and aims at completing an informatics platform (LIBRA) dedicated to trading orders for the replacement reserve of participating energy systems in order to allocate these reserves based on the balancing energy necessary for each national Transmission and system Operator.

The LIBRA platform is designed to allow data processing from 50 countries (the replacement reserve being the sole balancing reserve which may be traded on an insular basis at regional level) and to process 500,000 sell/buy orders with a 15-minute resolution, the algorithm being capable to run and display results in less than 3 minutes.

The project was started in 2017 after the completion of the harmonization of the local rules and characteristics for countries which will participate on the replacement reserve market and the completion of the platform design step. The trading platform infrastructure shall be completed in the 2018-2019 timeframe.

MARI project - Manually Activated Reserves Initiative

The project started in 2017 as an initiative of the ENTSO-E Transmission and System Operators and aims to complete the European balancing platform for trading reserves with manual activation for frequency restoration (mFRR), a request of the European Regulation no. 2195/2017.

The expected advantages of the MARI project include:

- increasing the efficiency of the balancing markets at national, regional and pan-European level;

- integrating the balancing markets and promoting balancing services exchanges, while simultaneously ensuring operational safety;

- procurement of balancing services in an objective, fair and transparent manner, thus ensuring liquidity of the balancing markets.

The "FutureFlow Designing eTrading Solutions for Electricity Balancing and Redispatching in Europe" project

In relation to certain TSOs the Company began participating in the project financed through European funds *FutureFlow Designing eTrading Solutions for Electricity Balancing and Redispatching in Europe, section Transmission grid and wholesale market* (ongoing project), which aims at handling a number of aspects in terms of implementing the Grid Code regarding balancing power systems and creating regional markets for system services with emphasis on involving consumers in the balancing process and ensuring an optimal management regarding the coordinated functioning of the European synchronously interconnected system, in the context of an increasing renewable energy rate integrated in the system.

The project is part of the Program for implementing a competitive market at pan-European level, with the completion of the Community targets related to emission reduction (Horizon 2020 – "Call for competitive low-carbon energy", under the "Transmission grid and wholesale market" category) and aims to address a series of operational and market

aspects in the context of the implementation of the new grid codes for balancing power systems and creating regional system services markets. The project is addressed to both Transmission and System Operators and to the electricity market traders and manufacturers of industrial and communication components in the field of electricity.

The project has a ca. 14 million euro budget financed via structural funds and is carried out over a 4-year period, between 2016 and 2020.

The project aims to:

- Study the existing balancing markets in terms of the flexibility potential of controllable consumers (Demand Response) and distributed generating sources. This comprises the study of aspects pertaining to market adaptation for the participation in the secondary control of large wind power plants and the impact of forecast errors related to the wind power production over the secondary control market;
- Develop the architecture of the Future Flow platform for the joint automated activation of the secondary control reserve and identification of implications over re-dispatching. This comprises the analysis of the flexibility of controllable industrial consumers with auto-generation but also with renewable sources with installed capacities higher than 1 MW. Databases from a completed European project will be used, related to the completion of the secondary control, having a database of 18,000 potential clients with consumption levels of over 500,000 kWh/year (approximately 747 industrial and commercial clients);
- Identify the reserves and the participating entities, the processes, the necessary data which will be exchanged for the secondary control reserve and the re-dispatching capabilities;
- Identify the requests pertaining to interactions between secondary control reserve aggregation platforms and the analysis of cyber security concepts related to data transfer.

PICASSO project - Platform for the International Coordination of Automated Frequency Restoration and Stable System Operation

Using the automated frequency restoration reserves at a pan-European level, within a framework regulated by the new European balancing code and in the context of an European balancing market that will lead to the optimization of the dispatching process, mitigation of risks pertaining to power systems security and minimizing balancing costs.

The PICASSO project is an initiative of the ENTSO-E Transmission and system Operators started in the context of implementing the new European legislation in the industry and consists of the completion of an European balancing platform for exchanges between the Transmission and System Operators of automated frequency restoration reserves (aFRR).

The main objectives of the project are:

- design, implementation and operation of an aFRR platform that complies with the requirements of the Balancing code (*Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing*), the System Operation Code (*Commission Regulation (EU) 2017/1485 of 2 August 2017 establishing a guideline on electricity transmission system operation*) and the CACM Regulation (*Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management*).
- improve the economic and technical efficiency pertaining to the European synchronously interconnected power system operation;
- integration of aFRR European markets.

CNTEE Transelectrica SA currently has the role of observer in the project (this stage does not involve a financial commitment from the Company) and at the end of April 2018 the Company will become a full member.

IGCC project - International Grid Control Cooperation

The IGCC project is the reference project and starting point for creating a single European platform for Imbalance Netting in real time, aiming to reduce balancing energy costs (secondary control range).

In technical terms, this process will lead to the reduction of the number of orders (requests) for loading/unloading generated by the central frequency/power regulator on the secondary control groups, with a direct influence on lowering the level of wear and tear and the extension of the availability period on the Balancing Market.

The IGCC initiative started in 2010 by the operators in Germany and subsequently extended to the systems from Central Europe, representing a way to optimize the exchange frequency/power secondary control by reducing the counteractions of regulators belonging to the member operators, resulting in a more judicious use of reserves at the level of the interconnected system.

11 Transmission and system Operators from 8 countries are currently involved in the project as members: Germany, Denmark, The Netherlands, Switzerland, The Czech Republic, Belgium, Austria and France (50 HzT, Amprion, APG, CEPS, Elia, ENDK, RTE, Swissgrid, TTB, TTG, TransnetBW).

CNTEE Transelectrica SA currently has the status of observer and will start the joining process in November 2018 (provided that certain requirements are implemented in the SCADA and the communications system) and the interoperability and operation tests will start in June 2019.

Synchronous interconnection of the systems from Ukraine and the Republic of Moldova with the European continental system

CNTEE Transelectrica SA is the Transmission and System Operator who supports within ENTSO-E the synchronous interconnection of the systems from Ukraine and the Republic of Moldova with the European continental system. The request regarding the analysis of this interconnection was approved by UCTE (currently ENTSO-E Continental Europe) in November 2006. The interconnection request was made taking into consideration that the power systems of Ukraine and the Republic of Moldova will detach from the ISP/UPS system and will form a "single frequency control block".

The feasibility study over the synchronous interconnection of the systems from Ukraine and the Republic of Moldova with the European continental system was carried out between November 2014 and January 2016.

For this project, the Ministry of Economy from the Republic of Moldova obtained European funds (within the Joint Operational Program RO-UA-MD 2007÷2013) together with the Romanian Ministry of Economy and the Ukrainian Ministry of Energy and Coal. The Ministry of Economy from the Republic of Moldova was the beneficiary of the project and the other two ministries were partners.

CNTEE Transelectrica SA, together with other transmission operators from other countries (EMS-Serbia, MAVIR-Hungary, PSE-Poland, ESO-EAD-Bulgaria) have formed a consortium for completing this study. CNTEE Transelectrica SA was the consortium leader and was responsible with project management. Bernard Energy Addvocacy (Belgium) acceded to the consortium in order to handle legislative matters.

The feasibility study recommended the technical and regulatory measures to be taken in the power systems of Ukraine and the Republic of Moldova in order to achieve the synchronous interconnection.

In June 2017, Ukrenergo, Moldelectrica and the majority of the Transmission and System Operators from Continental Europe have signed the Agreements on the interconnection conditions for the systems in Ukraine and the Republic of Moldova with the Continental Europe system. The parties agreed upon Catalogue of Measures and the next road-map of actions preceding the interconnection for the two countries:

- Additional detailed studies shall be carried out in order to specifically define all necessary technical measures. The studies shall be carried out by an ENTSO-E Transmission and System Operators

consortium which will use measurements made at the most important generating units from Ukraine and the Republic of Moldova in order to identify the mathematical models parameters of corresponding generators and regulators. CNTEE Transelectrica SA shall once again be the consortium leader.

- Necessary technical and regulatory measures shall be implemented in Ukraine and the Republic of Moldova.
- Isolated function tests shall be carried out on the systems in Ukraine and the Republic of Moldova.
- Interconnection function tests shall be carried out with the European continental system.

Transelectrica®

Societate Administrată în Sistem Dualist

Financial Report

11Stand-alone financial results 2017

In 2017, Transelectrica recorded a decrease in the financial profitability compared to 2016. This development was mainly caused by the lowering of the average tariffs approved by ANRE for transmission services.

The factors that determined this development were:

- Decrease in transmission revenues by 8% caused by the negative correction applied by ANRE to the Company as of July 1st, 2016 and July 1st, 2017.
- Decrease in interconnection capacity allocation revenues by 7.9%.
- Increase in the electricity quantity transported through the power networks of the Power Transmission Grid, the energy quantity charged by the Company being with 2.3% higher than in the previous year, against the background of internal consumption increase.

Thus, EBITDA from allowed-profit activities decreased by ▼35%, reaching the value of 383 mil lei compared to 587 mil lei. At the same time, the zero-profit activities (technological system services) registered a 79 mil lei loss as of December 31st, 2017, compared to the 88 mil lei profit registered as of December 31st, 2016.

ANRE published the Order no. 48/2017 on the approval of the average tariff for the transmission service, the tariff for the system service, the zonal tariffs for the transmission service and the regulated price for reactive electrical energy, used by the Company.

The Order was published in the Official Gazette 489/28.06.2017.

Thus, the regulated tariffs concerning the electricity transmission service and system services effective from July 1st, 2017, have been modified.

On December 20th, 2017, on the grounds of ANRE Order no. 122, the Company published the statement on the approval of the average tariff for the transmission service. Pursuant to the document published by ANRE, the increase of the regulated system services tariff (from 9.39 lei/MWh to 12.06 lei/MWh) leads to an increase of ca. 0.6% in the final price of energy delivered to the household consumers.

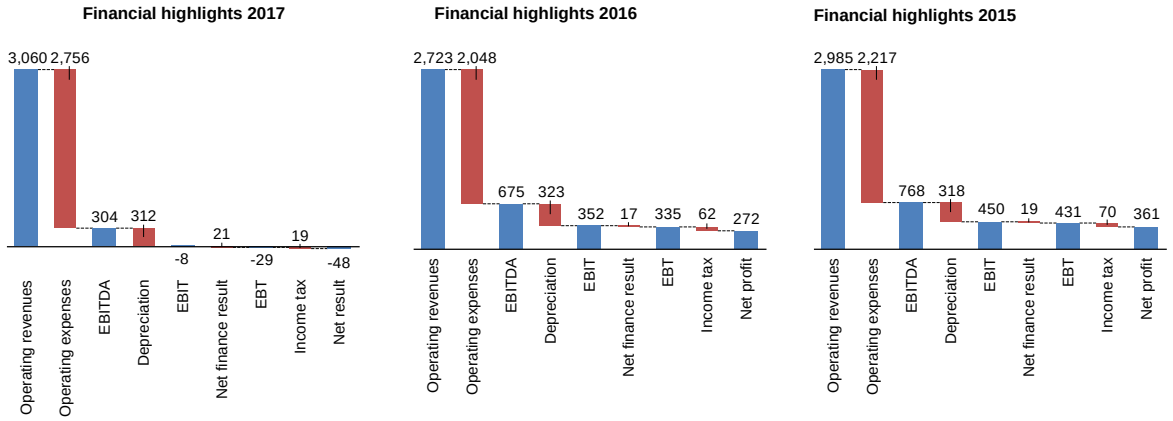
Additionally, certain multiannual coordinates for the 5 years have been subject to an interim review (investment plan, ARB opening balance, controllable OPEX, non-controllable OPEX, efficiency factor, tariffable energy quantity). The review regulator of the parameters initially set forth at the beginning of the regulatory period based its actions upon those hypothesis used in the tariff calculation with the real values registered by the Company and the increase in predictability.

The main factors that determined the increase of the net financial loss compared to 2016 were:

- Financial revenues registered a 10.9 mil lei decrease in 2017 compared to 2016, mainly determined by the decrease in revenues from the exchange rate differences.

Financial expenses registered a 6.8 mil lei decrease in 2017 compared to 2016, mainly determined by the evolution of the national currency compared to the currencies in which investment loans are contracted.

Figure 31: Net result (mil lei)



11.1 Separate account of profit and loss

Table 25: Separate account of profit and loss

Mil. Lei	2017	2016	2015	17/16
Charged energy volume (TWh)	**54.75**	**53.52**	**52.47**	**▲2.3%**
ALLOWED PROFIT ACTIVITIES				
Operational revenue	**1,173**	**1,260**	**1,400**	**▼7%**
Transmission, including revenues from interconnection capacity allocation	1,055	1,146	1,285	**▼8%**
Functional system services and unplanned exchanges	68	68	69	**▲1%**
Other revenues	50	46	46	**▲10%**
Operational Costs	**(790)**	**(672)**	**(657)**	**▲18**
System operation costs	(258)	(231)	(232)	**▲12%**
Maintenance (including IT&C) and repairs	(85)	(88)	(89)	**▼ 4%**
Personnel expenses	(179)	(212)	(186)	**▼16%**
Other expenses	(269)	(141)	(150)	**▼90%**
EBITDA	**383**	**587**	**743**	**▼35%**
Depreciation	(312)	(323)	(318)	**▼4%**
EBIT	**71**	**264**	**424**	**▼73%**
ZERO-PROFIT ACTIVITIES				
Operational revenue	**1,887**	**1,463**	**1,585**	**▲29%**
Technological System Services	582	649	662	**▼10%**
The Balancing Market	1,305	814	923	**▲60%**
Operational Costs	**(1,966)**	**(1,375)**	**(1,561)**	**▲43%**
Technological System Services	(661)	(561)	(638)	**▲18%**
The Balancing Market	(1,305)	(814)	(923)	**▲60%**
EBIT	**(79)**	**88**	**24**	**n/a**
ALL ACTIVITIES (WITH ALLOWED PROFIT AND ZERO-PROFIT)				
Operational revenue	**3,060**	**2,723**	**2,985**	**▲ 12%**
Operational Costs	(2,756)	(2,048)	(2,217)	**▲35%**
EBITDA	**304**	**675**	**767**	**▼55%**

Mil. Lei	2017	2016	2015	17/16
Depreciation	(312)	(323)	(318)	▼4%
EBIT	**(8)**	**352**	**449**	**n/a**
Financial Result	(21)	(17)	(19)	▼24%
EBT	**(29)**	**335**	**430**	**n/a**
Income tax	(19)	(62)	(70)	▼69%
Net result	**(48)**	**272**	**360**	**n/a**
Net result per share	(0.65)	3.72	4.91	

11.1.1 Allowed profit activities

Revenues from profit allowed activities are mainly represented by **electricity transmission** and **functional system services**. The regulatory framework applicable to these two activities provides the premises of a financial profitability that can be obtained from the capital invested in these assets, by including certain tariff components meant to remunerate the financiers, calculated using a regulated rate of return to the asset regulatory base.

Table 26: Revenues from allowed profit activities

Mil. lei	2017	2016	2015	16/15
Operational revenue	**1,173**	**1,260**	**1,400**	▼7%
Transmission	**1,055**	**1,146**	**1,285**	▼8%
Revenues from transmission tariffs	971	1,057	1,174	▼8%
Revenues from allocating the interconnection capacity	76	82	102	▼8%
Revenues from reactive energy	8	8	8	▲ 9%
Functional System Services	**68**	**68**	**69**	▲ 1%
Revenues from functional system services tariffs	66	66	68	▲ 0%
Revenues from unplanned shifts on DAM	2	1	1	▲ 74%
Other revenues	**50**	**46**	**46**	▲ 10%

Against the background of a 2.3% increase in the electricity quantity delivered to consumers in 2017 compared to 2016, the revenues from the transmission service registered an 8% decrease and the functional system services registered an insignificant increase of 1.3%, mainly determined by the negative adjustment of tariffs starting with July 1st, 2016 and July 1st, 2017.

Thus, the revenues from the transmission activity registered a ca. 8.1% decrease in 2017, from 1,057 mil lei in 2016 to 971 mil lei in 2017, against the background of a negative adjustment of 10.2% of the average tariff for the transmission service.

The revenues from the interconnection capacity allocation registered a decrease of -7.9% related to the usage level of the interconnection capacity availability by the traders on the energy market.

On November 19th, 2014, the establishment of the regional energy exchange by Romania, Hungary, The Czech Republic and Slovakia means these four countries should reach the same electricity price for the volumes traded

on spot markets. Capacity allocation between Romania and Hungary, the only one of the 3 countries Romania has a border with, is performed by the transmission operators: Transelectrica and MAVIR, using a common mechanism based on a bilateral agreement.

Starting with 2016 the UIOSI ("Use It Or Sell It") principle was implemented, according to which in the case of traders notifying a smaller capacity than that gained under annual and/or monthly auctions organized by Transelectrica, their capacity difference which was not notified will be sold during daily auctions. Transelectrica will remunerate the trader for the spare capacity, calculated as product between (i) the difference between the capacity gained in the long-term and the notified capacity and (ii) the price obtained at the daily auctions. On the Hungarian border the direction is reversed, meaning that MAVIR compensates the participants for the spare capacities.

The interconnection capacity allocation market is fluctuating, the prices evolve depending on demand and the need of the participants on the energy market to purchase interconnection capacity.

The functional system services also registered an insignificant decrease of 0.2% during 2017, from 66.14 mil lei in 2016 to 65.98 mil lei in 2017, against the background of a 12% decrease of the average tariff.

Other revenues adjacent to the transmission service (reactive energy, international transit) have maintained at level close to the ones registered in the previous year.

Figure 32: Revenues from allowed profit activities (mil lei)

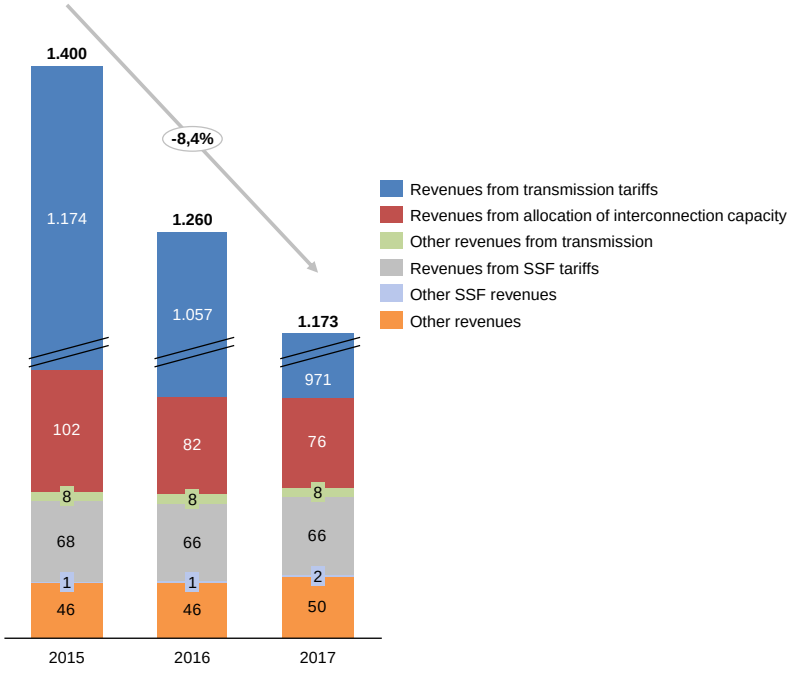


Table 27: Expenses generated by the allowed profit activities

Mil lei	2017	2016	2015	17/16
Operational Costs	**790**	**672**	**657**	▲ 18%
System operation costs	**258**	**231**	**232**	▲ 12%
Expenses on own technological consumption	207	183	187	▲ 13%
Expenses on congestions	0	3	1	▼ 92%
Expenses on electricity consumption in PTG substations	14	15	14	▼ 6%
Expenses regarding the functional system services	16	13	12	▲ 29%
Expenses on Inter TSO Compensation (ITC)	20	17	18	▲ 19%
OPCOM administration expenses	0	0	0	
Repairs and maintenance	**85**	**88**	**89**	▼ 4%
Personnel expenses	**179**	**212**	**186**	▼ 16%
Other Expenses	**269**	**141**	**150**	▲ 90%
Depreciation	**312**	**323**	**318**	▼ 4%
Operational costs inclusive of depreciation	**1,102**	**996**	**975**	▲ 11%

The total operational expenses (including depreciation) registered in 2017 rose by 4% compared to the similar period of the previous year (1,026 mil lei, up from 1,072 mil lei).

System operation costs

System operation costs registered a 11.7% decrease in 2017 compared to 2016, from 231 mil lei to 258 mil lei, mainly due to the increase in OTC expenses.

The total cost with the acquisition of energy necessary to cover the own technological consumption increased by 13.06% in 2017 compared to 2016. The positive evolution of the total cost in 2017 was determined by the increase in prices on the Day-Ahead Market (DAM), Intraday Market (IDM) and Balancing Market (BE) for the acquisition of electricity for the own technological consumption, from 180.3 lei/MWh in 2016, to 213.7 lei/MWh, against the background of a ca. 4.6% decrease in the electricity quantity necessary to cover OTC in the PTG (from 1,015 GWh in 2016, to 968 GWh in 2017).

Average prices with which Transelectrica procured energy for its own technological consumption registered increases in 2017 compared to 2016 for procurements on the Centralized Market for Bilateral Contracts ("CMBC") 2.5%, the spot market ("DAM") - 47.1% and the balancing market ("BE") - 22.3%.

Figure 33: Procuring mix depending on the quantities purchased from markets (GWh)

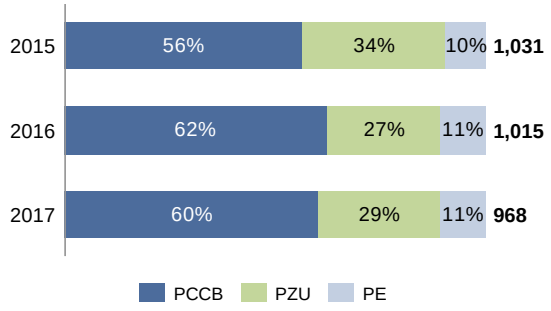


Figure 34: Quantities purchased from markets (GWh)

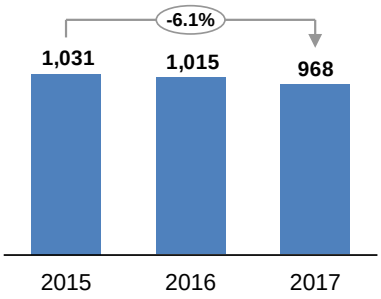
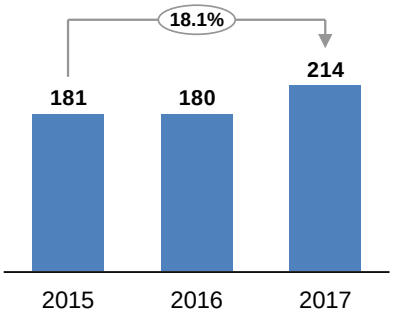


Figure 35: Average unit price of energy purchased for OTC (lei)



Congestions

Congestions (network restrictions) are requests for electricity transmission beyond the technical capacity of the network, requiring corrective actions from the transmission and system operator and occur in the situation in which, in the programming of the operation or the operation in real time, the power flow between two nodes or system areas leads to the non–compliance with the safety parameters in the operation of a power system. Congestions are managed by changing the network topology and, as a last resort, by re-dispatching the electricity output. Output redispatch leads to disrupting the merit order resulting on the Balancing Market, and additional costs are borne by Transelectrica. This is the measure applied by Transelectrica only when circumstances require maintaining the operational safety of the transmission system.

In 2017, the congestion value decreased by 3 mil lei compared to the 2016 value due to the extreme meteorological conditions of January 2016 in Dobrogea.

Expenses regarding the functional system services

The expenses on the functional system services represent the non-contracted international exchanges of electricity with the neighboring countries and the expenses on unplanned exchanges on the day-ahead market (DAM).

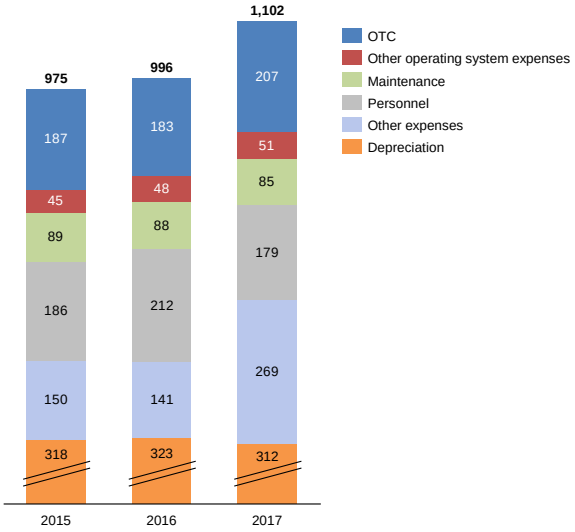
The ca. 26.7% increase in expenses regarding functional system services was determined by the increase in expenses on the balancing market and the day-ahead market in terms of unplanned electricity exchanges (exports) with neighboring countries interconnected in the NPS, due to the price increase on the centralized electricity markets.

Repairs and maintenance

Expenses on maintenance works decreased by 3.7% in 2017 (from 88 mil lei in 2016 to 85 mil lei in 2017) without an impact on the operational safety of the NPS.

The annual maintenance program for 2017 was carried out providing priority to works/services that lead to increasing the operational safety of installations, or to completing the contracted works/services and those contributing to the good operation of installations. We must also take into account the perspective of implementing the remote control and supervision program for electric installations, which requires the rehabilitation of electric equipment and will lead to reduced personnel and operational expenses.

Figure 36: Expenses generated by the allowed profit activities (mil lei)



Other operating expenses

NAFA control over the 2005-2010 period took place between 14.12.2011-30.06.2017. Following the inspection, a tax inspection report was finalized with the Taxation Decision no. F-MC 439 / 30.06.2017, supplemented with additional notes on 12.07.2017.

The amount of 99,891 is made up of 99,013 (according to the Decision mentioned above) and to which have been added accessories in the amount of 877, for the period 01.07.2017-26.09.2017, the date of extinguishment of the obligation to NAFA.

The amount of 99,013 is made up of the amount of 35,105 representing additional debts (profit tax and VAT) and 63,908 of the tax related tax liabilities (interest / increase and delay penalties). The amount of 99,927 is influenced by the inclusion of the amount of 99,013, according to the Taxation Decision no. F-MC 439 / 30.06.2017 issued on 12.07.2017 by NAFA.

The additional tax liability structure in the amount of 35,105 is shown in the table below:

Year	2005*	2006*	2007*	2008	2009	2010	Total
Income tax	231.5	13,577.5	5,224.0	809.4	1,978.9	1,671.3	**23,492.6**
VAT	0.0	76.4	6,199.6	772.7	2,416.9	2,147.0	**11,612.5**
TOTAL	**231**	**13,654**	**11,424**	**1,582**	**4,396**	**3,818**	**35,105**

*Note:

1) Period 1: Sept 2005 - Nov 2007: 123 missing bills, justified by the Company as burned in the fire that occurred on the night of June 26-27, 2009, at the work point of the Millennium Business Center building in Armand str. Calinescu nr. 2-4, sector 2;

2) Period 2: Dec 2006 - May 2007: 349 bills found missing in the same fire

Period 1: Sept 2005 - Nov 2007: 123 missing invoices, justified by the Company as burned in the fire that occurred on the night of June 26-27, 2009, at the work point of the Millennium Business Center Building in Armand Calinescu Street no. . 2-4, sector 2;

2) Period 2: Dec 2006 - May 2007: 349 bills found missing in the same fire

3) The VAT for the period 1 for a number of 123 invoices and not found in the above amounts, being retained in another fiscal inspection report (RIF) issued in 2011, litigation lost by the Company on 30.04.2014 and definitively on 01.03.2017. For the amount paid by the Company (44,443) there were adjustments for the impairment of the receivable in 2012 and 2014. In 2017, the

receivable loss expense was recorded, together with the reversal of the depreciation adjustment, with a ntTVA effect for the sept 2005-nov 2006 for a number of 123 invoices was retained in another tax inspection report issued in 2011, the litigation for the amount paid by the Company (44,443) was definitively lost on March 1, 2017

4) Profit tax on the 123 burned invoices: 13,735

5) Profit tax on the 349 burned invoices: 4.787

6) VAT collected for the 349 burned invoices: 5.695

Amounts highlighted under 4), 5) and 6) represent the amounts of the Fiscal report ended on 30.06.2017.

Interests / increases and late payment penalties from the beginning of the period up to the date of execution are shown below:

	Amount 2005-2016**	Amount 2017	Total
Interest/ delay increases and penalties for Income Tax	47,211	1,704	**49,915**
Interest/ delay increases and penalties for for VAT	14,583	362	**14,946**
TOTAL	**62,794**	**2,066**	**63,860**

**Note:

Additionaly amount for 123 burned invoices : 31,429

Additionaly amount for 349 burned invoices : 22,591

Apart from the details presented in the above mentioned Memorandums, the NAFA findings for the 2005-2010 period include both additional debits and accessories corresponding to the unrealized system technological services provided in the framework agreements approved by ANRE, for which Transelectrica records revenues from penalties. At the same time, NAFA retained additional debits and accessories corresponding to the findings of the Court of Accounts regarding the expenditures that were not aimed at the continuous training of the employees and which are not forms of professional training and for which the RCC Decision no. 14/2011.

In 2017, the Company challenged the NAFA Taxation Decision and, given that until March 13, 2018, the NAFA had failed to resolve the appeal, it requested the annulment of the Decision by the Court of Appeal of Bucharest file No 1802/2/2018.

Thus, by eliminating the amount of 97,824 related to the debits and the interest / penalties and the delay penalties retained in the NAFA Decision from the Other Expenses from the operation, the recalculated operating result is as follows:

th lei	2017	2016
Revenues		
Transmission revenues	1,054,629	1,146,257
Revenues from system services	650,747	716,340
Revenues on the balancing market	1,304,613	814,080
Other revenues	50,328	45,827
Total revenues	**3,060,317**	**2,722,503**
Operating expenses		
Expenses for operating system	(257,917)	(230,757)
Expenses for balancing market	(1,304,613)	(814,080)
Expenses regarding the technological system servic	(661,323)	(561,027)
Depreciation	(311,853)	(323,363)
Personnel expenses	(178,575)	(211,867)
Expenses for repair and maintenance	(84,765)	(88,394)
Expenses for materials and consumables	(8,317)	(7,676)
Other operating expenses	(162,861)	(133,720)
Total operating expenses	**(2,970,225)**	**(2,370,885)**
Operational result	**90,092**	**351,618**

The Company considered the taxation base was not reasonably determined by NAFAdepending on the fully regulated nature of such activity on the electricity market, but it was set proportionally to the number and value of invoices during the verified time interval. Transelectrica deemed itself entitled to take proceedings in court because it considers ANAF did not take into account all the data and documents relevant for estimation, as provided in the Fiscal procedural code applicable then. Thus the Company took ANAF to the Appeal Court of Bucharest in August 2012 to recover the amount and requested to admit the document proof and the judiciary accounting expertise proof.

On 18 September 2013 the expertise report was issued and submitted to the case file on the 20 September 2013 term. On the 18 October 2013 term the parties expressed objections to the judiciary expertise report, which were admitted by the Appeal Court on the 15 November 2013 term and were notified to the designated expert. On the 7 March 2014 term the expert submitted the answer to the Company's objections. As against the revenues taken into account by ANAF, used by ANAF when estimating the collected value added tax amounting to 16,303, the judiciary accounting expertise report found unjustified revenues in sum of 551 to which sum the value added tax and accessories to it should have been calculated. The hearing was deferred in order to acknowledge the answer to the objections made to the expertise report.

On the hearing date 30.04.2014 the settlement pronounced by the first instance, the Appeal Court Bucharest, Section VIII of Administrative and Fiscal Disputes (Ruling 1356/2014) in File 6657/2/2012 was: "Denies the request of claimant CNTEE Transelectrica SA (Contestation against the Administrative fiscal deed of NAFA)".

The Company filed appeal by requesting to be set within the term submitted in this file, with hearing term set on 07.04.2016, session that took place in the High Court of Cassation and Justice, Administrative and Fiscal Disputes Section. On 07.04.2016 a new term was set on 02.06.2016 for absence of procedure, term when the instance deferred pronouncement on 16.06.2016.

On this term the High Court of Cassation and Justice, Administrative and Fiscal Disputes Section pronounced ruling 1945/16.06.2016, stipulating as follows: "Admits the request and resets the recurrent-claimant within the appeal filing term. Denies as groundless the appeal filed by the National Power Grid Company Transelectrica against Sentence 1365 of 30 April 2014 of the Appeal Court Bucharest, Section VIII of administrative and fiscal disputes section. Irrevocable. Pronounced at public hearing today, 16 June 2016". Ruling 1945/16.06.2016 pronounced by the High Court of Cassation and Justice was notified to the Company by photocopy.

Contest for cancellation was filed against ruling 1945/16.06.2016 submitted to the High Court of Cassation and Justice. On 01.03.2017 the High Court of Cassation and Justice decided in ruling 779 as follows: "denies the exception of inadmissibility of contestation for cancellation filed by contender Transelectrica SA, invoked by statement by the respondent in appeal General Directorate Administrating Large Tax Payers. Denies as groundless the contestation for cancellation filed by contender Transelectrica SA against civil ruling 1945 of 16 June 2016 of the High Court of Cassation and Justice, Section of administrative and fiscal disputes, pronounced in file 6657/2/2012. Irrevocable". Until the elaboration date of these financial statements the Company has not received the printed ruling 779/01.03.2017.

The additional payable liabilities set by ANAF-DGAMC under the taxation decision 62/2011 were registered under "other operational expenses" by including the provision constituted in the financial years 2012 and 2014 into revenues.

- recording under "operational expenses regarding depreciation allowances for current assets" the depreciation allowances for:
  - Elcomex IEA SA in sum of 31,868;
  - Arelco Power SRL in sum of 18,782;

- other uncertain clients and sundry debtors in sum of 7,602 (Elsaco Energy SRL, Eva Energy, Enol Grup SA, CET Govora SA, PetProd SRL (etc)

11.1.2 Zero-profit activities

Table 28: Summary of revenues from zero-profit activities

Mil. lei	2017	2016 restated	2015	17/16
Operational revenue	**1,887**	**1,463**	**1,585**	▲ 29%
Technological System Services	582	649	662	▼ 10%
The Balancing Market	1,305	814	923	▲ 60%

In 2017, revenues from technological system services decreased by 66 mil lei compared to 2016 as a result of reduced tariffs applicable to such services starting with July 1st, 2016 and July 1st, 2017, but also due to a proper administration of system services under operational safety conditions of the NPS.

In 2017, revenues from the balancing market registered an increase of 491 mil lei compared to 2016, determined by:

- the high degree of unpredictability and volatility of production from renewable sources (especially wind).
- over-contracting / subcontracting on the markets prior to the balancing market (given that PRE s did not have significant notification imbalance values) and reduced participation / trading on the intra-day electricity market. The increasing of the negative imbalance registered at the level of the suppliers of electricity on the balancing market, ie increasing the imbalance between the notified net contractual position and the actually supplied energy;
- the very low temperatures recorded in the first quarter of 2017, which generated the recording of higher values of the electricity consumption in the operation of the NES;
- the increase in electricity consumption amid the severe weather phenomena recorded in July and August 2017 (heat in late July and early August, strong wind with storm in July, so the production in wind power plants varied a lot during the day and with large production variations from one hour to the next;
- Hydraulic evolution (low hidraulicity):

Table 29: Summary of expenses from zero-profit activities

Mil. lei	2017	2016	2015	17/16
Operational Costs	**1,966**	**1,375**	**1,561**	▲43%
Technological System Services	661	561	638	▲18%
The Balancing Market	1,305	814	923	▲60%

Expenses with technological system services carried out have registered a 100 mil lei increase in 2017 compared to 2016, determined by the higher purchase prices for technological system services on the competitive market compared to the regulated purchase prices.

The technological system services are purchased by the Company from producers in order to comply with the operational security limits of the NPS and of the quality of the electricity transmitted at the parameters required by the technical norms in force. The contracting of these services is performed:

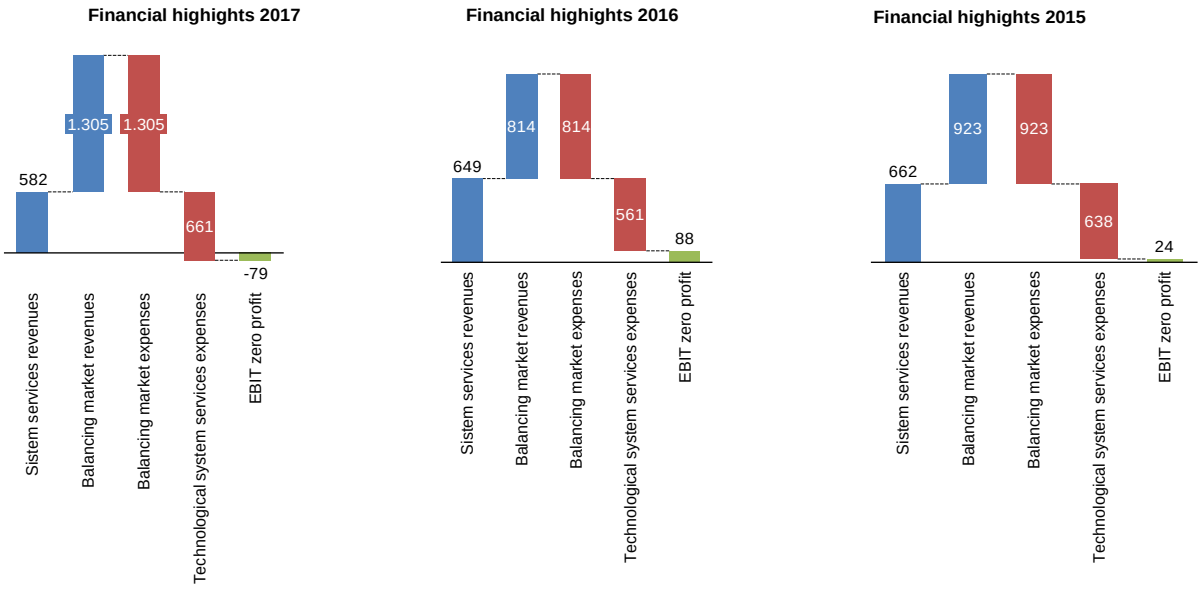
- under regulated regime, based on Government and ANRE decisions;
- through competitive mechanisms.
- According to GD no. 138/April 8th, 2013 on the adoption of measures regarding the electricity supply security, the Company purchased technological system services according to the terms of the regulations issued by the National Energy Regulatory Authority (ANRE), as follows:

- For the period January 1st - March 31st, 2017, the purchase of technological system services was conducted in the regulatory regime (slow tertiary reserve) according to GD no. 844/November 9th,
- 2016, as subsequently amended and supplemented, by which the "Winter Program in the Energy Sector for Assuring the safety and stability of the NES" was approved.
- In the timeframe January 1st - June 30th, 2017, the purchase of the ancillary services has been conducted under regulated regime from SC Hidroelectrica SA (ANRE Decision no. 1035/June 22th, 2016) and from SC Complexul Energetic Hunedoara SA (ANRE Decision no. 1034/June 22th, 2016).
- In the timeframe July 1st – December 31st, 2017, the purchase of the technological system services has been conducted under regulated regime from SC Hidroelectrica SA (ANRE Decision no. 906/June 22th, 2017) and from SC Complexul Energetic Hunedoara SA (ANRE Decision no. 907/June 22th, 2017).

Transelectrica re-invoices the value of the technological system services purchased from producers, to the electricity suppliers licensed by ANRE, who include this cost further down the supply chain to the end consumer who ultimately benefits from these services.

Balancing market expenses result from trades made on this market, being fully covered by revenues from the balancing market.

Figure 37: Results of zero-profit activities (mil lei)



11.2 Financial result

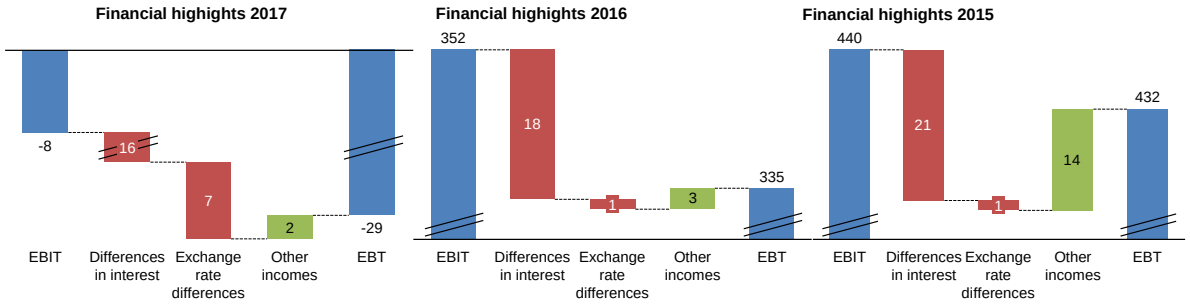
The net financial result (loss) registered by the Company as of December 31st, 2017 increased by 4.1 mil lei compared to 2016.

The increase of the net financial result (loss) regarding the exchange rate differences in 2017 compared to 2016, amounting to 6 mil lei, was influenced by the evolution of the exchange rate of the national currency in relation to foreign currencies in which the Company has contracted bank loans for financing the investment programs (Euros, Dollars).

Table 30: Exchange rate evolution

Lei	31-Dec-17	31-Dec-16	31-Dec-15	17/16
1 EUR	4.6597	4.5411	4.5245	▲ 2.6%
1 USD	3.8915	4.3033	4.1477	▼9.6%
100 JPY	3.4574	3.6834	3.4453	▼6.1%

Figure 38: Financial results (mil lei)



11.3 Balance sheet – financial position

Mil. lei	2017	2016 restated	2015	17/16
Fixed Assets				
Property, Plant and Equipment	3,044	3,190	3,341	▼ 5%
Intangible assets	16	14	35	▲ 8%
Financial assets	78	78	56	0%
Long-term receivables	0	10	0	n/a
Total	**3,138**	**3,292**	**3,432**	▼ 5%
Current assets				
Inventories	32	30	34	▲ 5%
Customers and assimilated accounts	819	852	723	▼4%
Other financial assets	0	135	70	n/a
Cash and cash equivalents	521	934	974	▼ 44%
Total	**1,371**	**1,951**	**1,802**	▼ 30%
TOTAL ASSETS	**4,509**	**5,243**	**5,234**	▼ 14%
Shareholders' equity				
Share capital	733	733	733	▼ 0%
Retained earnings	1,261	1,602	1,488	▼ 21%
Reserves	723	772	809	▼ 6%
Total	**2,717**	**3,108**	**3,029**	▼13%
Non-current liabilities				
Loans	195	502	635	▼ 61%

Other liabilities	484	503	532	▼ 3%
Total	**684**	**1,005**	**1,167**	▼ 32%
Short-term liabilities				
Loans	317	138	167	▲ 129%
Trade payables	700	874	776	▼ 20%
Other liabilities	91	118	95	▼ 23%
Total	**1,108**	**1,130**	**1,038**	▼ 2%
Total liabilities	**1,792**	**2,135**	**2,205**	▼ 16%
SHAREHOLDERS' EQUITY AND LIABILITIES	**4,509**	**3,738**	**5,234**	▼ 14%

Assets

Fixed assets registered a ca. 5% decrease at the end of 2017, mainly following the registration of tangible and intangible asset depreciation and due to the increase of the amounts related to property, plant and equipment in progress.

In 2017, the Company recorded an increase in value of property, plant and equipment in progress, particularly represented by the investment works in high voltage electricity lines, and the biggest transfers from tangible assets in progress to tangible assets are mainly represented by the commissioning of the investment objectives, as follows:

Tangible assets were not revalued during 2017.The management concluded that the market prices didn't change significantly compared to 2016, when the Company conducted the last revaluation, and there is no indication of impairment of the tangible assets held by the Company both from internal and external sources.

On December 31st, 2017 the Company no longer registers long-term receivables representing trade receivables with maturity of over 1 year that have been spread up for payment, associated to the bonus type support scheme for high-efficiency cogeneration promotion, following the integral collection of the amount of 4.6 mil lei representing the overcompensation for the year of 2016, amount that should have been collected starting with the month of October 2018, according to the concluded agreements.

Current assets Current assets recorded a 30% decrease as of December 31st, 2017 (1,371 mil lei) compared to the value registered as of December 31st, 2016 (1,951 mil lei), mainly determined by the 44% decrease in cash and cash equivalents (521 mil lei as of December 31st, 2017 compared to 934 mil lei as of December 31st, 2016) and the annulment of bank deposits with maturity over 90 days, which on December 31st, 2016 amounted to 135 mil lei (recorded under "Other financial assets").

On December 31st, 2017, the current customers in the operational activity and balancing market registered a decrease compared to December 31st, 2016, which was mainly determined by:

– the decrease in the electricity quantity delivered to consumers in December 2016, compared to December 2017;

- decrease of the average tariff approved by ANRE for these services

On December 31st, 2017, the Company registered receivables to be collected from the bonus type support scheme for promoting the high-efficiency cogeneration in a proportion of approximately 26% (December 31st, 2016 – 22%) of the total trade receivables.

The customers from the bonus type support scheme for promoting the high-efficiency cogeneration registered an increase in the receivables on December 31st, 2017, mainly determined by the receivables amounting to 139.9 mil lei, registered according to the ANRE Decisions on the overcompensation of the activity regarding the support scheme for the

year 2016, for which invoices were issued in the month of March 2017.

In the timeframe January 1st – December 31st, 2017, the amounts related to the bonus type support scheme have increased compared to December 31st, 2016, mainly due to the overcompensation decisions for 2016, issued in 2017.

On December 31st, 2017 the Company registered receivables amounting to 168.8 mil lei, represented by the invoices issued under the bonus type support scheme for high efficiency cogeneration, out of which:

– overcompensation for the period of 2011 – 2013 in the amount of 76.7 mil lei, namely from RAAN – 63.4 mil lei and CET Govora SA – 13.2 mil lei;

– undue bonus for 2014 amounting to 3.9 mil lei, namely from RAAN – 2 mil lei, CET Govora – 1.9 mil lei;

– undue bonus for 2015 amounting to 0.5 mil lei, namely from CET Govora – 0.53 mil lei.

– overcompensation for 2015 in the amount of 9.7 mil lei, namely from Electrocentrale Oradea (debt taken over by Termoficare Oradea);

– undue bonus for 2016 amounting to 56.7 mil lei, namely from Electrocentrale Bucuresti – 56.7 mil lei;

– cogeneration contribution not collected from the suppliers of energy consumers, amounting to 2 mil lei, namely from: Transenergo Com – 5.8 mil lei, PetProd – 4.3 mil lei, Romenergy Industry – 2.7 mil lei, RAAN – 2.4 mil lei, Arelco Power – 2.4 mil lei, UGM Energy – 1.8 mil lei, CET Govora – 0.9 mil lei, KDF Energy – 0.9 mil lei, and others.

For discharging the receivables generated by the overcompensation and the undue bonus, the Company requested the reciprocal compensations from the qualified producers in the support scheme. For producers (RAAN, Electrocentrale Bucuresti, CET Govora) that have not agreed to this way of discharging the reciprocal receivables and debts, the Company has applied and continues to apply the provisions of Article 17 (5) of the Order of ANRE Chairman no. 116/2013 approving the Regulation on determining the way to collect the contribution for high-efficiency cogeneration and payment of the bonus for the electricity produced in high-efficiency cogeneration.

On December 31st, 2017, other receivables amounting to 161 mil lei mainly include:

– interest on late payments computed for clients in default of payment, amounting to 65 mil lei (of which the amount of 26 mil lei represents penalties related to the support scheme); The highest interests on late payments have been registered by the following clients: RAAN (16.9 mil lei), SC CET Govora (9.6 mil lei), SC Eco Energy SRL (8.9 mil lei), SC Petprod SRL (8.9 mil lei), Total Electric Oltenia (3.3 mil lei), Arcelor Mittal Galati (2.3 mil lei), Also Energ (2.1 mil lei). Impairment adjustments were recorded for the interest on late payments calculated for the late payment on receivables from the operational activity;

– compensations owed by suppliers for not delivering electricity (Arelco Power 2.8 mil lei and Enol Grup 2.5 mil lei).

– Impairment adjustments were recorded for the compensations owed by suppliers from operating activities;

– down payments made to the supplier ELCOMEX – IEA SA amounting to 31.2 mil lei for which penalties amounting to 0.69 mil lei have been calculated. The down payments have been granted to the supplier ELCOMEX - IEA SA for performing the projects.
The down payments made to ELCOMEX – IEA SA are secured with the insurance policies issued by Asito Kapital S.A.
On April 7th, 2017 the Court of Constanta, Section II Civil, by Hearing protocol no. 294/2017, upheld the application for a declaration of insolvency of the debtor Elcomex – IEA SA, naming Pricewaterhouse Coopers Business Recovery Services IPURL as insolvency administrator.
Given that to the date of drafting the financial statements, the amounts guaranteed by ASITO KAPITAL SA for the payment of down payments have not been recovered, on December 31st, 2017 the Company registered

impairment adjustments amounting to 31.18 mil lei.
– receivables from OPCOM representing VAT for the contribution in kind to the subsidiary's equity, amounting to 4.5 mil lei;

– deferred expenses amounting to 4.8 mil lei mainly represented by the advances on contracts concluded with the suppliers of electricity needed for covering the own technological consumption for future periods (3.3 mil lei), a guarantee fee for the BEI 25710 loan and commission of ING credit granting, maintenance and technical assistance, rents;

– other long-term receivables amounting to 4.5 mil lei, out of which 4.2 mil lei represent guarantees for temporary occupation of the land calculated and retained in accordance with Article 39 (1), (2) and (5) of Law no. 46/2008 on the Forestry Code, in order to achieve the investment objective Resita – Pancevo (Serbia) 400 kV OHL.

– receivables to be recovered from ANAF in the amount of RON 44 mil lei.

Shareholders' Equity and Liabilities

Long-term liabilities have registered a 32% decrease in 2017, as a result of reimbursements performed as per the maturity dates and loan agreements (from 1,005 mil lei as of December 31st, 2016 to 684 mil lei as of December 31st, 2017).
At the same time, **short-term liabilities** have registered a 2% decrease (from 1,130 mil lei as of December 31st, 2016 to 1,108 mil lei as of December 31st, 2017). This situation is mainly determined by:

- the increase in the current portion of long-term credits, including interests related to long and short-term borrowings and liabilities (from 138 mil lei as of December 31st, 2016 to 317 mil lei as of December 31st, 2017)
- the 20% decrease in trade payables (from 874 mil lei as of December 31st, 2016 to 700 mil lei as of December 31st, 2017), due to:
- the decrease of liabilities to suppliers from the operational activity – energy, as a result of the payment of outstanding obligations on the electricity market as of December 31st, 2016
- the decrease of liabilities to suppliers on the balancing market, as a result of the decrease in trade volume on the balancing market in December 2017 compared to December 2016
- the decrease of the contribution for high-efficiency cogeneration – the "Different creditors" category amounting to 32 mil lei as of December 31st, 2017 mainly represents the net position of the support scheme for high-efficiency cogeneration, decreased from 134 mil lei in December 31st, 2016 as a result of the decrease of the contribution for high-efficiency cogeneration

Shareholders' equity

Shareholders' equity registered a 13% decrease determined by the decrease of the revaluation reserve (500 mil lei as of December 31st, 2017 compared to 549 mil lei as of December 31st, 2016) and the 21% decrease in retained earnings (1,261 mil lei as of December 31st, 2017 compared to 1,602 mil lei as of December 31st, 2016)

11.4 Cash flow

Table 31: Cash flow

Mil lei	2017	2016	2015	17/16
Operational activity				
Cash flow before changes in current assets	355	725	808	▼51%
Changes in current assets	(41)	(119)	83	▼66%
Paid interests and taxes	(30)	(91)	-86	▼67%
Net cash from the operational activity	**96**	**515**	**805**	**▼81%**
Investment activity				
Purchase of tangible and intangible assets	(183)	(172)	-243	▲ 6%
Collections from the investment activity	8	8	19	0%
Other financial assets	135	(65)	79	**n/a**
Cash used in the investment activity	**(40)**	**(199)**	**(14)5**	**▼80%**
Financing activity				
Net (repayments)/collections from borrowings and bonds issuance	(134)	(162)	(197)	▼17%
Special dividends paid ccording to.OG 29/2017	(170)	-	-	n/a
Paid dividends	(166)	(194)	(205)	▼14%
Cash used in the financing activity	**(470)**	**(357)**	**(402)**	**▲32%**
Net decrease in cash and cash equivalents	(413)	(41)	258	▲ 907%
Cash and cash equivalents as of January 1st	**934**	**974**	**716**	**▼ 4%**
Cash and cash equivalents at the end of the year	**521**	**934**	**974**	**▼44%**

11.5 Indicators

Table 32: Profitability, liquidity, risk and activity indicators

Indicator	Calculation formula	2017	2016	2015
Profitability indicators				
a) EBITDA in total turnover	EBITDA / Turnover	0.10	0.25	0.26
b) EBITDA in shareholders' equity	EBITDA / Shareholders' equity	0.11	0.22	0.25
c) Gross profit ratio	Gross profit / Turnover	(0.01)	0.12	0.15
d) Rate of return on capital	Net profit / Shareholders' equity	(0.02)	0.09	0.12
Liquidity indicators				
a) Current liquidity indicator	Current assets / Short-term liabilities	1.24	1.62	1.74
b) Quick ratio indicator	Current assets - Inventories / Short-term liabilities	1.21	1.59	1.70
Risk indicators				
a) Debt ratio indicator	Debt capital / Shareholders' equity	0.19	0.21	0.26
b) Interest coverage ratio	EBIT / Interest expenses	(0.36)	14.58	15.75
Activity indicators				
a) Rotational speed of debts – clients	Customers average balance x 365 / Turnover	71.41	72.68	70.61

12 Regulated tariffs for electricity transmission

General framework

The regulatory model of transmission tariffs currently applied in Romania is the revenue cap. This model assumes regulating the total allowed revenue of the transmission market operator and includes among objectives the provision of premises necessary for the efficient operation of transmission services and maintaining the operator's financial stability in order to provide proper remuneration of financiers, while also maintaining the access to financing. The model includes mechanisms stimulating operational efficiency and a financial profitability framework based on control over the investments made by the operator (asset regulatory base) as well as regulated rate of return established with the operator's estimated average financing costs.

Electricity transmission services are charged during regulatory periods. Such regulatory periods represent multi-annual cycles of tariff regulation (currently 5 years), during which a tariff calculation methodology[14] is applied and a full set of parameters is used for it, for actual tariff calculations. Tariff parameters established for multi-annual horizons and offer a higher predictability and visibility of investments, of Transelectrica's operational costs and revenues. Tariffs of a regulatory period are annually reviewed and remain valid for 12month intervals since the approval date[15] (tariff years).

Differences between the forecasted values and actual values of parameters used in tariff calculations for a particular year are netted by means of ex-post corrections implemented in the tariff in subsequent tariff years or at the beginning of the immediately following regulatory period. In case of certain specific elements of the regulated cost base which is capped, exceeding the forecasted level of such costs is not netted. Also in the case of certain cost components, savings are partially withheld by Transelectrica.

The set of calculation parameters is approved by ANRE and includes:

- costs for current operation of the service: controllable and non-controllable operation and maintenance costs, own technological consumption, internal network congestions, costs and revenues associated to the financial settlement mechanism of electricity transits within ENTSO-E;
- costs of system development: investments planned in the transmission network, the depreciation program based on regulated service periods, the profitability of invested capital established using a regulated rate of return, applied to the asset regulatory base;
- the electricity amount that can be charged.

Transmission tariffs are invoiced using the amounts of active electricity input/taken out the public electric networks on Romanian territory, except for imports/exports.

In accordance with ANRE decision 71/2017, starting with January 2017 a simulation process began for the effects of implementing the binomial tariff for electricity transmission services. This simulation period is planned for two years (2017 and 2018), the application calendar having 2019 as target year for the actual implementation. The current tariff system is monomial, which means relying exclusively on the generated/consumed energy. By means of the binomial tariff system, the regulated revenue is recoverable by applying two types of tariffs: energy rate and power rate.

Transelectrica charges transmission tariffs for injection into public electricity networks (tariff component TG) and for extraction out of public

[14] The methodology currently applied is the one approved by ANRE Order no. 53/2013 on the tariff setting methodology for the electricity transmission service

[15] Tariffs may be changed during a tariff year only in clearly defined cases foreseen by the tariff setting methodology for the electricity transmission service approved by ANRE Order no. 53/2013

electricity networks (tariff component TL). TG is not applied to the electricity generated by power plants of small installed capacity up to 5 MW. TG is also not applied to imported electricity. TL is not applied to exported electricity.

On July 1st, 2015, ANRE changed the allocation manner of regulated costs by the two components of the transmission tariff (TG and TL). This change meant limiting the costs included in the TG to the costs of the own technological consumption and the costs associated to removing network congestions. All other regulated costs were distributed to TL. The change occurred due to Romania's voluntary step to tailor the national regulatory framework according to the recommendations provided in Opinion no. 9/2014 issued by the Agency for Cooperation of Energy Regulators (ACER) regarding transmission tariffs paid by electricity producers in Europe.

The Opinion of ACER points out how important it is to increase the harmonization degree of transmission tariffs paid by electricity generators, with a view to minimize potential distorted effects caused by different network tariffs paid by generators from different EU member states, in the context of setting the single electricity market on an European level.

In Romania, the new cost allocation method moved the center of gravity of regulated revenue on the TL tariff, thus the national electricity consumption became the main determining factor in the collection of transmission revenues. The situation before implementing this new allocation method was characterized by a balanced distribution of regulated costs by TG and TL components, which generated similar exposure levels of revenues to the volumes injected in the grid by generators, namely to the volumes extracted out of the grid by consumers. The new allocation method significantly reduces the exposure levels of revenues to the electricity output (stimulated by export in recent years) and increases the exposure of revenues to the domestic demand of electricity accordingly.

The tariff plan for electricity transmission is currently differentiated by zones, both for injection and for extraction of electricity into/from networks, depending on the impact such electricity injection/extraction can have over the own technological consumption in a certain area of the power transmission grid. The amendments made to Law no. 123/2012 on electricity and natural gas at the end of 2016 provide uniform tariffs by eliminating zone differences, and the network users will pay the same transmission tariff (network injection/network extraction) regardless of their connection point in the network. Such amendments will be implemented in the secondary legislation.

Tariffs applicable in 2017

ANRE published the Order no. 48/2017 on the approval of the average tariff for the transmission service, the tariff for the system service, the zonal tariffs for the transmission service and the regulated price for reactive electrical energy, used by the Company.

The Order was published in the Official Gazette 489/28.06.2017.

Thus, the regulated tariffs concerning to the electricity transmission service and system services effective as of July 1st, 2017, have been modified.

The tariffs approved by ANRE (Order no. 48/2017) are presented in the table below:

Index	**Tariff**	**UM**	Tariff applied as of July 1st, 2016	**Tariff applied as of July 1st, 2017**	Difference %
A	Electricity transmission	lei/MWh	18.70	**16.86**	-9.8%
B	Functional system service	lei/MWh	1.30	**1.11**	-14.6%
C	Technological system service	lei/MWh	11.58	**9.39**	-18.9%
	Charged quantity	TWh	52.0	**54.0**	-

The newly approved tariffs have been calculated in accordance with the applicable methodologies

On December 20th, 2017, on the grounds of ANRE Order no. 122, the Company published the statement on the approval of the average tariff for the transmission service. Pursuant to the document published by ANRE, the increase of the regulated system services tariff (from 9.39 lei/MWh to 12.06 lei/MWh) leads to

an increase of ca. 0.6% in the final price of energy delivered to the household consumers.

Transmission tariff

The decrease of 9.8% in the transmission tariff mainly represents the negative corrections applied by the regulator for the compensation of differences between the forecasted values used to calculate the tariff in the previous years and the actual recorded values (final corrections for the year July 1st, 2015 - June 30th, 2016, preliminary corrections for the year July 1st, 2016 - June 30th, 2017) according to the methodology in force.

The "ex-post" corrections contributed to the decrease in tariff with 5.6%. The most important elements of the ex-post corrections applied in calculating the new approved tariff are: (i) the price of energy purchased to cover the own technological consumption, (ii) the inflation index, (iii) using a part of the incomes resulted from interconnection capacity allocation as a complementary source for the regulated tariff in order to cover the regulated costs, (iv) the increase of energy consumption and exported electricity above the initial level forecasted by ANRE when planning the tariff;

In addition to the negative corrections there have been other factors which contributed to the establishment of the approved tariff value, entered into force on July 1st, 2017, compared to the tariff in force until June 30th, 2017:

- The forecasted inflation used for the calculation of the new approved tariff was higher than the forecasted inflation used for the calculation of the previous tariff (the inflation index used for the calculation of the new tariff is higher than the inflation index used for the calculation of the tariff for the previous tariff year).
- The contribution of the inflation index difference to the modification in the new approved tariff compared to the previous tariff is of +0.37%;
- The basic annual income calculated as a sum of the annual regulated costs, set forth based on the cost forecast for a period of 5 years, approved by ANRE for the regulation period July 1st, 2014 - June 30th, 2019, is slightly higher than the basic annual income corresponding to the previous tariff year. The linearization of the annual income series within the regulation period led to a redistribution of the annual income within the period, while keeping constant the total income value for 5 years, the income development from one year to the next representing a decreasing negative slope. The cumulated contribution of the two elements presented within this paragraph to the modification in the new approved tariff compared to the previous tariff is of -0.92%.

Functional system services tariff

The tariff decrease 14.6% was mainly determined by:

- The negative ex-post correction included in the new tariff is higher than the negative correction applied to the tariff for the previous year. The contribution of the ex-post correction to the decrease in the new approved tariff compared to the previous tariff is of -3.8%;
- The annual forecast for costs included in the new approved tariff is lower than the annual forecast for costs included in the tariff for the previous year. The contribution of the reduction of the annual forecast for costs to the decrease in the new approved tariff compared to the tariff in force is of -6.9%;
- The electricity volume chargeable at the extraction point was increased from 52 TWh to 54 TWh. The contribution of the change in the chargeable volume to the decrease in the new approved tariff compared to the previous tariff is of -3.8%.

Technological system services tariff

The tariff decrease 18.9% was determined by:

- The negative ex-post correction included in the new approved tariff, set forth according to the methodology applicable for partial compensation (amounting to 80%) of the estimated profit to be accumulated until June 30th, 2017. The profit was mainly obtained due to the significant reduction of unit purchasing prices via auctions for ancillary services compared to the unit

prices forecasted by ANRE. In order to mitigate the impact on the regulated tariff, on Transelectrica's request, a new staging program was set forth for the application of the correction on the grounds of which 50% of the total correction was applied in the new approved tariff, following that the remaining 50% to be applied to the subsequent tariff revisions. The contribution of the ex-post correction to the decrease in the new approved tariff compared to the tariff in force is of -4.6%;

- The annual forecast for costs included in the new tariff for purchasing ancillary services in the tariff year July 1st, 2017 - June 30th, 2018 is lower than the forecast for costs included in the tariff year July 1st, 2016 - June 30th, 2017. The reduction of the forecast for costs was determined by the reduction of purchasing prices via auctions for ancillary services in the current tariff year compared to the prices forecasted by ANRE, especially in the second half of 2016. The contribution of the reduction of the annual forecast for costs to the decrease in the new approved tariff compared to the previous tariff is of -10.6%;
- The electricity volume chargeable at the extraction point was increased from 52 TWh to 54 TWh. The contribution of the change in the chargeable volume to the decrease in the new approved tariff compared to the tariff in force is of -3.7%.

The regulatory framework for the ancillary services activity (ANRE Order no. 45/2017) includes tariff adjustment mechanisms after a minimum of six months from the approval of the tariff, created to ensure the full and timely recovery of the costs incurred by the Company in purchasing such services.

Event to report after December 31st, 2017

Transelectrica requested ANRE to revise the regulated tariff for ancillary services starting with January 1st, 2018, given the following:

- the major discrepancy between the real prices paid by Transelectrica when purchasing ancillary services under competitive regime and the prices forecasted by ANRE at the moment of approval of the tariff for the 4th tariff year;
- the level of the financial loss occurred from the ancillary services activity estimated for the period July – December 2017 (the first half of the 4th tariff year) is above the negative correction level taken into consideration by ANRE when approving the tariff for the 4th tariff year;
- supplementing the reserve quantity in the immediately subsequent

period (January – March 2018) according to the winter programme in the energy sector, approved by GD no. 760/2017, additional and unanticipated costs will be generated for the TSO at the moment of approval of the tariff enforced since July 1st, 2017.

Taking into consideration that the difference between the revenue and the justified costs of Transelectrica has exceeded 5%, ANRE established a new tariff for the first semester of 2018 (the second semester of the 4th tariff year) amounting to 12.06 lei/MWh, pursuant to the provisions of Art. 18 of the ANRE Order no. 45/2017 and on the grounds of the price estimations for the acquisition of ancillary services under competitive regime and the hypothesis according to which the electricity quantity shall rise (by 2% compared to the electricity quantity estimated for the second semester of 2017); this new price is meant to correct the discrepancy between the TSO's costs and revenues, discrepancy which rose by 25% compared to the tariff enforced in the first semester of 2017, amounting to 9.39 lei/MWh.

13LITIGATIONS

RAAN

Pending with the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section, the file no. 9089/101/2013/a140 was recorded, involving the "claims in the amount of 86.5 mil lei", a file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities - RAAN.

By application for summons filed by the plaintiff, they asked Transelectrica SA to pay the amount of 86.5 mil lei.

On May 19th, 2016, the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section, pronounced a hearing protocol by which it ordered the following: "on the grounds of Article 413 (1) of the Civil Procedure Code, suspends the case until the settlement of the file no. 3014/2/2014 on the docket of the High Court of Cassation and Justice. With appeal throughout the suspension. Pronounced on May 19th, 2016, in open court."

We also mention the fact that, by the protocol dated on September 18th, 2013, ruled by the Mehedinti Court in file no. 9089/101/2013, the opening of the general insolvency proceedings has been ordered against the debtor Autonomous Administration for Nuclear Activities R.A. (R.A.A.N.)

Through the sentence no. 387/March 20th, 2014, the Mehedinti Court confirmed the reorganization plan of the debtor Autonomous Administration for Nuclear Activities, proposed by the insolvency administrator Tudor & Partners SPRL and voted on by the General Assembly of Creditors according to the minutes of February 28th, 2014.

By interim decision no. 10/January 28th, 2016, pronounced by the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation, the liquidator ordered the commencement of the bankruptcy procedure for the debtor pursuant to Article 107 (1) C of Law. no. 85/2006, and the dissolution of the debtor and cancellation of the debtor's right to administer.

Through the Decision no. 563/June 14th, 2016, the Court of Appeal Craiova - Section II Civil rejected the appeals lodged against interim decision no. 10/January 28th, 2016, ruled by the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section.

By the hearing protocol of June 30th, 2016, Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section set the new procedural time limit as follows: "Sets the deadline for the submission of claims arising in the proceedings to August 13rd, 2016. Sets the deadline for the verification of claims arising during the procedure, preparation, display and communication of additional table of receivables on September 29th, 2016. Sets the deadline for filing objections against receivables arising in the proceedings on October 9th, 2016 and for resolving the objections against receivables arising in the proceedings on October 20th, 2016. Sets the deadline for the preparation and display of the consolidated final table on November 10th, 2016."

Together with filing the receivables declaration in the bankruptcy proceedings of RAAN, Transelectrica SA may invoke the provisions of Article 52 of Law no. 85/2006, applicable to the bankruptcy proceedings for RAAN, provisions taken from Article 90 of Law no. 85/2014 concerning the creditor's right to invoke the compensation of his receivable with the one of the debtor, when the legal provisions on compensation in legal proceedings are completed on the date of commencement of the procedure.Transelectrica SA has been registered in the table of debtor RAAN with the amount of 11.3 lei under the category of receivables resulting from the continuation of the debtor's activity, the amount requested by our company being equal to 89.4 mil lei, our amount of 78.1 mil lei not being registered in the preliminary table because "this is not listed as owed in RAAN's accounting records." Moreover, the liquidator considered that the request regarding the registration in the table of the amount equal to 78.1 mil lei is tardily filed, being related to the timeframe 2011 – 2013, reason for which the receivable declaration should have been filed at the

moment of commencement of the insolvency proceedings, namely on September 18th, 2013. An appeal was filed against the Table. The Mehedinți Court approved the accounting expertise proof. The parties lodged objections against the audit expertise report, which were admitted by the court who set the hearing on February 22nd, 2018.

COURT OF AUDITORS

Following a verification conducted in 2013, the Court of Auditors issued several measures to be implemented by the Company as a result of a series of deficits identified within this verification. The decision and protocol issued by the Court of Auditors have been appealed before the Court of Appeal Bucharest, the file no. 1658/2/2014 being constituted.

At the hearing from January 20th, 2016, the court postponed the case so that the appointed accounting expert can express his point of view regarding the objections of the plaintiff against the expert report concerned and so that the technical expert can perform the expertise. On June 29th, 2016, the court postponed the case so that the technical expertise report may be finished. The next hearing was set on October 26th, 2016, and until the date of drafting this report, no other changes have been registered.

At the hearing from February 8th, 2017, the objections against the expert report have been notified. The postponement date was set on April 4th, 2017.

Following a verification conducted in 2017, the Court of Auditors issued several measures to be implemented by the Company as a result of a series of deficits identified within this verification. CNTEE Transelectrica SA filed a total of 8 objections against the measures ruled by the Romanian Court of Auditors (CCR) via Decision no. 8/27.06.2017 requesting the annulment thereof, as well as the Decision no. 77/03.08.2017 registered with the Company's secretariat under no. 29117/08.08.2017, as well as the Control Report no. 19211/26.05.2017, as follows:

- Case file no. 6578/2/2017 pertains to the annulment of the findings from point 9 and the measures ruled at point II.11;
- Case file no. 6577/2/2017 pertains to the annulment of the findings from point 13 and the measures ruled at point II.13;
- Case file no. 6576/2/2017 pertains to the annulment of the findings from points 7.1, 7.2 and 8 and the measures ruled at point II.10;
- Case file no. 6574/2/2017 pertains to the annulment of the findings from point 5.2 and the measures ruled at point II.8;
- Case file no. 6581/2/2017 pertains to the annulment of the findings from point 6 and the measures ruled at point II.9;
- Case file no. 6580/2/2017 pertains to the annulment of the findings from point 10 and the measures ruled at point II.12;
- Case file no. 6582/2/2017 pertains to the annulment of the findings from point 11 and the measures ruled at point I.5;

- by Decision no. 274/2017, CAB ruled the following: "Rejects the request as groundless. With right of appeal within 5 days from notification, with the remission of sentence on the head of the claim, which is submitted to the Court of Appeal Bucharest. With right of appeal within 15 days from notification, with the annulment of the action on the head of the claim, which is submitted to the Court of Appeal Bucharest. Ruled on January 29th, 2018, pursuant to Art. 402 in conjunction with Art. 396 (2) of the Romanian Civil Procedure Code, notified via the registry of the court." as per the information available on the court website.

Case file no. 6583/2/2017 pertains to the annulment of the findings from point 5.1 and the measures ruled at point II.7;

- by Decision no. 5207/2017, CAB ruled the following: "Rejects the exception to the ineligibility of the claim invoked by the defendant as groundless. Rejects the request in annulment as groundless. Rejects the suspension request as groundless. Rejects the plaintiff's request to order the defendant to pay the legal costs, as groundless. With right of appeal within 5 days from notification with regard to the solution given for the suspension request, within 15 days from notification with regard to the solution given for the merits of the case and the request to appeal will be submitted to the Court of

Appeal Bucharest – Section VIII Administrative and Fiscal Litigation. Ruled in open court today, December 28th, 2017." as per the information available on the court website.

Note: litigations are registered on the docket of the Bucharest Court of Appeal and are currently in different settlement stages.

ANRE

CNTEE Transelectrica SA filed a complaint against the Order of the ANRE Chairman no. 51/June 26th, 2014, registered at ANRE under no. 47714/August 4th, 2014, and an appeal before the Court of Appeal Bucharest, subject of the file no. 4921/2/2014, requesting either the amendment of the aforementioned Order, or the issuance of a new order, which should recalculate the RRR value at the level of 9.87% (recalculated with a (β) coefficient of 1.0359, according to the internal analyses conducted by Transelectrica) or, should this request be rejected, using the same percentage of 8.52% set by ANRE for the year of 2013 and for the first semester of 2014.

On June 26th, 2014, the ANRE Order no. 51 was issued, published in the Official Journal under no. 474/June 27th, 2014 on the approval of the average tariff for the transmission service, the tariff for the system service and the zonal tariffs for the transmission service, payable to the National Power Grid Company "Transelectrica" - SA, and the repealing of Addendum no. 1 of the ANRE Chairman's Order no. 96/2013 regarding the approval of the average tariff for the transmission service, the tariff for the system service, the zonal tariffs for the transmission service and the tariffs for the reactive electrical energy, payable to economic agents from the electricity sector.

The values taken into consideration for calculating the Regulated Rate on Return (RRR[16]) by ANRE, according to the Methodology on establishing the tariffs for the electricity transmission service, approved by ANRE Order no. 53/2013 ("the Methodology") have determined a RRR value of 7.7%.

CNTEE Transelectrica SA considers that the enforcement of the provisions of Article 51 of the Methodology on establishing the Beta (β) parameter at the value of 0.43[17] shall determine the financial damage of the company by decreasing the rentability with an estimated value of 138.4 mil. lei[18], having a significant impact on the financial interests of the company.

At the hearing from February 9th, 2016, the court admitted the evidence with the audit expertise - specialization financial investments and other entities of movable goods, extended the discussion on the technical evidence discussion - electroenergetic specialization, after administering the evidence with the audit expertise - specialization financial investments and other entities of movable goods.

At the hearings from March 25th, 2016, April 22nd, 2016, June 10th, 2016 and March 3rd, 2017, the court postponed the judgement of the cause because of the missing technical expertise report. The next hearing was set for February 13th, 2018.

OPCOM

On March 4th, 2014, the European Commission issued a communication stating that it has imposed a fine of 1,031,000 EUR to the subsidiary of SC OPCOM S.A. for the abuse of dominant position on the Romanian market in order to facilitate the trading of electricity on the spot market, in breach of the EU antitrust rules. The Company was included in the trial acting as parent company to the subsidiary SC OPCOM S.A., being jointly responsible for paying the fine.

The General Assembly of Shareholders of the subsidiary OPCOM SA decided at the meeting from June 10th, 2014, upon full payment of the fine amounting to 1,031,000 euro imposed by the Directorate General for Competition – European Commission for breaching of Article 102 of the Treaty on the Functioning of the

[16] *RRR - Regulated Rate on Return is presented in the technical literature as WACC – Weighted Average Cost of Capital – translated as Weighted Average Cost of Capital, the equation of both indicators being similar: RRR = WACC = CCP + Kp/(1 – T) + CCI x Ki*

[17] *The value that caused the decrease of the RRR to 7.7%*

[18] *Value calculated compared to the RRR of 8.52%*

European Union, according to the Decision no. AT 39984 in the antitrust case. The subsidiary SC OPCOM SA has made full payment of the fine set by the European Commission.
On November 24th, 2014, the subsidiary SC OPCOM SA summoned CNTEE Transelectrica SA in order to force it to pay the amount of 582,086.31 euro (2.6 mil lei at the National Bank of Romania exchange rate from November 24th, 2014), representing the amount paid by her as fine, from the total of the fine amounting to 1,031,000 euro.

Also, the subsidiary SC OPCOM SA requested the court to order the Company to pay the amount of 0.85 mil lei as lawful interest related to the period between June 11th, 2014 - November 24th, 2014, plus legal expenses amounting to 0.38 mil lei.
The action filed by the Subsidiary OPCOM SA is subject of the file no. 40814/3/2014 on the docket of the Bucharest Court, Section VI Civil, involving claims, litigation with professionals matter, and the hearing date was set on June 29th, 2015. The Company filed counterstatement for the application for summons, claiming exceptions and substantive defenses regarding the unfoundedness and unlawfulness of the action.
On July 24th, 2015, the Bucharest Court ruled the judgement no. 4275/2015, by which it ordered the following: "Admits the application for summons filed by plaintiff Romanian Gas and Electricity Market Operator - OPCOM S.A. against defendant National Power Grid Company "Transelectrica" S.A. Orders the defendant to pay the plaintiff the amount of 582,086.31 euro, representing the amount paid by the plaintiff in the defendant's stead from the fine in the amount of 1,031,000 euro, imposed by the Decision of the European Commission on March 5th, 2014 in the case no. AT.39984 and of the lawful interest related to the amount of 582,086.31 euro, calculated on June 11th, 2014 and up until de day of the actual payment. Orders the defendant to pay the plaintiff the amount of 0.38 mil lei, as legal expenses. With right of appeal within 30 days from notification. The request for appeal shall be lodged before the Bucharest Court – Section VI Civil."
Against the sentence no. 4275/2015, pronounced in the aforementioned file, Transelectrica SA formulated an appeal, which was registered before Bucharest Court of Appeal. The resolution of the Court of Appeal is the following: Admits the appeal. Changes the appealed civil sentence completely, meaning that it rejects the application for summons as ill-founded. Orders the appellee - plaintiff to pay the trial expenses to the appellant - defendant amounting to 16,129 lei, representing legal stamp duty. With appeal within 30 days from notification. Ruled in open court today, October 10th, 2016. Document: Decision 1517/2016 from October 10th, 2016.
OPCOM S.A. filed a second appeal. The High Court of Cassation and Justice decided the following: Grants, in principle, the appellant-plaintiff Operatorul Pieței de Energie Electrică și Gaze Naturale – OPCOM S.A. motion against decision no. 1517/10.10.2016, ruled by the Bucharest Court of Appeal – Section V Civil. Sets the hearing for solving the appeal on March 13th, 2018. The parties will be summoned. Ruled in open court on December 5th, 2017.
In 2014, the company recorded a provision amounting to 2.7 mil lei for the litigation with the subsidiary SC OPCOM SA.

CONAID COMPANY SRL

In 2013, Conaid Company SRL took legal actions against CNTEE Transelectrica for the unjustified refusal of the latter to sign an addendum to the connection agreement or to sign a new connection agreement, and requested the compensation for costs incurred up to that time, amounted to 17.4 mil lei and loss of profit for the period 2013 - 2033 amounting to EUR 722,756,000. So far, the Company did not conclude an addendum to the connection agreement because the suspensive provisions included therein have not been met by Conaid Company SRL. A new connection agreement would have had to be concluded by March 11th, 2014, the date on which the technical connection permit has expired. On the date of these financial statements, the amounts claimed by Conaid Company SRL were regarded as contingent liabilities as it is unlikely to settle this obligation, there will be necessary outflows of resources embodying economic benefits and

the value of obligation cannot be evaluated with sufficient reliability. The file no. 5302/2/2013 was on the dockets of the High Court, involving the obligation of issuing of an administrative document, the procedural stage – second appeal, the next hearing being on December 9th, 2015. At this hearing, the High Court of Cassation and Justice admitted, in principle, the second appeals and set the hearing, in substance, of the second appeals on April 8th, 2016, Formation 4, summoning the parties. The judgement was postponed for June 17th, 2016, when the court reserved judgement, postponing the judgement until June 29th, 2016, when it pronounced Decision no. 2148/2016, by which it ordered the following: "Rejects the exceptions invoked by the appellant - plaintiff S.C. Conaid Company S.R.L., via insolvency administrator RVA Insolvency Specialists SPRL, and by the appellant - defendant National Company for Energy Transportation Transelectrica S.A. Admits the second appeal filed by the defendant National Company for Energy Transportation Transelectrica S.A. against the hearing protocol of February 18th, 2014 and the civil sentence no. 1866 of June 11th, 2014, pronounced by the Court of Appeal Bucharest – Section VIII, Administrative and Fiscal Litigation Section. Partially invalidates the contested protocol and judgment and refers the case to the Bucharest Court – Section VI Civil, for settlement of the application of the plaintiff sought against the National Power Grid Company Transelectrica S.A. Maintains the other provisions of the sentence concerning the plaintiff's action against the National Regulatory Authority for Energy. Rejects the second appeals of the plaintiff SC Conaid Company S.R.L. via insolvency administrator RVA Insolvency Specialists SPRL and the intervener S.C. Duro Felguera S.A. against the civil sentence no. 1866 of June 11th, 2014 pronounced by the Bucharest Court of Appeal – Section VIII, Administrative and Fiscal Litigation. Rejects the second appeal filed by the defendant National Power Grid Company Transelectrica S.A. against the hearing protocol from March 25th, 2014, pronounced by the Bucharest Court of Appeal - Section VIII, Administrative and Fiscal Litigation. Final. Ruled in open court on June 29th, 2016.

On the docket of Bucharest Court – Section VI Civil, the case was registered under no. 12107/3/2017. By civil sentence no. 4364/23.11.2017, the Court admits the exception to the ineligibility of the claim and rejects it as ineligible. It also rejects the motion to intervene in the interest of the plaintiff. With right of appeal within 30 days from notification. The appeal is lodged at the Bucharest Court - Section VI Civil. Sent to the parties via registry on November 23rd, 2017.

FF WIND ENERGY INTERNAȚIONAL SRL

Case file no. 47332/3/2017 on the docket of the Bucharest Court - Section VI Civil, by which the company FF Wind Energy Internațional SRL requests the following against CNTEE Transelectrica SA: - the annulment of the unilateral statement for the termination of the PTG connection agreement no. 85/14.03.2011 issued on March 2nd, 2016 under no. 8295, - ordering the Company to pay the amount of 33 mil. lei as damages following the termination of the agreement and to pay the amount of 45,000,000 euro as the amount of depreciation of the company FF Wind Energy Internațional SRL caused by the impairment of its purpose.

Status of the file: in preliminary proceedings for notification of the action and filing statement of defense.

The company is involved in significant litigations in which it has the quality of plaintiff, especially for debt recovery (e.g. Eco Energy SRL , Petprod SRL, Total Electric Oltenia SA, Arcelormittal Galati SA, Regia Autonomă de Activități Nucleare, Romenergy Industry SRL, Energy Holding SRL, UGM Energy Trading SRL).

The Company registered adjustments for value losses regarding customers and other claims at issue as well as for bankrupt customers.

- **ANAF**

The Company took proceedings against ANAF-DGAMC requesting cancellation of the taxation decision F-MC 439/30.06.2017 issued on 12.07.2017 by the National Agency of

Fiscal Administration, General Directorate Administrating Large Tax Payers, which "in accordance with article 53 para (3) of Law 207/2015" replaced the taxation decision F-MC 439/30.06.2017, issued by the National Agency of Fiscal Administration, General Directorate Administrating Large Tax Payers, according to the forwarding letter 1311AIF/12.07.2017, as well as the decision not to amend the taxation base F-MC 440/30.06.2017, issued on 12.07.2017 by the National Agency of Fiscal Administration, General Directorate Administrating Large Tax Payers, which were contested by administrative dispute, such contestation was not settled within the legal term, as well as cancellation of the Fiscal audit report concluded on 30.06.2017, which was used for the taxation decision.

- **OTHERS**

The company is involved in significant litigations, especially for debt recovery (e.g. Petprod SRL, Total Electric Oltenia SA, Arcelormittal Galați SA, Regia Autonomă de Activități Nucleare, Romenergy Industry SRL, Energy Holding SRL, UGM Energy Trading SRL, Elsaco Energy, Elcomex, SC ICPE Electrocond SA, CET SA Iași, CET Energoterm Reșița SA, SC Electrocentrale Oradea, SC Total Electric Oltenia SA and others).

At the same time, the Company is also involved in litigations against former Directorate and Board of Supervisors members, regarding the mandate agreements concluded between the Company and themselves.

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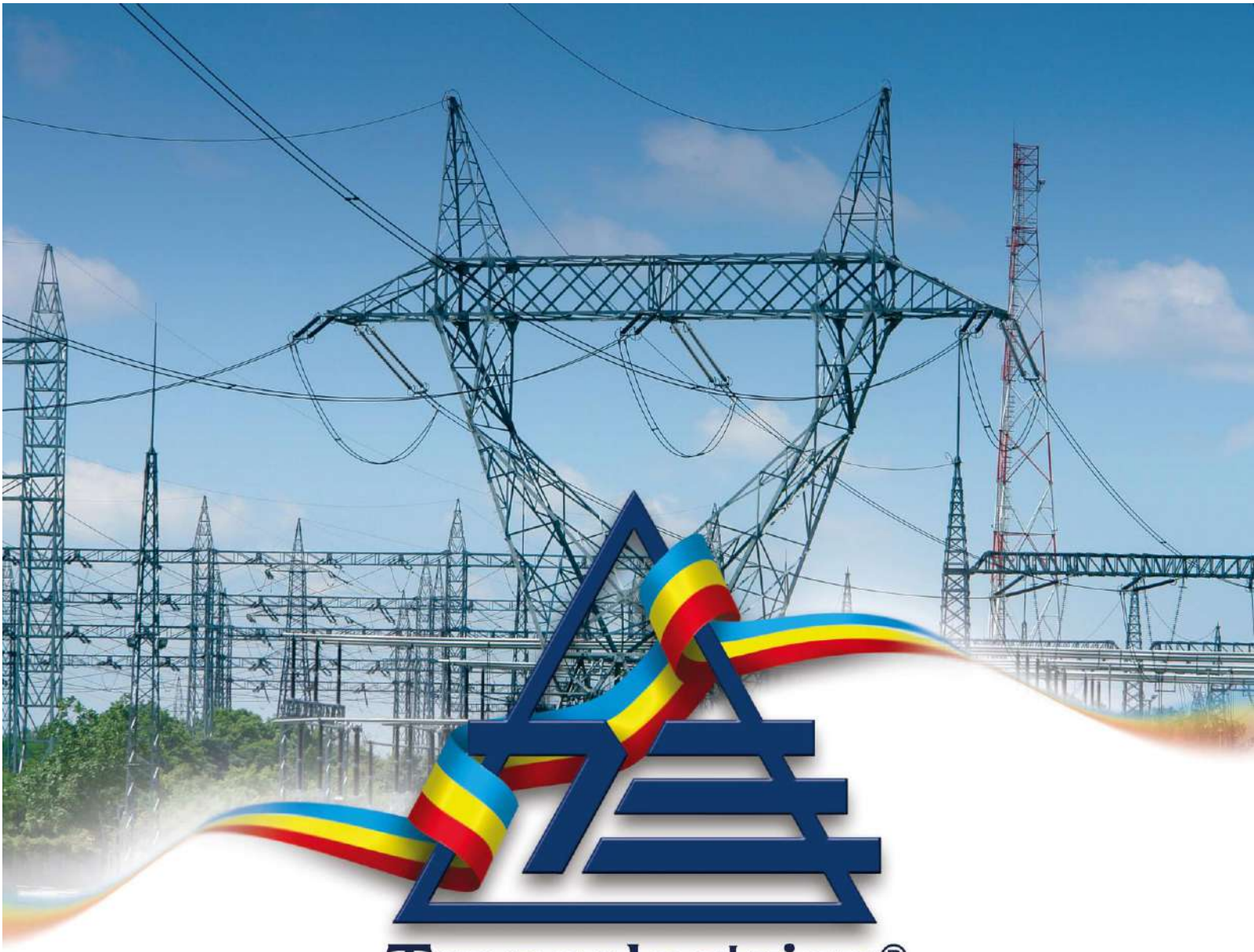


Transelectrica®

Societate Administrată în Sistem Dualist

Report

Corporate Governance and Social Responsibility

14. Corporate Governance

Corporate governance regulation

Since the listing of shares on the regulated market of the Bucharest Stock Exchange ("BSE"), the Company has appropriated the principles from the Corporate Governance Code of BSE. In accordance with the BSE requirements, Transelectrica published the Company's reviewed Corporate Governance Regulation.

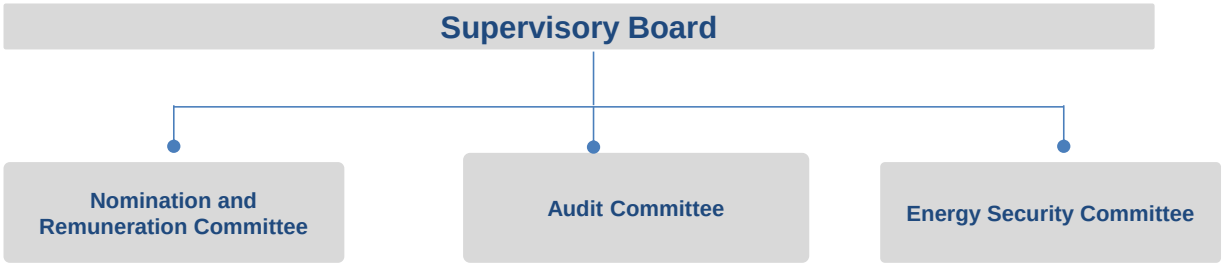
The Corporate Governance Regulation is an extremely important instrument for the Company and it mainly aims at summarizing, in a single document, the main existing rules and regulations, which are already applied by the Company. The central elements of this Corporate Governance Regulation are the investors' access to information and the protection of shareholders' rights.

The document has been developed in accordance with the principles set in the Corporate Governance Code of the BSE and is available at www.transelectrica.ro, under the Investor Relations/Corporate Governance/the Company's Corporate Governance Code section.

Other applicable documents

- The Company complies with the provisions of primary legislation on the capital market, while also observing and applying all provisions of secondary legislation, namely the FSA and BSE regulations and others, including internal, which are relevant in the industry. Of these we mention a few:
- Corporate Governance Code of the BSE;
- The Companies Act no. 31/1990, republished, as subsequently amended and supplemented;
- GEO no. 109/2011 on the corporate governance of public enterprises, as subsequently amended and supplemented ("GEO no. 109/2011"), a regulatory act introducing the corporate governance principles into autonomous and state owned companies;
- Law no. 297/2004 on the capital market, as subsequently amended and supplemented and Law no. 24/2017 on the issuers of finance instruments and market operations, as well as the Regulations of the National Securities Commission and the Financial Supervisory Authority;
- The Professional Ethical Code, compulsory for all organizational structures, which provides the ethical norms of conduct establishing and regulating corporate values, responsibilities, obligations and business conduct, based on which the company developed;
- The listing commitment whereby Transelectrica, in the Initial Public Offering (2006) committed to observing the rights of securities holders and providing equal treatment to all securities holders of the same type and category;
- The Corporate Governance Code and Anticorruption Principles developed by AmCham Romania, which are international standards used in a sound business environment;
- The Company's Articles of Association, most recently updated on November 9th, 2017 based on Decision no. 14/11.09.2017 of the Extraordinary General Assembly of Shareholders ("Articles of Association");
- The Regulation on the organization and functioning of the Board of Supervisors

Figure 39: Structure of the Board of Supervisors as of December 31st, 2016



Board of Supervisors

(hereinafter also referred to as "BS")

As of December 31st, 2017, the structure of the Board of Supervisors is the following:

- Cristian Eugen RADU – Chairman
- Sorin Alin MITRICĂ – Member
- Faustin Doru SCÎNTEI – Member
- Bogdan BOBORA - Member
- Fănel MIHALCEA – Member
- Marius Iulian CARABULEA - Member
- Beatrice AMBRO – Member

In accordance with the Articles of Association, the BS consists of seven members, appointed for a period of no more than 4 years; they can be recalled at any time by the Company's General Assembly of Shareholders.

Up to May 30th, 2017, the *Administration plan drafted by the Board of Supervisors of the National Power Grid Company "Transelectrica"–SA* has been in force, *which includes the administration strategy throughout the mandate*, approved by Decision no. 6/2013 of the General Assembly of Shareholders.

Starting with May 31st, 2017, the General Assembly of Shareholders appointed provisional members of the Board of Supervisors with a limited mandate, pursuant to GEO no. 109/2011, until the completion of the election procedure of the BS members according to this regulatory act; according to the decision of the General Assembly of Shareholders which started the procedure, it will be carried out at the level of the supervisory body – the Ministry of Economy.

All members are non-executives and the Company's management is the responsibility of the Directorate, according to the law and the Articles of Association. BS members may meet at any time, but in any case at least once every three months.

The General Assembly of Shareholders established the mandate term, the remuneration and the form of the mandate contract concluded with them.

The Company will bear the costs of the professional liability insurance of BS members. The value of the insured amount and of the insurance premium was established by decision of the Ordinary General Assembly of Shareholders.

In 2017, the BS met every time the Company's interests required debates regarding the issues under its authority.

Electing the Board of Supervisors members by the cumulative vote method

Upon the request of shareholders representing, individually or jointly, at least 10% of the share capital subscribed and paid up, the Directorate is compulsorily convening the General Assembly of Shareholders with an agenda including the election of the Board of Supervisors members using the cumulative vote method. Any shareholder representing less than 10% of the share capital subscribed and paid up can make written proposals to the Directorate to apply the cumulative vote method within 15 days from the publication date in Romania's Official Journal, Part IV, of the convening notice for the General Assembly of Shareholders with an agenda including the Board of Supervisors members election. In this case, the application of the cumulative vote method to elect BS members is subject to voting in the General Assembly of Shareholders.

If the cumulative vote method is applied, the BS members in office as of the date of the General Assembly of Shareholders shall be registered ex officio on the list of candidates for electing BS members, together with the candidates proposed by the shareholders. All candidates registered on the candidate list shall be subject to the shareholders' vote within the General Assembly of Shareholders.

The members of the Board of Supervisors in office as of the date of the general assembly, who are not reconfirmed via cumulative vote as BS members, are considered as being recalled from their position. The mandate of BS members in office as of the date of the General Assembly of Shareholders during which the cumulative vote was applied, will carry on in the event of their reconfirmation via the cumulative vote method.

Remuneration of the Board of Supervisors

BS members benefit from a fixed monthly gross remuneration, established by the General Assembly of Shareholders in line with the applicable legal provisions.

The maximum level of the fixed monthly gross allowance owed to BS members throughout the provisional member mandate amounted to 4,435 lei gross/month as of December 31st, 2017.

The mechanism for granting the fixed gross monthly allowance is the following:

- BS members (including the Chairman) who are in office in at least 2 consultative committees within the BS, benefit from a fixed monthly allowance in full amount.
- Board of Supervisors members who are in office in one consultative committee within the BS benefit from a fixed monthly allowance representing 90% of the fixed monthly allowance in full amount.
- BS members who are not in office in consultative committees within the BS benefit from a fixed monthly allowance representing 85% of the fixed monthly allowance in full amount.

Attributions of the Board of Supervisors

The Board of Supervisors has the following main attributions:

a. exercises control over the manner in which the Directorate leads the Company;
b. verifies the revenue and expense budget and the investment plan for the financial year, submitted for approval to the general assembly of shareholders;
c. performs any duty provided by the special legislation applicable to the management of public undertakings;
d. determines the Directorate's members structure and number;
e. appoints and recalls Directorate members and establishes their remuneration;
f. checks whether the activity carried out in the name and on behalf of the Company complies with the law, the Articles of Association and the general assembly of shareholders' decisions;
g. submits to the general assembly of shareholders, at least once a year, a report on the supervisory activity carried out;
h. represents the Company in the relations with the Directorate;
i. approves the Directorate's internal rules;
j. verifies the financial statements of the Company;
k. checks the report of Directorate members;
l. proposes to the general assembly the appointment and recall of the financial auditor, as well as the minimum period of the audit contract;
m. convenes the general assembly of shareholders under exceptional circumstances and according to the Company's interest.

The following types of operations shall not be carried out without the Board of Supervisors' approval:

- procurement of products, services and works, regardless of their term, with a value exceeding 5,000,000 euro;
- operations pertaining to the provision of transmission services, system services and wholesale electricity market management services, operations to collect the contributions for high efficiency cogeneration,

operations to pay the bonus and return the undue overcompensation/bonus, operations for the PTG connection, for the fulfillment of co-existence requirements, for the site release and execution of these works, technical consultancy and project management related to these works, operations for the sale and purchase of the land required for the new installations under the PTG connection contracts, as well as for the land required for the access roads to those installations, operations for the establishment, in favor of the Company, of the rights of utilization and easement, of superficies, of use, the right to impact by any means the land affected by the new installations according to the PTG connection contracts, as well as any other operations to be carried out for the proper performance of the Company's main activity, in accordance with the applicable regulations, with a value exceeding 10,000,000 euro;

- initiation, settlement, exercise, abandonment of claims, dispute, arbitration, with a value exceeding 500,000 euro;
- commitments involving important obligations of the Company, except for the operations provided in letters a) and b), with a value exceeding 5,000,000 euro;
- any gratuitous act, including any sponsorships and donations offered by the Company, with an individual value exceeding 100,000 lei;
- the establishment or discontinuation of secondary sites of the Company, inland or abroad (branches, representative offices, agencies or other such entities without legal personality).

If the Board of Supervisors does not give its agreement for the operations stated above, the Directorate may seek the approval of the General Ordinary Assembly of Shareholders which will decide according to the law.

The Board of Supervisors, while performing their essential duties of controlling the way in which the Directorate leads the Company, as well as of verifying the activity carried out in the name and on behalf of the Company, has the right and the obligation to establish, by reference to the Directorate and the Company, the control, verification and reporting methods it deems necessary in order to fulfill such duties.

Consultative Committees

Three consultative committees were constituted within the Board of Supervisors as of December 31st, 2017:

- *Audit Committee;*
- *Nomination and Remuneration Committee;*
- *Energy Security Committee.*

As of December 31st, 2017, the committees had the following structure:
Audit Committee: Beatrice AMBRO, Marius Iulian CARABULEA, Faustin Doru SCÎNTEI, Sorin Alin MITRICĂ, and Bogdan BOBORA.

Nomination and Remuneration Committee: Cristian Eugen RADU, Marius Iulian CARABULEA, Beatrice AMBRO, Faustin Doru SCÎNTEI, Sorin Alin MITRICĂ, Fănel MIHALCEA and Bogdan BOBORA.

Energy Security Committee: Fănel MIHALCEA, Cristian Eugen RADU and Marius Iulian CARABULEA.

Decisions within consultative committees are taken by majority vote. In the event of a tie, the Chairman has the decisive vote.

The approved Regulation on the organization and functioning of the Board of Supervisors sets forth that at least one member of each committee must be an *independent director* in the meaning of the Company Act and the legislation and regulations of the capital market. In the audit committee, the majority of members must be *independent directors*.

Any consultative committee member may convene a meeting of the committee in which he/she is a member. The convocation of the consultative committee meetings will be sent to each member of the committee in writing, by fax or e-mail at the e-mail address or fax number of said member of the committee.

Attributions of the committees within the Board of Supervisors

The main attributions of BS committees, depending on the object of activity, are:

Nomination and Remuneration Committee

- formulates proposals for the position of Board of Supervisors and Directorate member;
- develops and proposes to the Board of Supervisors the selection procedure for Board of Supervisors members, Directorate members and other managerial positions;
- formulates proposals regarding the remuneration of the Company's Directorate and Board of Supervisors members, as well as other managerial positions, observing the general remuneration limits approved by the General Assembly of Shareholders;
- coordinates the appointment process of Directorate members;
- submits in the Annual Report the total sum of the direct and indirect remuneration of Directorate and Board of Supervisors members.

Audit Committee

The audit committee assists the BS in fulfilling its responsibilities in terms of financial reporting, internal control and risk management.

The attributions of the audit committee in terms of financial reporting and statutory audit:

- monitors the financial reporting process at Company level;
- monitors the statutory audit of the annual financial statements and of the consolidated annual financial statements;
- regularly examines the efficiency of the financial reporting;
- verifies and monitors the independence of the statutory audit or the audit firm and particularly the provision of additional services to the audited entity;
- formulates recommendations to the Board pertaining to the appointment of the external auditor (statutory audit or audit firm) of the Company with regard to the election, appointment, reappointment and replacement of the external auditor, as well as the terms and conditions of its remuneration;
- monitors the independence and objectivity of the external auditor, particularly by monitoring the rotation of partners in the audit firm;
- receives and analyzes the external auditor's report with regard to essential aspects resulting from the statutory audit and particularly with regard to significant deficiencies of the internal control in terms of the financial reporting process;
- supports the Council in monitoring the credibility and integrity of the financial information provided by the Company, particularly by revising the relevance and consistency of the accounting standards applied (including consolidation criteria).

Attributions of the audit committee in terms of managerial internal control:

- monitors the efficiency of internal control, internal audit and, as the case may be, the risk management systems of the Company;
- regularly examines the efficiency of the internal control and the risk management system adopted by the Company;
- ensures that the audit analyses carried out as well as the audit reports drafted as a result thereof are compliant with the audit plan approved by the Company;
- proposes to the Board the control, verification and reporting methods necessary for performing the essential duties of controlling the way in which the Directorate leads the Company, as well as of verifying the activity carried out in the name and on behalf of the Company;
- verifies the achievement of the non-financial reporting goals at the Company level;
- fulfils the attributions provided in the Regulation on the organization and functioning of the Board of Supervisors, including the ones provided by Article 65 of Law no. 62/2017 on statutory audit of the annual financial statements and

consolidated annual financial statements and amending other legal acts.

Energy Security Committee

- monitors and advises the Board of Supervisors, the Directorate and the Company's specific compartments in terms of strategic objectives as: transmission and system operator responsible with electricity supply under security conditions for the entire NPS; PTG functioning under energy security conditions at NPS level; energy security and protection of the critical infrastructure;
- getting involved, under the mandate of the Board of Supervisors, together with the Directorate, in the dialogue with public authorities having attributions and competencies in the energy security field (Department of Energy, specific Parliamentary Commissions).

BS committees activity in 2017

The members of the Energy Security Committee performed the following activities during 2017:

- Analysis of the technological system services used in order to ensure frequency and slow tertiary reserve stability;
- Analysis of the technological system services used in order to ensure voltage stability;
- Analysis of the technological system services used in order to ensure the rehabilitation of the NPS operation under circumstances of blackout, extended damages or system breakdown.

The activity of the Nomination and Remuneration Committee in 2017 was the following:

- Nominating Ciprian Boloș to occupy the vacancy for the position of provisional member of the Board of Supervisors;
- Drafting the report of the Nomination and remuneration committee for 2016;
- Completing the selection procedure of a Directorate member and making recommendations to the Board of Supervisors regarding the appointment of a Directorate member from the list submitted by the independent expert George Butunoiu Grup SRL; The recommendation to appoint Georgeta-Corina Popescu as Directorate member;
- The recommendation to the Board of Supervisors to appoint Nicolae Luca Iacobici as Directorate member/Chairman;
- The recommendation to the Board of Supervisors to appoint the following persons as provisional members of the Board of Supervisors, starting with September 17th, 2017: Georgeta-Corina Popescu, Mircea-Toma Modran, Dan-Valeriu Ardelean, Florin-Cristian Tătaru and Andreea Georgiana Florea.

The members of the Audit Committee performed the following activities during 2017:

- Analysis regarding the Company's reporting obligations in line with the new BSE Governance Code.
- Verifying the preliminary stand-alone financial statements on December 31st, 2016;
- Verifying the directorate's activity report – fourth quarter of 2016;
- Verification of the Quarterly report pertaining to the economic and financial activity, drafted according to the provisions of Art. 227 of Law no. 297/2004 on the capital market and the National Securities Commission Regulation no. 1/2006;
- Verifying the report on the public internal audit activity for 2016 carried out at CNTEE Transelectrica SA;
- Verifying the audited stand-alone financial statements, drafted on December 31st, 2016;
- Verifying the audited consolidated financial statements, drafted on December 31st, 2016;
- Verifying the annual report on the stand-alone financial statements of Transelectrica for 2016;
- Verifying the annual report on the consolidated financial statements of Transelectrica for 2016;
- Analysis of the notification regarding the Directorate's proposal for establishing the gross dividends for 2016;

- Analysis of the notification regarding the Directorate's proposal for distributing the net profit on December 31st, 2016;
- Completing the half-yearly report regarding the supervision activity, drafted according to GEO no. 109/2011;
- Presenting the Audit Committee's report, drafted according to the new provisions of the BSE Corporate Governance Code;
- Verifying the preliminary financial statements for the first quarter of 2017;
- Verifying the Directorate's Report for the first quarter of 2017;
- Presentation of the results for the first quarter of 2017;
- Checking the interim stand-alone financial statements, drafted on and for the period concluded on June 30th 2017;
- Verification of the Half-yearly report on the economical and financial situation of CNTEE Transelectrica SA for the first 6 months of 2017, drafted in line with the capital market regulations;
- Verification of the Directorate's Activity Report pertaining to the first semester of 2017;
- Proposal regarding the appointment of the Company's financial auditor – Note no. 40268/27.10.2017;
- Analysis of the Public Internal Audit Reports no. 8/2017 – assessment of the TB Bacau activity;
- Analysis of the Public Internal Audit Reports no. 9/2017 – assessment of the TB Craiova activity;
- Analysis of the stand-alone financial statements as of September 30th, 2017;
- Analysis of the Activity Report drafted by the Directorate for the third quarter of 2017, explaining and substantiating the figures included in the financial statements as of September 30th, 2017.

The Directorate

On December 31st, 2017, the Directorate membership was the following:

- Georgeta-Corina Popescu – Chairman
- Andreea-Georgiana Florea – Member
- Florin-Cristian Tătaru – Member
- Mircea-Toma Modran – Member
- Dan-Valeriu Ardelean – Member

Organization of the Directorate

The Directorate members are appointed and recalled by the BS. The number of members shall be determined by the BS, provided that number is not lower than three and higher than seven - the number must always be uneven. One Directorate member shall be appointed to the position of Directorate Chairman (alternatively called Chief Executive Officer – "CEO" – of the Company).

Directorate members are elected in accordance with GEO no. 109/2011 and their mandate is granted for a period of 4 (four) years. If there is a vacancy for the position of Directorate member, the Board of Supervisors shall appoint another member for the remaining mandate duration of the member being replaced, selected in accordance with the provisions of Government Emergency Ordinance no. 109/2011.

Up to September 16th, 2017, the *Management plan* has been in force, approved by Decision no. 37/June 6th, 2014 of the Board of Supervisors.

Starting with September 17th, 2017, the BS appointed provisional members of the Directorate with a limited mandate, pursuant to GEO no. 109/2011, until the completion of the election procedure of the Directorate members according to this regulatory act; this procedure is subsequent to the appointment by the General Assembly of Shareholders of the BS members according to the this regulatory act.

Remuneration of the Directorate

As of December 31st, 2017, Directorate members benefit from a fixed monthly gross remuneration, established by the BS in line with the applicable legal provisions, as follows:

- the Directorate Chairman allowance amounts to 28,000 lei gross/month;

- the Directorate members allowance amounts to 26,000 lei gross/month.

Directorate Duties

The main Directorate duties performed under the supervision of the Board of Supervisors, are:

- establishes the strategy, development policies, accounting policies and financial control system of the Company, and approves the financial planning;
- approves the Company's organizational structure (organizational chart) and the organization and operation regulation;
- submits to the general assembly of shareholders, on an annual basis, the report on the Company's activity, the financial statements of the previous year, the budget draft and the investment plan of the Company for the current year;
- concludes legal documents with third parties in the name and on behalf of the Company, by observing the provisions of the Articles of Association on the joint signature and the aspects reserved to the competence of the general assembly of shareholders or of the Board of Supervisors;
- hires and dismisses, establishes the duties and responsibilities of the Company staff in accordance with the staff policy of the Company;
- negotiates the Collective labor agreement within the Company, as well as the addenda thereto, together with the employees' representatives;
- performs all operations and takes all measures necessary and useful for the Company's governance and the fulfillment of the Company's activity, except those reserved to the general assembly of shareholders or to the Board of Supervisors, according to the law or to the Articles of Association; In this regard, the Directorate approves the operations within Transelectrica, other than the ones set forth in the competence of the general assembly of shareholders, with the obligation to obtain the Board of Supervisors' approval for the type of operations for which the law or the Articles of Association provide the need of such an approval;
- approves the mandates of Company representatives in the general assemblies of shareholders of Transelectrica's subsidiaries and informing the Board of Supervisors, on a quarterly basis, about the mandates provided to them;
- approves, with the approval from the Board of Supervisors, the establishment or discontinuation of secondary sites of the Company (branches, representative offices, agencies or other such entities without legal personality);
- approves the Company's conclusion of legal documents such as the company agreement regulated by the Civil Code when the outcome is not an entity with distinct legal personality, as well as approving the Company's participation as a member in various domestic or international organizations;
- performs any competence delegated by the general assembly of shareholders, according to the law;
- performs any duty provided by the special legislation applicable to the management of public undertakings;
- carries out the decisions of the general assembly of shareholders;

The Directorate shall inform the general assembly of shareholders, at least twice a year, regarding the following types of operations:

- procurement of products, services and works, regardless of their term, with a value exceeding 5,000,000 euro;
- initiation, settlement, exercise, abandonment of claims, dispute, arbitration, with a value exceeding 500,000 euro;
- commitments involving important obligations of the Company, with a value exceeding 5,000,000 euro;
- credits, regardless of their term, with a value lower than 50,000,000 euro;
- credit guarantees, with a value lower than 50,000,000 euro.

The Directorate has the obligation to ensure the reporting procedures within the Company, as well as the organizational conditions

necessary to fulfill the controlling and verification duties of the Board of Supervisors.

The General Assembly of Shareholders

The General Assembly of Shareholders is the is the management body of Transelectrica and decides upon the activity and economic policy of the Company. The general assembly can be ordinary or extraordinary and its specific attributions are set out in the Articles of Association.

Since the listing of its financial instruments on the regulated market of the BSE, Transelectrica undertook the obligation to respect the rights of issued financial instruments holders and to ensure them a fair treatment.

- Thus, all financial instruments holders of the same securities category are treated in a fair manner and all financial instruments of the same type and from the same category offer the holders equal rights.
- Each share offers rights to the holder as per the Articles of Association:
- voting rights in the General Assembly of Shareholders (one share = one vote);
- the right to elect and to be elected in the management bodies;
- the right to participate in profit distribution (dividend right).

Holding the share certifies the commitment to the Articles of Association.

All shareholders have the right to participate in the General Assembly of Shareholders, to exercise their voting rights and to express their point of view during debates.

The ordinary general assembly of shareholders has the following obligations and attributions:

- discusses, approves or amends the annual financial statements on the grounds of the reports presented by the Directorate, the Board of Supervisors and the financial auditor;
- approves the distribution of profit and determines the dividends;
- appoints and recalls BS members;
- appoints and dismisses the financial auditor and sets the minimum term of the financial audit contract;
- sets the general remuneration limits of the Directorate members;
- sets the level of remunerations for the current financial year of the Board of Supervisors members;
- gives its verdict on the management of Directorate and Board of Supervisors members, assesses their performance and discharges them, according to legal provisions;
- decides with regard to suing the Directorate and BS members, as the case may be, for damages incurred by the Company;
- sets the statement of expenditure and revenue and the investment plan for the financial year submitted for approval;
- decides regarding anything that falls within its competence pursuant to the applicable legislation;
- analyzes the BS reports with regard to the activity carried out;
- decides with regard to the pledging or renting one or more Company units.
- The extraordinary general assembly of shareholders gathers any time it is necessary to make a decision on the following main aspects:
- changing the legal form of the Company;
- moving the Company's headquarters;
- changing the Company's object of activity;
- increasing the Company's share capital;
- reducing the Company's share capital or restoring it by issuing new shares;
- merger with other companies;
- splitting up the Company;
- anticipated dissolution of the Company;
- converting the shares from one category to another;
- converting registered shares to bearer shares or bearer shares to registered shares;
- converting bonds from one category to another or in shares;
- issuing bonds;
- concluding documents to acquire, alienate, exchange or constitute as security certain assets from the Company's non-current

ones with a value exceeding (individually or jointly) 20% of the total book value of Company non-current assets minus liabilities, during a financial year;
- any amendments to the Articles of Association or any other decision for which the extraordinary general assembly's approval is required.

In addition to the competencies and attributions mentioned in the paragraph above or by the law, the general extraordinary assembly of shareholders will decide on the following issues:

- conclusion by the Company of any type of loans or loan-type obligations, as a creditor;
- constitution or participation in the constitution of legally distinct entities, with patrimonial or non-patrimonial purpose, as well as equity participation in other companies;
- conclusion of credit agreements, with a period higher than or equal to 5 years, with a value higher than or equal to 50,000,000 euro.
- lodging of guarantees with a value higher than or equal to 50,000,000 euro.
- establishing the minimum value of the insured amount and the maximum value of the professional liability insurance premium of the Board of Supervisors members and the Directorate members respectively.

For the aforementioned attributions, the Romanian state's representatives in the general assembly of shareholders cannot issue a decision without obtaining a special mandate from the public institution that appointed or mandated them, as the case may be, mandate which comes in the form of a special power of attorney according to the capital market regulations and indicates the manner in which such representative will cast his/her vote.

Internal control

Internal control in the Company means the entirety of policies and procedures devised and implemented by its management and personnel, with a view to achieve the general objectives.

The internal managerial control's mission consists in providing internal administrative control in the Company with a view to achieve proper quality levels of the Company's attributions, as established in accordance with its own mission, under regular, efficient and economic conditions.

The object of activity of the internal managerial control results from the activity targets of the subordinated organizational subunits, and it consists of:

- providing internal control of Company activities and in its organizational units;
- providing control to public procurement activities and to other activities performed to ground, plan and achieve maintenance operations within the larger activities of the Company's organizational entities;
- participating to detailed investigations and fraud examination commissions and proposing sanctions according to the area of competence;
- preventing the conflicts of interests when managing the company funds according to the area of competence;
- promoting loyal competition and antitrust policies by identifying, discouraging and sanctioning anti-competitive agreements, according to the area of competence.

The main objectives of internal control are executing systematic, ethical, economic and efficient operations, achieving the liability obligations, respecting the applicable legislation and regulations, protecting resources against losses and damage by waste, abuse, improper management, errors, frauds, irregular acts and monitoring, coordinating and methodologically guiding the implementation and development of the internal/managerial control system.

Operational Procedures have been developed for specific activities, which are reviewed every time needed. Thus operations, processes and activities are periodically reanalyzed in order to make sure they comply with the current rules, policies, procedures or other requirements.

Operational Procedures are available to all Company employees and have been posted on the Company's intranet portal. Through

their structure, they establish separate tasks for each organizational structure/entity of the Company. Operational Procedures are applicable, enforced and verified in each individual entity when conducting the audits.

Internal audit

In 2017, public internal audit activities were performed in Transelectrica using the Company's own internal audit structure subordinated to the Company Directorate.

The self public audit internal activities are organized and performed in only 4 out of the 5 subsidiaries of CNTEE Transelectrica SA (OPCOM SA, SMART SA, TELETRANS SA and FORMENERG SA). The public internal audit activity is not performed in the subsidiary ICEMENERG SERVICE SA - this activity is provided by the Company's public internal audit (PIA) structure.

Mission

- providing consultancy and insurance regarding the efficiency of risk management, control and governance systems, thus contributing to added value and making recommendations to improve them;
- assisting the Company management to reach the objectives and providing objective and detailed valuations about the legality, regularity, economy and efficiency of activities and operations carried out.

Principles governing the activity

- law 672/2002 regarding the public internal audit, with later additions;
- general public internal audit norms (GD 1086/2013);
- the internal auditor's code, which is meant to set up the ethical framework necessary for the internal audit profession;
- the internal audit charter determines the position of the internal audit structure in the public entity, defining the internal audit sphere of activity, the rights and obligations of internal auditors;
- the Company's organizational independence so as not to be subjected to any kind of interference, starting with the determination of audit objectives, the actual performance of the works specific to the mission and up to the results notification;
- individual objectivity, competency, professional conscience and continued professional training of auditors;
- Integrity, the obligation to maintain the internal auditors' confidentiality and political neutrality.

The Public Internal Audit structure carries out activities based on its own procedure, updated every time it is necessary. All the stages performed during the audit mission are provided in the contents of such procedure.

The Public Internal Audit structure elaborated its own methodological norms, as well as the working procedure with respect to the exercise of public internal audit activities in accordance with GD 1086/2013. At the same time Standard 9 - Procedures has been implemented according to OSGG 400/2015.

The programme providing public internal audit activities and improving their quality guarantees the public internal activity is performed in accordance with the norms, guidelines and the Code on the internal auditor's ethical conduct, while contributing to improved activities of the Public Internal Audit structure.

In 2017 the public internal audit activities from CNTEE Transelectrica SA was carried out by observing the minimum reporting requirements requested by UCAAPI (Central Harmonisation Unit for Public Internal Audit) in the standard format of the annual report for 2017.

The multi-annual public internal audit plan of CNTEE Transelectrica SA was elaborated and approved for 2017-2021 under no. 1976 / 17.01.2017.

In accordance with the provisions of Law 672/2002 republished, with later amendments and additions, public internal audit is exercised over all activities performed within one entity, including the activities of subordinated entities. Consequently, existing internal auditors have conducted public intern audit activities to the

organisational structures of the Company's Executive, of the 8 branches and subsidiaries by means of assessment or insurance missions in the subsidiary where there is no internal audit structure.

The plan is reviewed every time there is need to, in order to make certain it further contains relevant updated information.

Audited activities were structured by years and thus organisational entities had to be classified depending on their importance and contribution to reaching the main activity objectives of CNTEE Transelectrica SA. Each structure proceeded to identifying and hierarchizing the activities carried out according to detailed organisation and operation regulations and to the interviews conducted with the managers of respective entities. Such hierarchy took into account the risk analysis and assessment performed in accordance with the International Audit Standards and the good practice established in this domain while also taking into account a balanced distribution. Thus each year high risk activities will be prevailingly audited but also those providing medium and low risks.

The risk analysis criteria used in the annual and multi-annual planning are as follows:

- likelihood of risk occurrence;
- seriousness of event consequences (impact level).

The annual was determined using the "Multi-annual public internal audit plan of CNTEE Transelectrica SA" approved and the risk analysis, taking into account certain priorities that occurred following the previous audit missions, or requests from the Directorate and Supervisory Board members. The following issues were also taken into account when elaborating the plan:

- the organisational structure of the Company's public internal audit structure, as well as the number of existing auditors;
- the schedule of such public internal audit structure should comply with certain time intervals provided in the legislation;
- the legal obligation of the API leader to participate in the last part of the intervention to the audited entity to verify the documents, supervise the mission, negotiate the public internal audit report and conclude the mission;
- the public holidays of 2017;
- troviding certain available time periods for possible ad-hoc missions or other requests (non-audit activities), for the professional training / improvement of auditors (minimum 15 days/year as per the applicable legislation), as well as for their legal holidays;
- the interval 1 December - 20 January is provided for the annual reporting of public internal audit activities in order to have the public internal audit plan approved for the following year;
- tuditing all Company activities while observing the periodicity provided in the legislation for certain objectives;

Taking all these into account in 2017 the calendar provided the possibility to plan 12 public internal audit missions (11 insurance missions and 1 assessment). All planned missions were completed in due time. Consequently, the plan was achieved 100%.

Public internal audit adds value by the performed activities both by assessing the internal control system while reviewing the risks associated to auditable activities, and by the recommendations included in the report and transmitted with a view to provide achievement of Company objectives.

The implementation of recommendations appropriated by the audited entities is monitored to supervise the plus value created by the public internal audit to support the achievement of Company objectives.

Statement of compliance with the Corporate Governance Code of the BSE

Provisions of the Code		Compliant	Partially compliant (reason for incompliance)
Section A – Responsibilities [of the Board of Supervisors]			
A.1.	TEL should have an internal regulation of the BS which includes the terms of reference/responsibilities of the BS and the key management functions of the company, applying, among others, the General Principles of Section A.	TEL's BS carries out its activities based on the applicable legislation, the Articles of Association, the Regulation on the organization and functioning of the Board of Supervisors and it is the decision maker in matters pertaining to the company's activity, except for those which, according to the law, fall under the authority of the General Assembly of Shareholders or of other commercial bodies. **Details - in the Annual Report under the Corporate Governance section**	A.1.
A.2.	Provisions for the management of conflict of interest should be included in the BS regulation. In any event, BS members should notify the BS of any conflicts of interest which have arisen or may arise, and should refrain from taking part in the discussion (including by not being present where this does not render the meeting non-quorate) and from voting on the adoption of a resolution on the issue which gives rise to such conflict of interest.	The Regulation on the organization and functioning of the Board of Supervisors includes provisions pertaining to avoiding conflicts of interest, incompatibilities and conflicts of integrity in the Company's Board and Directorate. Thus, the Board of Supervisors members make decisions in the Company's interest and will not take part in debated or decisions which create a conflict of interest between their personal interests and the ones of the Company or its subsidiaries. The Board of Supervisors members are obligated to notify the other Board of Supervisors members and internal auditors and to not take part in any deliberation pertaining to the notified aspects, if: (i) in a certain operation there is a direct or indirect conflict of interest with the Company's interests; (ii) in a certain operation there is an interest of his/her family members, including spouses and relatives up to the IVth degree. Throughout the entire duration of the mandate as the Company's Board of Supervisors member, the persons concerned must meet the eligibility criteria and to not be in the incompatibility situations set forth by the governing law (including the capital market law) or the applicable commercial provisions. With respect to these obligations, the Company has the right to request the Board of Supervisors members to issue reasonable necessary insurances pertaining to the compliance with these obligations. It is also provided that if, during the mandate of a Board of Supervisors member, an incompatibility situation occurs or an eligibility criterion is no longer fulfilled, the Board of Supervisors member concerned has the obligation to expressly notify the other Board members and to waive his mandate with immediate effect. **Details - in the Regulation on the organization and functioning of the Board of Supervisors** *published on TEL's website under the Investor Relations/Corporate Governance/Relevant Documents section.*	A.2.
A.3.	The BS should have at least five members.	The BS consists of seven members. **Details - in the Annual Report under the Corporate Governance section**	A.3.
A.4.	Not less than two non-executive members of the BS should be independent. Each member of the BS should submit a declaration that he/she is independent at the moment of his/her nomination for election or re-election as well as when any change in his/her status arises, by demonstrating the ground on which he/she is considered	According to the law, the constitution of the audit committee and the nomination and remuneration committee is mandatory at BS level. The Regulation on the organization and functioning of the Board of Supervisors sets forth that at least one member of each committee must be an *independent director* in the meaning of the Company Act and the legislation and regulations of the capital market. In the audit committee, the majority of members must be *independent directors*. As per the statements given to the Company, the following	A.4.

Provisions of the Code		Compliant	Partially compliant (reason for incompliance)
	independent in terms of character and judgement.	Board of Supervisors members are independent members: _____ **Details - in the Annual Report under the Corporate Governance section**	
A.5.	A BS member's other relatively permanent professional commitments and engagements, including executive and non-executive BS positions in companies and not-for-profit institutions, should be disclosed to shareholders and to potential investors before appointment and during his/her mandate.	Throughout the entire duration of the mandate as the Company's Board of Supervisors member, the persons concerned must meet the eligibility criteria and to not be in the incompatibility situations set forth by the governing law (including the capital market law) or the applicable commercial provisions. With respect to these obligations, the Company has the right to request the Board of Supervisors members to issue reasonable necessary insurances pertaining to the compliance with these obligations. It is also provided that if, during the mandate of a Board of Supervisors member, an incompatibility situation occurs or an eligibility criterion is no longer fulfilled, the Board of Supervisors member concerned has the obligation to expressly notify the other Board members and to waive his mandate with immediate effect. **Details - in the Regulation on the organization and functioning of the Board of Supervisors** *published on TEL's website under the Investor Relations/Corporate Governance/Relevant Documents section.*	A.5.
A.6.	Any BS member should submit to the BS information on any relationship with a shareholder who holds directly or indirectly, shares representing more than 5% of all voting rights. This obligation concerns any kind of relationship which may affect the position of the member on issues decided by the BS.	BS members have the obligation to fill in and submit a solemn statement pursuant to the provisions of Article 34 (2) (a), (b) and (c) of the Electricity and Natural Gas Act no. 123/2012, as subsequently amended and supplemented, and of Article 40 of the Articles of Association.	A.6.
A.7.	TEL should appoint a BS secretary responsible for supporting the work of the BS.	*The BS secretary attributions are currently fulfilled by Nicoleta BRĂTUCU and Irina RĂCĂNEL from the Corporate Governance Department, Investor Relations and Representation.*	A.7.
A.8.	The corporate governance statement should inform on whether an evaluation of the Board has taken place under the leadership of the Chairman or the nomination committee and, if it has, it should summarize key action points and changes resulting from it. TEL should have a policy/guidance regarding the evaluation of the BS containing the purpose, criteria and frequency of the evaluation process.		A.8.
A.9.	The corporate governance statement should contain information on the number of meetings of the BS and the committees during the past year, attendance by directors (in person and in absentia) and a report of the BS and committees on their activities.	30 meetings of the Board of Supervisors of CNTEE Transelectrica SA took place in 2017, out of which 20 were carried out with the attendance in person by the directors, 5 were conducted by phone and 5 took place by electronic means (e-mail). 6 meetings of the Audit Committee took place throughout 2017. The members of the nomination and remuneration committee met in 6 meetings in 2017 and the members of the energy security committee met in one meeting. **Details - in the Annual Report under the Corporate**	A.9.

Provisions of the Code		Compliant	Partially compliant (reason for incompliance)
		Governance section	
A.10.	The corporate governance statement should contain information on the precise number of the independent members of the BS.	All members are appointed while observing the legal provisions applicable to companies admitted to trading, and are selected according to the provisions of GEO no. 109/2011; As per the statements given to the Company, the following Board of Supervisors members are independent members: _____ **Details - in the Annual Report under the Corporate Governance section**	A.10.
A.11.	The BS of TEL should set up a nomination committee formed of non-executives, which will lead the process for new BS appointments and make recommendations to the BS. The majority of the members of the nomination committee should be independent.	The nomination and remuneration committee is constituted within the BS[19] and has the responsibility to issue proposals for the positions of BS and Directorate members, to develop and propose to the BS the procedure to select BS and Directorate members as well as other management positions, to issue proposals pertaining to the remuneration of Directorate members and other management positions. **Details - in the Annual Report under the Corporate Governance section**	A.11.
Section B – Risk Management and Internal Control System			
B.1	The BS should set up an audit committee, and at least one member should be an independent non-executive director. The majority of members, including the chairman, should have proven an adequate qualification relevant to the functions and responsibilities of the committee. At least one member of the audit committee should have proven and adequate auditing or accounting experience. In the case of Premium Tier companies, the audit committee should be composed of at least three members and the majority of the audit committee should be independent.	*The audit committee fulfils the attributions provided in the Regulation on the organization and functioning of the Board of Supervisors, including the ones provided by Article 65 of Law no. 62/2017 on statutory audit of the annual financial statements and consolidated annual financial statements and amending other legal acts.* *The organization, functioning and attributions of the BS are set out in the Regulation on the organization and functioning of the Board of Supervisors published on TEL's website under the Investor Relations/Corporate Governance/Relevant Documents section.* **Details have also been included in the Annual Report under the Corporate Governance section**	B.1
B.2.	The audit committee should be chaired by an independent non-executive member.	*The name of the audit committee chairman is also mentioned in the Annual report and on the Company's webpage,* https://www.transelectrica.ro/consiliul-de-supraveghere, All BS members are non-executives. As per the statement given to the Company, _____ is an independent member. **Details - in the Annual Report under the Corporate Governance section**	B.2.
B.3.	Among its responsibilities, the audit committee should undertake an annual assessment of the system of internal control.	**Details - in the Annual Report under the Corporate Governance section;** The audit committee within the BS presents an annual report in this regard to the general assembly of shareholders.	B.3.
B.4.	The assessment should consider the effectiveness and scope of the internal audit function, the adequacy	**(idem B.3)**	B.4.

[19] https://www.transelectrica.ro/consiliul-de-supraveghere

Provisions of the Code		Compliant	Partially compliant (reason for incompliance)
	of risk management and internal control reports to the audit committee of the Board, management's responsiveness and effectiveness in dealing with identified internal control failings or weaknesses and their submission of relevant reports to the Board.		
B.5.	The audit committee should review conflicts of interests in transactions of the company and its subsidiaries with related parties.	**Details - in the Annual Report under the Corporate Governance section**	B.5.
B.6.	The audit committee should evaluate the efficiency of the internal control system and risk management system.	**Details - in the Annual Report under the Corporate Governance section**	B.6.
B.7.	The audit committee should monitor the application of statutory and generally accepted standards of internal auditing. The audit committee should receive and evaluate the reports of the internal audit team.	**Details - in the Annual Report under the Corporate Governance section** **Relevant information are presented on an annual basis in the General Assembly of Shareholders in the "BS committee report on internal control and significant risk management systems"** (the General Assembly of Shareholders from April 26th-27th, 2018 on the approval of the annual financial results of 2017).	B.7.
B.8.	Whenever the Code mentions reviews or analysis to be exercised by the Audit Committee, these should be followed by cyclical (at least annual) or ad-hoc reports to be submitted to the Board afterwards.	**The audit committee presents an annual report to the General Assembly of Shareholders; Details - in the Annual Report under the Corporate Governance section**	B.8.
B.9.	No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related parties.	The Company has the obligation to ensure equal treatment for all holders of real estate, of the same type and class, and will provide them with all necessary information so that they can exercise their rights.	B.9.
B.10.	The BS should adopt a policy ensuring that any transaction of TEL with any of the companies with which it has close relations, that is equal to or more than 5% of the net assets of TEL (as stated in the latest financial report), should be approved by the BS following an obligatory opinion of the BS's audit committee, and fairly disclosed to the shareholders and potential investors, to the extent that such transactions fall under the category of events subject to disclosure requirements.	In order to fulfill the reporting obligations pursuant to Art. 113 letter G para. (6) of Regulation no. 1/2006 of the National Securities Commission on the issuers of and operations with real estate, in conjunction with the provisions of Art. 82 of Law no. 24/2017 on the issuers of finance instruments and market operations, the external auditor of TEL carries out the half-yearly analysis of the transactions with affiliated parties. The auditor's report is forwarded to the BSE and the Financial Supervisory Authority and is published on TEL's website under the Investor Relations/Current Reports section.	B.10.
B.11.	The internal audits should be carried out by a separate structural division (internal audit department) within TEL or by retaining an independent third-party entity.	The Company's public internal audit activity is carried out via the Company's own audit structure, thus complying with the requirement set forth by Law no. 672/2002 on public internal audit, republished, as subsequently amended and supplemented, and GD no. 1086/2013. *As per the organizational chart[20] there are also organizational entities within TEL, namely the Public*	B.11.

[20] https://www.transelectrica.ro/documents/10179/39811/ORGANIGRAMA.pdf/357d606d-0a0c-4524-aab4-36e12beb7e62

Provisions of the Code			Compliant	Partially compliant (reason for incompliance)
			Internal Audit, Integrated Management and Support Services Direction, Control Direction.	
B.12.	To ensure the fulfillment of the core functions of the internal audit department, it should report functionally to the BS via the audit committee. For administrative purposes and in the scope related to the obligations of the management to monitor and mitigate risks, it should report directly to the chief executive officer.		*According to the Regulations on the organization and functioning of organizational entities involved;* The entities mentioned at B.11. forward reports on their activity to the Audit Committee within the BS, on a regular basis or whenever necessary.	B.12.
Section C – Fair Rewards and Motivation				
C.1.	TEL should publish a remuneration policy on its website and include in its annual report a remuneration statement on the implementation of this policy during the annual period under review.		*As per the applicable regulations, the Company annually notifies the General Assembly of Shareholders via the Report of the Nomination and Remuneration Committee* **Details - in the Annual Report under the Corporate Governance section**	C.1.
Section D – Building Value through Investors' Relations				
D.1.	TEL should have an Investor Relations function and the person(s) responsible or the organizational unit should be indicated to the general public. In addition to information required by legal provisions, TEL should include on its corporate website a dedicated Investor Relations section, both in Romanian and English, with all relevant information of interest for investors, including:		In its structure, Transelectrica has specialized organizational entities both for the Investor Relations and for the Shareholder Relations (contact), Documents are available at https://www.transelectrica.ro/web/tel/relatii-investitori.	D.1.
	D.1.1	Principal corporate regulations: the articles of association, general shareholders' meeting procedures;		D.1.1
	D.1.2	Professional resumes of the members of TEL's governing bodies, a BS member's other professional commitments, including executive and non-executive Board positions in companies and not-for-profit institutions;		D.1.2
	D.1.3	Current reports and periodic reports (quarterly, half-yearly and annual reports) – at least as provided at item D.8 – including current reports with detailed information related to non-compliance with the present Code;		D.1.3
	D.1.4	Information related to general assemblies of shareholders: the agenda and supporting materials; the procedure approved for the election of Board members; the rationale for the proposal of candidates for the election to the Board,		D.1.4

Provisions of the Code			Compliant	Partially compliant (reason for incompliance)
		together with their professional resumes; shareholders' questions related to the agenda and the company's answers, including the decisions taken;		
	D.1.5	Information on corporate events, such as payment of dividends and other distributions to shareholders, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles applied to such operations. Such information should be published within a timeframe that enables investors to make investment decisions;		D.1.5
	D.1.6	The name and contact information of a person who should be able to provide knowledgeable information on request;		D.1.6
	D.1.7	TEL presentations (e.g. investor presentations, quarterly results presentations etc.), financial statements (quarterly, half-yearly, annual), auditor reports and annual reports.		D.1.7
D.2	TEL should have an annual dividend or other shareholders' benefits distribution policy, proposed by the Directorate and adopted by the Board of Supervisors, as a set of guidelines which TEL intends to follow regarding the distribution of net profit. The annual shareholders' distribution policy principles should be published on TEL's website.		On March 28th, 2016, the shareholders approved an annual dividend distribution policy. Link: https://www.transelectrica.ro/documents/10179/3235082/03_Propunere+Politica+de+dividend+TEL.pdf/a03e6232-5f57-420b-902f-a98cd611d450,	D.2
D.3	TEL should adopt a policy with respect to forecasts, whether they are made publicly available or not. Forecasts represent the quantified conclusions of studies aimed at determining the total impact of a list of factors related to a future period (so called assumptions): by nature such a task is based upon a high level of uncertainty, with results sometimes significantly differing from forecasts initially presented. The policy should provide for the frequency, period envisaged, and content of forecasts. Forecasts, if published, may only be part of annual, half-yearly or quarterly reports. The forecast policy should be published on the Company's website.			D.3

Provisions of the Code		Compliant	Partially compliant (reason for incompliance)
D.4.	The rules of the general assembly of shareholders should not restrict the participation of shareholders in general assemblies and the exercising of their rights. Amendments of the rules should take effect, at the earliest, as of the next general assembly of shareholders.	TEL respects all rights of issued financial instruments holders and ensures a fair treatment regardless of the number of shares held and makes sustained efforts in order to accomplish an effective, active and transparent communication in order for the shareholders to exercise their rights in an unprejudiced manner;	D.4.
D.5.	The external auditors should attend the general assembly of shareholders when their reports are presented there.	✓	D.5.
D.6.	The BS should present to the annual general assembly of shareholders a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting.	**Relevant information are presented on an annual basis in the General Assembly of Shareholders in the "BS committee report on internal control and significant risk management systems"** (**the Ordinary General Assembly of Shareholders from April 26th-27th, 2018** on the approval of the annual financial results of 2017).	D.6.
D.7.	Any professional, consultant, expert or financial analyst may participate in the shareholders' assembly upon prior invitation from the Chairman of the Board. Accredited journalists may also participate in the general assembly of shareholders, unless the Chairman of the Board decides otherwise.	Accredited journalists may also participate in the general assembly of shareholders, provided that they inform the Directorate beforehand.	D.7.
D.8.	The quarterly and half-yearly financial reports should include information in both Romanian and English regarding the key drivers influencing the change in sales, operating profit, net profit and other relevant financial indicators, both on quarter-on-quarter and year-on-year terms.	Relevant documents are available on TEL's website, under the Investor Relations/Periodical Reports section, link https://www.transelectrica.ro/web/tel/relatii-investitori;	D.8.
D.9.	TEL should organize at least two meetings/conference calls with analysts and investors each year. The information presented on these occasions should be published in the Investor Relations section of TEL's website at the time of the meetings/conference calls.	As per the Annual Financial Communication Calendar of TEL, approved and forwarded to the capital market institutions, BSE and FSA, the Company planned four meetings with financial analysts, investment consultants, brokers and investors for presenting the financial results; (https://www.transelectrica.ro/web/tel/calendar-financiar)	D.9.
D.10	If TEL supports various forms of artistic and cultural expression, sporting activities, educational or scientific activities, and considers the resulting impact on the innovativeness and competitiveness of TEL makes part of its business mission and development strategy, it should publish the policy guiding its activity in this area.	The document is available on TEL's website, under the About Us/Corporate Social Responsibility section, link: https://www.transelectrica.ro/web/tel/responsabilitate-sociala-corporativa,	**D.10**

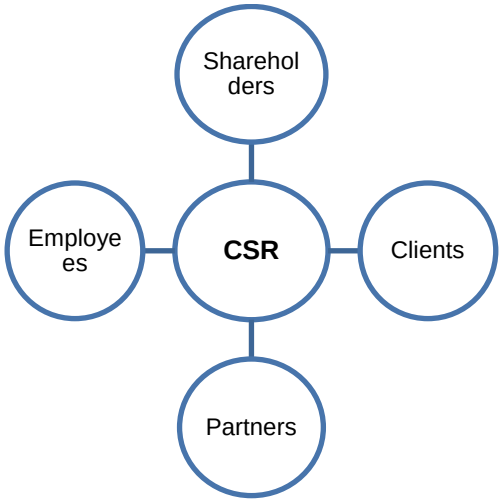
Corporate Social Responsibility

Besides its economic performance, qualitative management and communication policy, Transelectrica intends to actively participate into the development of the society it operates in by means of corporate social responsibility (CSR) projects.

Being a socially responsible company does not only mean fulfilling the legal obligations applicable in one's own business, but also furthering the actions performed by more investments in human capital, in the environment and in the relationships with stakeholders.

In accordance with Transelectrica's Corporate Social Responsibility Policy, the Company's executive management is aware of the need to get involved in social reality in order to provide, besides commercial success, the consideration of the community it carries out its activities in.

Figure 40: CSR policy – stakeholders



Transelectrica takes into consideration the company's interests and takes responsibility towards employees, shareholders, the community and the environment with a view to generate prosperity, to create workplaces and to provide sustainability to a financially sound enterprise.

CNTEE Transelectrica SA aims at adopting and integrating the best CSR practices in its business model in order to increase both the efficiency of managerial acts and the company value by enhancing the confidence level of employees, shareholders, partners and the community in its economic social potential.

Throughout the years, ever since the establishment of the Company, the corporate social responsibility policy focused on actions included in a long-term strategy:

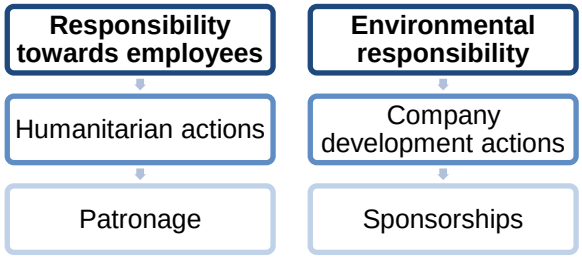
Fields	Actions
Art and culture	Donations
Education	Sponsorships
Humanitarian actions	Patronage acts
Company development actions	

By all proposed objectives in terms of corporate social responsibility and by volunteer, sponsorship and donation activities, the Company commits ethically and contributes, by transparent responsible business practices, to the sustainable economic development and to social cohesion, while at the same time improving the quality of employees' lives and their families' and that of local communities and of the society it operates in.

The CSR vision of Transelectrica is to provide national values such as innovation, team spirit, respect for diversity and commitment.

In 2017, Transelectrica focused its CSR activities in fields such as: education and training, humanitarian actions, environment, responsibility towards employees and corporate volunteer actions.

Figure 41: Actions performed in 2017



The Company retains and motivates its employees by providing a proper working environment where they can feel comfortable, which can allow their successful growth both in profession and in private, benefitting of:

- job stability and safe working conditions;
- training and development opportunities under the Annual program for employees' professional training and qualification;
- career opportunities by internal promotions;
- development opportunities;
- campaigns assessing the employees' health: general consultations, lab tests, flu and hepatic shots;
- optionally, employees can also benefit of voluntary health insurance, with employee co-financing.

Also, if serious health conditions occur, the Company provides financial support to employees or to family members to continue certain special medical treatments or to undergo surgery abroad.

In 2017, the Company's executive management decided providing financial aids to solve some serious health issues amounting to 207,024 lei to 11 persons, both Transelectrica employees and seriously ill people that requested the Company's support.

The Company also pays great attention to supporting young generations, future electric power engineers. For nearly 4 years Transelectrica and IRE (National Romanian Institute Studying the Development and Utilization of Energy Sources), Romania's representative in EURELECTRIC, have been selecting young people from the Polytechnic Universities in the country that can participate with scientific articles to the "Students Competition" section of the annual EURELECTRIC Conference. To this respect, Transelectrica provides material support to participating students, covering their travel and accommodation costs abroad.

To support the education of students from the Energy Faculty of Bucharest and in the country, in 2017 Transelectrica granted ten study scholarships amounting to a total of 79,000 lei to students that got very good results.

Enhancing the quality of graduates from the Electric Power Engineering Faculty also involves student education in modern laboratories with a view to complete the theoretical requirements and practical abilities. Thus, in 2017 Transelectrica contributed to the completion of the modernization process of the High Voltage Laboratory and adjacent laboratories which include high voltage installations belonging to the Electric Power Department at the Polytechnic University in Timisoara.

In 2017, Transelectrica's involvement in corporate social responsibility became more and more visible together with associations such as:

The "Dăruiește Viață" Association

Transelectrica joined the courageous project initiated by the "Dăruiește Viață" Association to build from the ground up the first oncology and radiotherapy integrated clinic at the Clinical Emergency Children's Hospital "Marie Curie" from Bucharest. The clinic can ensure multidisciplinary treatment to patients and can positively influence the survival rate - which is one of the lowest in EU countries.

P.A.V.E.L Association

Transelectrica supports the "CA ACASĂ" project aiming to rehabilitate the premises on which the Association carries out its activities with children and adolescents with oncological diseases, as well as their parents. One of the premises that will be rehabilitated is the "Casa Părinților" center, established nearly 20 years

ago. The center hosts free of charge children with cancer and their parents who come from the country side to get treatment.

"Atelierul de Zâmbete" Association

In December 2017 during the Christmas period, Transelectrica and the "Atelierul de Zâmbete" Association managed to bring a dash of hope and joy in the lives of children from four foster centers in Bucharest, helping Santa Claus to prepare the presents for them.

"Solar Decathlon" Association in Bucharest

Transelectrica decided to get involved in the largest education and research project in the field of green buildings and sustainable urban developments in order to improve the development of solar homes and houses. The team's objective at the Solar Decathlon Middle East – Dubai 2018 competition is to build a solar, green, 100% electrical building functioning on renewable energy - a safe and comfortable home.

Transelectrica Sports Association in Sibiu

With Transelectrica's support, the Company's employee Andrei Romanescu managed to complete the "Romanian expedition to the highest peak in Africa – Mount Kilimanjaro 5895m" project.

In 2017, CNTEE Transelectrica joined the ShoeBox project for the first time, a volunteering campaign through which the Company's employees offered gifts wrapped in shoe boxes to children in need. This campaign gathered 169 gifts.

For 2018, CNTEE Transelectrica aims to keep organizing such ambitious projects and to get involved in social responsibility activities together with Romanian NGOs or by funding campaigns that have a positive impact on society.

Transelectrica's values become stronger as the social responsible behavior becomes a part of every employee and the Company's vision in terms of CSR. Thus, the Company makes sure it can live up to the social responsibility towards society via programs that generate long-term results and a positive attitude.

15Responsibility towards employees

The maintenance and permanent development of the Integrated Management System with respect to operational health and security represents a top priority Company-wide.

Labor security and health programs of the Company aimed at the following objectives:

- bringing installations to the level of health and security requirements set in one's own labor security guidelines, aligned to European requirements. Such activities resulted in reduced accident and professional illness risks for personnel active in Company installations;
- endowing Company personnel with individual protection equipment, according to the Company's own labor security requirements;
- providing and permanently supervising the health condition of personnel, according to the provisions of GD 355/2007;
- training personnel with respect the accident risks in Company installations.

Medical assistance of labor medicine was and is provided in the Company by labor medical doctors in the medical cabinets of the Company Executive and Branches.

To improve the efficiency of labor security and health, we take the following into account:

- completing the revaluation of risk factors for professional accident and illness for all Company jobs;

- monitoring the health of personnel with cardio-vascular conditions (forbidden to licensing) and quarterly reporting to the Integrated Management Department;
- consulting the main general entrepreneurs for occupational health and security, as contracted for work to PTG installations, by inviting them to the meetings of the labor health and security entity.

16Environmental responsibility

Environmental protection is an important objective to the Company, with a view to the Company's sustainable development. Thus, the environmental protection policy belongs to the general one, aiming at maintaining a good environmental management system, preventing and reducing pollution, compliance with legal national and European requirements, and sustainable development.

The 2017 environmental objectives aimed at maintaining a state-of-the-art environmental management system, as well as pollution prevention and reduction so that the environmental impact of the power transmission grid can comply with the limits of national and European requirements. Objectives were achieved by preventive and corrective measures included in the annual environmental management program.

To achieve these objectives, the Company applied measures to reduce the environmental impact of both operational and of maintenance & investment activities, which meant construction-installation works, so in 2017 no particular environmental protection issues were reported.

Describing the environmental impact of the PTG

High voltage electric installations mainly consisting of overhead lines and transformer & connection substations are installations that can have significant environmental impact given the technical complexity of installations but also the land areas taken up and the length of tens or even hundred km, usually crossing the territory of several counties.

No pollutants are discharged in the environment during normal operation of PTG installations. Certain chemical substances of pollutant nature can be accidentally leaked in the environment in case of non-tight equipment, wrong operation, failures or during construction and maintenance operations.

Environmental aspects for technology and construction are identified and assessed from the first design stage. The environmental management plan is elaborated according to them (for construction, operation and dismantling of installations), which includes measures to prevent pollution or to reduce the environmental impact, as well as the monitoring plan for environmental factors.

In 2017 in terms of environmental impact:

- no accidental pollution of significant environmental impact was recorded;
- there were no environmental complaints;
- generated waste was disposed of/capitalized at a 86.95% rate, the rest being stored.

Impact indicators

Table 33: Areas occupied by electric lines and substations

Entity	No safety area [m^2]		With safety area [m^2]	
	Substations	OHL	Substations	OHL
Total 2017	3,980,544	3,205,655	7,123,765	520,529,940

- ***Underground and terrestrial sources of soil and water pollution***

No noxious substances are discharged on ground, in underground or terrestrial waters during normal operation of PTG installations. Accidental pollutions can occur due to non-tight/broken equipment containing dangerous substances or electro-insulating oil, or to defects in the oil regeneration/supply/discharge installations into/from the equipment.

Car oil/fuel leaks can also occur from transportation machinery and means during construction and maintenance work (the oil leaked in the environment was retained by absorbent biodegradable earth).

- ***Air pollution sources***
  - ***Direct emissions***

During construction, maintenance and normal operation of PTG installations, no significant pollutant amounts are discharged in the atmosphere.

During construction, maintenance and normal operation of PTG installations, the following atmospheric emissions can occur: particulate matter - during construction work, flue gas - from cars, electric generating units and thermal plants, ozone in negligible amounts (Corona effect), sulphur hexafluoride - as a result of non-tight equipment or improper gas handling.

Flue gas (SOx, COx, NOx, COV, particulate matter etc.) can result from fires or explosions.

High voltage OHLs generate atmospheric pollution by ozone and nitrogen oxides after Corona discharges occurring around active conductors, especially during rains. The additional contribution of such pollutant substances is not major and cannot lead to exceeding the legal threshold values, a level beyond which there is risk for human health.

- ***Waste water sources***

Electricity transmission processes do not generate technological waste water. Waste water generated on the location of PTG installations is *domestic waste water* from human activities (directly discharged into the city drainage or collected and transported to a station treating urban waste water, then is discharged on ground or in terrestrial waters), *rainwater* collected in the oil-containing equipment tanks and in concreted manholes storing waste and equipment (can contain oil from leaks) which are mechanically treated in water-oil separators and discharged in the city drainage or collected and transported to a station treating urban waste water or discharged on ground or in terrestrial waters while observing the maximum admissible limits for pollutants disposed in the environment.

- ***Generating waste***

No direct waste results from electricity transmission. Waste comes from the construction and maintenance activity, as well as from human actions. Waste quantities are different from one year to another, depending on the volume of investment and maintenance work.

The generated waste was disposed of/capitalized via licensed companies.

Table 34: Waste management

Generated waste (t)	Capitalized waste (t)	Disposed waste (t)	Stored waste (t)	Waste management indicator: disposed, capitalized waste/generated waste
3,782	**827.12**	**2461.3**	**493.58**	**86.95%**

- ***Electromagnetic field generated by PTG installations***

Transformer/connection substations and the 220 kV and 400 kV overhead lines have a relatively low impact nearby, which can be found only around PTG installations. A great part of disturbing effects are owed to electric induction (into non-grounded metal objects or structures) and to interference phenomena (radio interference). Constructive solutions adopted for high voltage lines and substations provide proper protection against the exposure of living bodies to electromagnetic fields, in order to diminish the environmental impact of such installations.

In accordance with specific studies carried out near the 220 kV and 400 kV overhead lines, the intensity of the electric field decreases with distance, so at a distance of ca. 25-30 m from the line axis, the field intensity is zero.

- ***Acoustic pollution***

Noise can be produced during construction due to the executed works and the operation of equipment and cars. During operation, acoustic pollution can come from the noise produced by operation & vibration of PTG installations, or by Corona discharges around active conductors.

The noise level of Corona effects at a 25 m distance from the active conductor ranges from 53 dB during rain and 33 dB in fine weather.

- ***Impact on fauna***

The impact over fauna is significant, especially over birds that collide with PTG installations or are even electrocuted by such installations in their migration corridors or protected areas.

The main migration corridors of various types of birds have been identified in Banat, Dobrogea and the Danube Delta regions.

- ***Impact on vegetation***

The impact on vegetation is determined by the final or temporary land occupation and removal of vegetation exceeding a certain height within the safety areas of PTG installations, in order to prevent fires. This impact can be significant only in protected areas.

Measures to prevent and/or limit the environmental impact

The main measures taken in 2017 to prevent and/or limit environmental impact were the following:

- construction or maintenance of drainage networks for domestic waste water and/or rainwater;
- installing water-oil separators to the oil equipment tanks and storage platforms;
- building concreted platforms for temporary storage of equipment and waste;
- maintenance of oil or SF_6 equipment to prevent leaks;
- painting the towers of overhead lines (OHL) using colors adequate for the landscape;
- deforestation/maintenance of OHL safety corridors;
- restoring/developing the land to bring it to its initial state (after completion of works);
- monitoring the quality of waste water from Company substations and offices and proposing solutions to reduce pollution according to the requirements of environmental and water management permits;
- waste collection, sorting, transportation and capitalization/disposal.

4.2 mil. lei

Environmental protection expenses

Total environmental protection expenses amounted to 4.2 mil lei (ca. 901 thousand Euro), which were included in the operational, maintenance and investment expenses.

In 2017, the specific environmental expenses were 0.0205 mil euro/TWh of transmitted electricity.

Compliance with legal requirements

Company managed objectives (269 objectives: transformer & connection substations, overhead electric lines, offices etc., licensed or under re-licensing processes) comply with legal environmental protection requirements, the licensing degree being 99.26% (35 permits). Maintenance and investment operations carried out in 2017 were according to legal and regulatory requirements (environmental and/or water management endorsements, as the case may be).

Generated waste was managed according to legal requirements and was disposed of/capitalized by licensed companies, thus paying the 43 lei in taxes to the Environmental Fund for emissions from stationary sources. The measures imposed by regulatory and control authorities in the environmental protection and water management field were fulfilled in full, as the Company monitored environmental factors (air, water, soil, noise, electromagnetic field, waste) all throughout 2017 according to the requirements set forth by regulatory documents for environment and water management.

All the environmental information was accurately and timely reported according to the legal and regulatory requirements and those resulting from controls performed by regulatory and control bodies.

In 2017, no environmental protection complaints were registered, the Company fully complying with the legislation and regulations for environmental protection and water management.

Annex 1 - Appointment/recalling acts issued in 2017

Directorate

- According to BS Decision no. 35/19.04.2017,
  - the Directorate member and Chairman mandate of Ion-Toni Teau was terminated as of May 31st, 2017.
- By BS Decision no. 26/29.03.2017,
  - Georgeta-Corina Popescu was appointed to the position of Directorate member. The mandate of Georgeta-Corina Popescu started as of May 1st, 2017
- By BS Decision no. 51/31.05.2017,
  - Georgeta-Corina Popescu was appointed to the position of Directorate Chairman.
- By BS Decision no. 70/15.09.2017,
  - the following persons were appointed to the position of provisional Directorate member: Georgeta-Corina POPESCU, Mircea-Toma MODRAN, Dan-Valeriu ARDELEAN, Florin-Cristian TĂTARU and Andreea Georgiana FLOREA.
    The mandate was for a 4-month period.

Board of Supervisors

- By BS Decision no. 3/31.01.2017,
  - Ciprian Boloș was appointed to the position of provisional BS member.
- By BS Decision no. 28/29.03.2017,
  - Ștefan-Valeriu Ivan was appointed to the position of provisional BS member as a result of the mandate termination of Ciprian Boloș as of March 27th, 2017. By Decision no. 2/13.04.2017 of the General Assembly of Shareholders, Ștefan-Valeriu Ivan was appointed to the position of provisional BS member.
- By Decision no. 5/30.05.2017 of the General Assembly of Shareholders,
  - the following persons were appointed to the position of provisional Board of Supervisors members: Cristian Eugen RADU, Marius Iulian CARABULEA, Beatrice AMBRO, Corneliu SOROCEANU, Ștefan-Valeriu IVAN, Dan-Iulius PLAVETI, Bogdan BOBORA for a 4-month period;
- By Decision no. 9/26.09.2017 of the General Assembly of Shareholders,
  - the mandate of the following Board of Supervisors members was extended for a 2-month period: Cristian Eugen RADU, Marius Iulian CARABULEA, Beatrice AMBRO, Corneliu SOROCEANU, Ștefan-Valeriu IVAN, Dan-Iulius PLAVETI, Bogdan BOBORA.
- By Decision no. 12/09.11.2017 of the General Assembly of Shareholders,
  - the following provisional Board of Supervisors members were appointed for a 4-month mandate: Cristian Eugen RADU, Marius Iulian CARABULEA, Beatrice AMBRO, Faustin Doru SCÎNTEI, Sorin Alin MITRICĂ, Fănel MIHALCEA and Bogdan BOBORA. Their mandates started as of November 30th, 2017.

Annex 2 - Important agreements concluded by the company in 2017

No.	Agreement number	Agreement Subject	Duration	Value		Agreement type	Legal basis	Acquisition procedure
				Mil Lei	Mil Euro			
0	1	2	3	4	5	6	7	8
1	C 277/2017	Technical upgrade of the Ungheni 220/110/20 kV substation	40 months	0.00	9.2	Works	Law no. 99/2016 + GD 394/2016	Open Auction
2	C 264/2017	Upgrading the Bacau Sud and Roman Nord 110 kV substations associated to the Moldova 400 kV axis	34 months	38.1	0.00	Works	Law no. 99/2016 + GD 394/2016	Open Auction
3	C 260/2017	Upgrading the 110 and 400(220) KV installations in the Focsani Vest substation	29 months	22.7	0.00	Works	Law no. 99/2016 + GD 394/2016	Open Auction
4	CR 52/2017	RC – 400 KV d.c. OHL Tintareni – Turceni G1+2, G3+4	24 months	2.5	0.00	Works	Law no. 99/2016 + GD 394/2016	Open Auction
5	C 209/2017	Equipping the 110 kV Nord cell and changing the elements in the Obor 2 110 kV cell from the Fundeni 220/110/10 KV substation	12 months	2.5	0.00	Works	Law no. 99/2016 + GD 394/2016	Open Auction
6	C 198/2017	Equipment for videowall type display for the control rooms of the dispatching CPD/TPD centers	42 months	3.7	0.00	Supply	Law no. 99/2016 + GD 394/2016	Open Auction
7	PT 53/15080/2017	Cleaning and cleanness maintenance services at the ST Pitești objectives	36 months	0.70	0.00	Services	Law no. 99/2016 + GD 394/2016	Open Auction
8	TM 102/2017	Cleaning services at the ST Timisoara offices – batch 1 – Timis county	24 months	0.47	0.00	Services	Law no. 99/2016 + GD 394/2016	Open Auction
9	C 263/2017	Strategic services/works in installations under CNTEE "TRANSELECTRICA" SA's management	36 months	227.4	0.00	Services	Law no. 99/2016 + GD 394/2016	Open Auction
10	C 248/2017	Software Eurostag & Syscan: 1 new Eurostag license, 1 new Syscan license, maintenance and upgrade (service) for 6 Eurostag licenses	36 months	0.92	0.00	Services	Law no. 99/2016 + GD 394/2016	Simplified procedure
11	C 233/2017	Air transport services (framework agreement)	12 months	0.70	0.00	Services	Law no. 99/2016 + GD 394/2016	Simplified procedure
12	C 210/2017	Financial audit services for the period between 2017 – 2019	36 months	0.60	0.00	Services	Law no. 99/2016 + GD 394/2016	Simplified procedure
13	C PE/2017	CORE TSOS and RSCS SERVICE level Agreement on Capacity Calculation Development for DA and ID, for the development and implementation of flow-based interconnection capacity calculation	26 months	0.47	0.00	Services	Law no. 99/2016 + GD 394/2016	Own simplified procedure
14	PT 39/11247/2017	AT 1 - Gradiste 200 MVA substation + isolation refurbishment	9 months	0.49	0.00	Services	Law no. 99/2016 + GD 394/2016	Simplified procedure

Annex 3 - List of Transelectrica's subsidiaries

- The Electricity Market Operator Company "OPCOM" SA – J40/7542/2000 – Bucharest, 16-18 Hristo Botev Blvd., 3rd district, code 030236, www.opcom.ro;
- The Company for the Electric Transport Network Maintenance "SMART" SA - J40/8613/2001 - Bucharest, 33 General Gheorghe Magheru Blvd., 1st district, code 010325, www.smart-sa.ro;
- The Company for Telecommunication and IT Services in Electricity Transmission Grids "TELETRANS" SA – J40/12511/2002 – Bucharest, 16-18 Hristo Botev Blvd., 3rd district, code 030236, www.teletrans.ro;
- Company for Training Romania's Power Engineers "FORMENERG" SA – J40/2265/2002 – Bucharest, 3 Gheorghe Sincai Blvd., 4th district, code 040311, www.formenerg.ro;
- The Company Subsidiary "ICEMENERG - SERVICE" SA – J40/11414/2003 – Bucharest, 8 Energeticienilor Blvd. 3rd district, code 032092, www.icemenerg-service.ro

List of persons affiliated to the company

1. Company's subsidiaries

- OPCOM;
- TELETRANS;
- SMART;
- FORMENERG;
- ICEMENERG-SERVICE.

2. All the companies with majority state capital with which the Company concluded regulated contracts on the energy market.

All contracts concluded with affiliated persons amounting to more than 50,000 euro were reported under Current Reports, according to legal provisions.

Annex 4 - Disputes

On 31.12.2017 the Company was involved in the following disputes amounting to more than 100,000 Euro (465,970 Lei at the BNR exchange rate):

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
1	7238/120/2012	Debtor: SC ECO Energy SRL Creditor: Transelectrica	Insolvency procedure Joint-stock companies – upon debtor's request	Recorded in the creditors' list for **24,736,065.84 Lei**	**Term: 23.04.2018**
2	41911/3/2014 41911/3/2014*	Claimant: Transelectrica Defendant I: SC Gallup Organization Romania SRL Defendant II: Stelian Baicusi and others	Claims	**4,958,587.72 Lei**	Settlement in brief: Admits the exception of functional incompetency of section VIII from Bucharest Tribunal. Referring the file to the registration office from the civil sections of Bucharest Tribunal. No appeal. Pronounced at public hearing on 19.02 .2015. Document: Conclusion (disinvestment) 19.02.2015. Filed appeal Defers delivery to 18.12.2017. Denies the appeals as groundless. Obliges the plaintiff in appeal to pay 6,250 Lei law suit expenses (representing reduced lawyer's fee) to defendant in appeal Gallup Organization Romania SRL. Appeal within 30 days from notification. Pronounced at public hearing on 18.12.2017. Document: Judgment 2269/2017 18.12.2017
3	17284/3/2015	Claimant: SC Dagesh Rom SRL Defendant: Transelectrica	Claims	**2,784,950 Lei +** **168,500 Lei**	**T: 13.04.2018**. Denies the request - Settlement in brief: 1. Admits the exception of prescription with respect to the claims represented by: - the rent difference asked for the time interval 04.03.2012 - 12.05.2012; - penalties associated to the sums claimed as rent difference calculated for 04.03.2012 - 12.05.2012; - difference of service fee demanded for 04.03.2012 - 12.05.2012; - penalties associated to the sums claimed as service fee difference calculated for 04.03.2012 - 12.05.2012. Denies such claims as prescribed. 2. Denies the other claims as groundless. 3. Compels the claimant to pay 2,250 Lei to the defendant as law suit expenses. 4. Appeal within 30 days from notification. Appeal will be submitted to Bucharest Tribunal, Section VI Civil. Pronounced at public hearing on 15.11.2016. Judgment 7230/2016 . **Term:13.04.2018**

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
4	873/1259/2008	Creditor: DGFP, Transelectrica Debtor: SC Termoficare 2000 Pitesti SA	Insolvency procedure	Request to be recorded in the creditors' list for 641,673.13 Lei	Establishes the term to continue the procedure on 06.03.2018 so that the judiciary liquidator can submit a report mentioning whether the diligence paid in the procedure will bring money to the creditors, to what extent can be applied the provisions of article 131 to this procedure. Appeal right, at the same time with the case substance. Pronounced at public hearing on 20.02.2018 of the Specialised Arges Tribunal. Document: Hearing conclusion **20.02.2018**
5	29322/3/2014	Debtor under insolvency: SC ENNET GRUP SRL Creditor: Transelectrica	Insolvency procedure	Request to be recorded in the creditors' list for **3,277,527.03 Lei**	**Term – 11.06.2018 – to continue the procedure**
6	47478/3/2012 170/3/2014 47478/3/2012*/a1	Debtor under insolvency: SC PETPROD SRL Creditor: Transelectrica	Insolvency procedure Joint-stock companies – upon debtor's request	**24,013,312.82 Lei**	Enrolled at the statement of affairs of the debtor S.C. PETPROD SRL, with the amount of 24,013,312.82 lei, out of which 11,595,501.88 lei in the category "amount admitted under the condition", mentioning that "the amount admitted under the condition is the subject of the litigation file 49.134 / 3/2012, filed on the role of the Bucharest Tribunal. "**Term 22.05.2018**
7	5302/2/2013	Defendant: Transelectrica, ANRE Claimant: Conaid Company	Administrative dispute Ascertaining the unjustified refusal to conclude and sign RET connection addendum and/or contract, obligation to sign addendum and/or contract for RET connection	Obligation to pay **722,756,000** Euro, representing unrealised profit according to the business plan and **17,419,508.07** Lei – actual expenses registered in account books	In accordance with article 413 par 1 item 1 from the Civil procedural code, it suspends judging the case; appeal during all term of suspension. The appeal is submitted to the Court of Appeal Bucharest. Pronounced at public hearing on 24 June 2014. Document: Conclusion - Suspension 24.06.2014. **Settlement:** Admits the appeal – Admits the appeal with cancellation; decides re-referral to court **Settlement details:** Ruling 2148/29.06.2016. Denies the exceptions invoked by the recurrent-claimant SC Conaid Company SRL, by judiciary administrator RVA Insolvency Specialists SPRL and by the recurrent-defendant National Power Grid Company Transelectrica SA. Admits the appeal of defendant National Power Grid Company Transelectrica SA against the hearing conclusion of 18 February 2014 and of the civil sentence 1866 of 11 June 2014, pronounced by the Appeal Court Bucharest, Section VIII administrative and fiscal. Cancels the conclusion appealed against and partly the sentence and refers the case to Tribunal of Bucharest, Section VI civil to settle the claimant's case in contradiction with the National Power Grid Company Transelectrica SA. Maintains the other stipulations of the sentence with respect to the claimant's suit against the National Regulatory Authority in the Energy domain. Denies the appeals filed by claimant SC Conaid Company SRL, by its judiciary administrator RVA Insolvency Specialists SPRL and by the third party SC Duro Felguera SA against civil sentence 1866 of 11 June 2014. Pronounced by the Appeal Court Bucharest, Section VIII administrative and fiscal disputes. Denies the appeal filed by the National Power Grid Company Transelectrica SA against the

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
					hearing conclusion of 25 March 2014, pronounced by the Appeal Court Bucharest, Section VIII administrative and fiscal disputes. Final. Pronounced at public hearing on 29 June 2016. Solution in brief: Admits the plea of inadmissibility. Dismisses the application as inadmissible. Rejects the application for leave to intervene in the applicant 's interest. With appeal within 30 days of notification. The appeal is to be filed at the Bucharest Civil Court Section VI. Submitted to the parties by the Registry on November, 23rd, 2017.Document: Decision 4364/2017 23.11.2017
8	8207/62/2011	Debtor under insolvency: CET SA Brasov Creditor: Transelectrica	Insolvency procedure	Recorded in the creditors' list for **4,303,741.44 Lei**	To continue the steps and capitalise the assets from the debtor's inventories, to settle all disputes and register the real estate, it pronounces the term on 10.05.2018. **Term: 15.02.2018**
9	22846/301/2012 49134/3/2012 Separated: 3198/2/2015 Re-registered in court re-referral under no. 44223/3/2016	Claimant: Petprod SRL Defendant: Transelectrica	Claims	**11,328,252.77 Lei**	Denies as groundless the inadmissibility exception. Admits the exception of prematurity of the main request. Decides term on 7.11.2013, summoning the parties; appeal together with the substance case. Document: hearing conclusion 26.09.2013. Settlement in brief: Denies the main request as prematurely expressed. Admits part of the re-conventional request. Obliges the appealed claimant Petprod to pay 21,701,281.92 Lei to the appealing claimant Transelectrica. Obliges the appealed defendant to pay to appealing claimant Transelectrica the sum of 221,128.82 Lei as law court expenses. Appeal within 15 days from notification. Ruling 6799/ 28.11.2013 26.05.2015 Type of settlement: Admitting the appeal Settlement in brief: Admits the appeal filed by the plaintiff in appeal SC PETPROD SRL against the conclusion of 26.09.2013. Cancels in part the conclusion appealed against and refers the case to re-trial by the same law court, to settle the main request. Maintains the other provisions of the conclusion. Separates the judgment of appeals filed by the parties against civil sentence 6799/2013 pronounced by Bucharest Tribunal - Section VI Civil. According to article 36 of Law 85/2006 suspends the judgment of appeals filed by the parties against the civil sentence 6799/2013. Final. Appeal in 15 days from notification. Pronounced at public hearing. Document: Ruling 872/2015 / 26.05.2015 Filed appeal. Denies as groundless the appeal filed by the recurrent defendant CNTEE TRANSELECTRICA S.A. against civil ruling 872 of 26 May 2015, pronounced by the Appeal Court Bucharest – Section VI Civil. Admits in part the request for law suit expenses expressed by the plaintiff in appeal-claimant. Obliges the recurrent – defendant CNTEE TRANSELECTRICA SA to pay 4,500 Lei to the plaintiff-claimant SC PETPROD SRL by the Judiciary Administrator SCP INSOLVENCY AGENCY BANAT SPRL, as law suit expenses – lawyer's fee. Irrevocable. Settlement in brief: In accordance with article 36 of Law 85/2006, suspends judging the appeals filed by the parties against civil sentence 6799/2013. Final. Appeal right in 15 days from notification. Pronounced at public hearing.

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
					Document: Conclusion - Suspension 26.05.2015 Term 20.09.2016 – Appeal Court Bucharest (ACB) maintains the suspension Term of Bucharest Tribunal: 15.03.2017. Defers pronouncement to 22.03.2017.
10	3294/2/2015	Claimant: Transelectrica Defendant: Ministry of Energy, Small & Medium-Sized Enterprises and of Business Environment, successor of the department for energy - Intermediate Body for Energy	Annulment of administrative deed, annulment of decision 238925/03.12.2014		Settlement in brief: Admits the law suit. Cancels decision 238925/25.03.2014 and the ascertaining note of irregularities 237432/09.10.2014, which also establishes the financial corrections. Decides returning to the claimant the sum of 2,190.150.20 Lei with the interest provided in the fiscal procedural code, from payment date until actual repayment. Denies the request to return the stamp fee. Appeal right. Pronounced at public hearing on 27.10.2015. Document: Ruling 2756/2015 27.10.2015 Admits the request. Decides adding the civil sentence 2756/27.10.2015, meaning it obliges the defendant to pay 400 Lei as law suit expenses to the claimant. Appeal within 15 days from notification. Pronounced at public hearing on 26.04.2016. Document: Ruling adding the disposition 1426/2016 / 26.04.2016 Filed appeal – the case is in the screening procedure The first court term will be set later on.
11	3694/3/2016	Claimant: RAAN Defendant: Transelectrica	Claims	15,698,721.88 Lei	Suspended until settlement of file 3014/2/2014 pertaining to appeal for annulment of ANRE decision.
12	7958/2/2016	Claimant: Transelectrica Defendant :Ministry of Energy - IBE	Contesting the decision 232127/20.05.2016		Settlement in brief: Denies as groundless the exception of inadmissibility for items 3 and 5 of the case. Admits the exception of inadmissibility for item 4 of the case (pertaining to compelling the defendant to approve the settlement of sums rejected for repayment by notifications associated to the repayment demands 1-3) and denies this request item as inadmissible. Denies the remaining case as groundless. Appeal within 15 days from notification. The appeal will be submitted to the Bucharest Appeal Court, Section VIII pending nullity. Pronounced at public hearing on 12.04.2017. Document: Ruling 1359/2017 / 12.04.2017 Appeal was filed, which is under screening procedure.
13	3256/85/2016	Claimant: Transelectrica Defendants: GOG METAL SRL and ELECTRO Construct System SRL	Claims	756,770 Lei	Settlement in brief: Admits the suspension request filed by claimant CNTEE Transelectrica SA in the contest reply. Decides suspending this case until final settlement of file 1658/2/2014 on the docket of the Appeal Court Bucharest. Appeal right as long as the case suspension lasts. Pronounced at public hearing on 02.03.2017. Document: Conclusion - Suspension 02.03.2017
14	5595/120/2010	Claimant: Transelectrica Defendant: SC Eco Energy SA	Claims	**16,604,203.24 Lei**	**Term: 26.09.2014** In accordance with the provisions of article 36 from Law 85/2006, it suspends judging the case.

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
15	40814/3/2014	Claimant: OPCOM SA Defendant: Transelectrica	Claims	582,086.31 Euro (2,585,161.72 Lei) + 84,867.67 Lei interest	**Term: 13.03.2018** Settlement: Admits the suing file of claimant Electricity and Natural Gas Market Operator OPCOM SA in contradiction with defendant National Power Grid Company Transelectrica SA. Obliges the defendant to pay 582,086.31 Euro, representing the sum the claimant paid instead of the defendant from the fine of 1,031,000 Euro applied by Decision of the European Commission on 05.03.2014 in the AT.39984 case, plus legal interest to such 582,086.31 Euro, calculated on 11.06.2014 until actual payment. Obliges the defendant to pay 37,828.08 Lei as law suit expenses. Appeal right within 30 days from notification. The appeal is submitted to Bucharest Tribunal, Section VI Civil. Pronounced at public hearing on 24 July 2015. Document: Ruling 4275/2015 / 24.07.2015 **Term: 10.10.2016** Settlement in brief: Admits the appeal. Changes the entire civil sentence appealed against, namely it denies the suing as groundless. Obliges the claimant plaintiff in appeal to pay 16,129.49 Lei law suit expenses, being judiciary stamp fee. Appeal within 30 days from notification. Pronounced at public hearing on 10.10.2016. Document: Ruling 1517/2016 / 10.10.2016 **Termen: 13.03.2018** **Admite recursul declarat de recurentul-reclamant Operatorul Pieţei de Energie Electrică şi Gaze Naturale – OPCOM S.A. împotriva deciziei nr. 1517/10.10.2016, pronunţată de Curtea de Apel Bucureşti – Secţia a V-a Civilă. Casează decizia atacată şi trimite cauza, spre o nouă judecată, instanţei de apel. Definitivă.**
16	1284/101/2015 24206/3/2015	Claimant: RAAN Defendant: Transelectrica	Claims	**11,637,439.66 Lei**	**Term: 22.05.2015** Settlement: Admits the exception of territorial incompetency. Declines ruling competency in favour of Bucharest Tribunal, Section VI Civil. No appeal. **Term: 03.11.2015** Settlement: Admits the request as added. Obliges the defendant to pay 17,805,680.17 Lei to the claimant, as amount of the bonus and penalties. Denies the claimant's request to grant law suit expenses as groundless. Appeal within 30 days from notification, to be filed with Bucharest Tribunal, Section VI Civil. Document: Ruling 6075/2015 / 03.11.2015 Filed appeal Settlement in brief: In accordance with article 413 para 1 item 1 the NCPC admits the suspension request filed by the claimant plaintiff in appeal by means of the judiciary liquidator EURO INSOL SPRL. According to article 413 para 1 item 1 NCPC decides suspending the appeal settlement until final solving of file 9089/101/2013/a152 on the docket of Mehedinti Tribunal. Appeal right during the entire suspension time. Appeal to be filed with the Appeal Court Bucharest, Section V Civil. Pronounced at public hearing on12.01.2017. Document: Conclusion - Suspension

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
					T: 12.01.2017
17	7566/101/2014 26024/3/2015	Claimant: RAAN Defendant: Transelectrica	Claims	**10,048,628.86 Lei**	**T: 04.02.2015** Settlement: Admits the case; appeal within 30 days from notification. Document: Ruling 16/2015 / 04.02.2015 Filed appeal **T: 30.06.2015** Settlement: Admits the appeal. Admits the appeal. Cancels the sentence and refers the case for settlement to the Tribunal of Bucharest, Section VI Civil. Final. Document: Ruling 509/2015 / 30.06.2015 **T: 28.11.2016** Settlement: Suspends the case according to article 413 (1) NCPC against article 411 (1) NCPC. Appeal according to article 414 (2) NCPC. Pronounced at public hearing. Document: Conclusion - Suspension 28.11.2016
18	4569/107/2015	Claimant: Transelectrica Defendant: ROMENERGY INDUSTRY SRL	Claims	**11,881,453.01 Lei**	Settlement: Admits the civil case filed by claimant CNTEL Transelectrica SA with the correspondence address to communicate procedural documents in Bucharest against defendant SC Romenergy Industry SRL and consequently: - Compels the defendant to pay 10,608,353.71 Lei as claims to the claimant. - Obliges the defendant to pay 122,419.53 Lei as judiciary expenses to the claimant. Appeal within 30 days from notification. Pronounced at public hearing on 9 June 2016 according to the provisions of article 396 of the Civil procedural code. Document: Ruling 1088/2016 / 09.06.2016. Transelectrica is recorded with 16,475,047.45 Lei in the creditors' list of file 2088/107/2016.
19	4486/121/2015	Claimantr: Transelectrica Defendant: SC ARCELORMITTAL GALATI SA	Claims	**2,671,266.50 Lei**	**T: 01.04.2016** Settlement: Admits the prescription exception only with respect to the delay penalties calculated for 01.01.2012-23.03.2012, inclusive, provided in invoice 13760/26.11.2014. Denies the exception of inadmissibility as groundless. Admits in part the suing. Obliges the defendant to pay 2,656,221.60 Lei as the value of penalty invoices. Denies the other claims based on article 453 Civil procedural code, obliges the defendant to pay 30,167.22 Lei as law suit expenses; appeal within 30 days from notification. Pronounced at public hearing on 01.04.2016 Document: Ruling 113/2016 / 01.04.2016 **T: 13.05.2016** Settlement: According to article 442 Civil procedural code corrects the material error occurred in civil sentence 113/01.04.2016 of Galati Tribunal, namely instead of 2,656,221.60 Lei the defendant was obliged to pay as the value of penalty invoices, the actual correct amount of 2,468,419 Lei will be inscribed, and instead of 30,167.22 Lei representing law suit expenses the defendant was obliged to pay, the actual correct sum of 28,289.19 Lei will be written. Appeal within 30 days from notification. Document: Conclusion - amending the material error 13.05.2016 **T: 26.09.2016** Filed appeal: CIVIL RULING 151/A denies as groundless the appeals filed against civil

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
					sentence 113/2016 and the conclusion of 13.05.2016 in file 4486/121/2015 of Galati Tribunal, Section II Civil. Filed appeal **Term: 21.09.2017** Defers the pronouncement one week. Admits the appeal. Refers the case for re-judgment to the Appeal Court Galati that on 02.02.2018 decided as follows: Civil ruling 17/A Admits the appeals filed by the claimant in appeal the National Power Grid Company Transelectrica SA in contradiction with the defendant in appeal SC ArcelorMittal SA Galati against civil sentence 113/01.04.2016 and the 13.05.2015 conclusion pronounced by Galati Tribunal. Changes in part the appealed sentence in this sense: Denies as groundless the exception of prescription invoked by the defendant's objection. Admits the suing filed by claimant National Power Grid Company Transelectrica SA in contradiction with defendant SC ArcelorMittal SA Galati and compels the defendant to pay 2,671,266.5 Lei to the claimant representing the amount of penalty invoices. Admits the accessory request and compels the defendant to pay 30,317.66 Lei to the claimant as law suit expenses, representing the judiciary fee of stamp fund. Repels the dispositions contradicting this decision and maintains the other provisions of the ruling appealed against. Changes entirely the 13.05.2015 hearing session conclusion of Galati Tribunal and consequently ascertains the material error amendment expressed in the case remains groundless. Admits the accessory request and compels the intimated defendant to pay 2,650.98 Lei to the claimant in appeal as law suit expenses representing judiciary stamp fee for appeal and action. Appeal right, which will be submitted to the instance the decision of which is appealed against within 30 days from notification. Pronounced on 02.02.2018, by placing the settlement to the parties' disposal by means of the instance registry. Document: Ruling 17/2018 / 02.02.2018
20	43152/3/2014	Debtor under insolvency: SC ICPE Electrocond SA Creditor: Transelectrica SA	Insolvency procedure	Request to be recorded in the creditors' list for **2,705,330.98 Lei**	**T: 16.04.2018** Settlement in brief: Defers judging the case to enable the judiciary administrator to take the necessary steps in order to continue the reorganisation plan.
21	6473/111/2013	Debtor under insolvency: SC Electrocentrale Oradea Creditor: Transelectrica SA	Insolvency procedure	Request to be recorded in the creditors' list for **641,673.13 Lei**	In accordance with article 107 para 1 let. B) from the Law on insolvency procedure, decides opening the bankruptcy procedure for debtors SC Electrocentrale SA. Appoints the provisional judiciary liquidator CITR- Bihor Branch SPRL seated in Oradea str. Roman Ciorogariu no. 24, that will carry out the attributions provided in article 25 of the law and whose retribution will be set later, depending on the settlement. In accordance with article 107 para 2 from the Law on insolvency procedure, decides dissolving the debtor company and taking away the debtor's administration right. Establishes the maximum term to submit the management to the liquidator, together with the list of documents and operations performed after opening

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
					the procedure on 18 January 2018. In accordance with article 61 and article 109 from the Law on insolvency procedure decides notifying the procedure opening to the debtor, the creditors and to the Office of the Commercial Register from Bihor Tribunal, through the Bulletin of Insolvency Procedures, in view of making the mention based on article 61 from the Law on insolvency procedure. Sets on 26 February 2018 the deadline to submit the demands for liabilities occurred during procedure. Sets the deadline to check up the liabilities, to elaborate, display and notify the additional liability table on 16 March 2018. Sets the term to settle possible contestations on 28 March 2018 and to display the final consolidated liability table on 11 April 2018. Sets the case hearing term on 11 April 2018, room 66, 9:00 h. Establishes the liquidator's task to set the date of the creditors' assembly meeting and to convene the debtor's creditors. Decides the liquidator to send notifications to all creditors. Decides communicating the decision to the law courts in whose jurisdiction is the debtor, as well as to all the banks where it has opened accounts. In accordance with article 113 from the Law on insolvency procedure, decides sealing all goods from the debtor's stocks and carrying out the other liquidation operations. Enforceable. Appeal within 30 days from notification, to be submitted to Bihor Tribunal. Document: Intermediary ruling 14/2018 / 10.01.2018
22	1867/90/2010	Debtor under insolvency: SC Total Electric Oltenia SA Creditor: Transelectrica SA	Insolvency procedure Joint-stock companies – upon debtor's request	Recorded in the creditors' list for **14,085,415.27**	**T: 28.03.2018**
23	105/2/2017	Claimant: Transelectrica SA Defendant: Company of Maintenance Services to the Electricity Transmission Grid Smart SA	Contesting the execution of enforcement title 181/13.12.2016 and of summons 182/13.12.2016	4,259,531.72 Lei	Settlement in brief: In view of the contender's payment of the stamp judiciary fee in quantum of 900 Lei, taking into account the case subject was requalified from "deed cancellation" into "contestation upon execution". Document: Ruling conclusion 21.02.2018
24	18499/3/2013	Claimant: Popescu Mina Defendant: Transelectrica SA	Claims	**1,500,000 Lei**	Settlement in brief: Denies the request to add the body of proof with the assessing technical expertise as useless to the case. Pronounces the exceptions of the absence of active processual capacity, absence of passive processual capacity and inadmissibility as fundamental defence. Denies the case as groundless. Appeal right within 30 days from notification. Pronounced at public hearing on 24.11.2015. Document: Ruling 1404/2015 / 24.11.2015 Settlement in brief: Admits the request, decides returning the stamp fee in quantum of 1,431 Lei paid in this file by receipts 104913/23.04.2015, 207352/22.05.2015 and 248/10.06.2015. Enforceable. Appeal within 30 days from notification. Appeal to be submitted to Bucharest Tribunal section III civil. Pronounced at public hearing on 19.04.2016. Document: Ruling conclusion 19.04.2016

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
25	3269/3/2015	Claimant: Transelectrica Defendant SC Company of Maintenance Services to the Electricity Transmission Grid SMART SA	Claims	**566,773.42 Lei**	Settlement in brief: In accordance with article 242 para 1 Civil procedural code suspends judging the case. Appeal right to the superior instance during the entire suspension interval, which will be submitted to Bucharest Tribunal, Section VI Civil. Pronounced at public hearing on 25.11.2015. Denies the appeal as groundless. Final Pronounced at public hearing on 09.09.2016. Document - Ruling 348/2016. Term to continue judgment Bucharest Tribunal - 26.10.2016. Denies the request to re-open the judgment as groundless. Appeal right during entire suspension, to be submitted to Bucharest Tribunal, Section VI Civil. Pronounced at public hearing on 23.11.2016. Document: Conclusion - Suspension 23.11.2016
26	2033/111/2007 2033/111/2007*	Recurrent-claimants : Transelectrica through the Romanian State + Transelectrica by Cluj Branch Respondent in appeal, third parties: Mihes Cristian Radu, Mihes Marius-Tudor, Popa Florica Loredana, Corb Erika, Luca Ionut-Bogdan, Luca Viorica, Recurrent defendants: Mester Lavinia Eugenia, Mester Traian Recurrent: Prosecutor's Office from the Appeal Court Oradea	Appeal Expropriation as per Law 33/1994	Expropriation Law 33/1994 Compensations **275,310 EURO**	Settlement in brief: Admits as groundless the civil appeal introduced by plaintiffs in appeal - defendants Mester Traian and Mester Lavinia Eugenia and the request to adhere to the appeal expressed by claimant CNTEE TRANSELECTRICA SA BUCURESTI by CNTEE TRANSELECTRICA SA, TRANSMISSION BRANCH CLUJ, representing the Romanian State in contradiction with the respondents in appeal – third parties Luca Viorica, Luca Ionut-Bogdan, Mihes Cristian Radu from Oradea, Mihes Marius-Tudor, Popa Florica-Loredana and Corb Erika, against civil sentence 628 of 20 September 2007 pronounced by Bihor Tribunal, which it partly changes meaning that: Ascertains the real estate in kind consisting of extra-locality arable land of 636 m2 area, under new cadastre no. 12779 consisting of old cadastre no. 8630/19 written in CF NDF 7648 Oradea defendants' property is impacted by the building of the 400 kV trans-European OHL Oradea – Bekecsaba – tower. Decides expropriation for public utility of national interest of such real estate of 636 m2 area instead of 50 m2 and establishes the quantum of compensations to 5088 Euro instead of 477 Euro, sum payable in Lei at the official exchange rate on the effective payment date. Decides tabulating the Romanian State's property right in the land registry with 636 m2 associated to the fore-mentioned real estate as expropriation title instead of 50 m2. Admits the intervention requests in the interest of the plaintiffs in appeal Mester Traian and Mester Lavinia Eugenia, formulated by accessory third parties: LUCA VIORICA, LUCA IONUT-BOGDAN, MIHES CRISTIAN RADU, MIHES MARIUS-TUDOR, POPA FLORICA-LOREDANA and CORB ERIKA. Maintains the other stipulations of the sentence appealed against. Compels the plaintiff in appeal claimant NATIONAL POWER GRID COMPANY TRANSELECTRICA SA BUCHAREST by CNTEE TRANSELECTRICA SA, TRANSMISSION BRANCH CLUJ to pay to the respondent in appeal third party Luca Viorica 1500 Lei, law suit expenses in appeal. FINAL. Appeal within 15 days from notification. Pronounced at public hearing. Filed appeal **T: 27.10.2016** Ruling 2055: Denies the exception of appeal nullity stated by the recurrent defendants Mester Lavinia Eugenia and Mester Traian. Admits the appeals stated by the recurrent - claimant National Power Grid Company TRANSELECTRICA SA Bucharest

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
					representing the Romanian State and by the recurrent-defendants Mester Lavinia Eugenia and Mester Traian against Ruling 375 of 26 April 2016, pronounced by the Appeal Court Oradea, Section I civil. Repeals the contested ruling and sends the case for re-judgment to the same appeal instance. Irrevocable. **Term:03.04.2018**
27	7282/3/2017	Creditor: Transelectrica and others Debtor: Arelco Power SRL	Bankruptcy procedure	1,878,467.85 Lei liability to recover	Liability admitted in the preliminary liability table. Procedure term: 27.03.2018
28	4452/3/2017	Creditor: Transelectrica and others Debtor: Arelco Energy SRL	Bankruptcy procedure	20,996,030.49 Lei	Admitted liability of 20,041,519.94 Lei, mentioning that 954,510.55 Lei were settled by compensation. Initially the sum requested and admitted was 21,025,161 Lei. **Term.18.05.2018**
29	1372/3/2017	Creditor: Transelectrica and others Debtor: Transenergo Com	Insolvency procedure	6,850,000.98 Lei	Requested liability was admitted mentioning that: out of the total 6,858,660.28 Lei an amount of 1,983.36 Lei is taken (compensated); 69,808.42 Lei, of which 48642,11 Lei liability settled by TEL by enforcing the SGB and 21,166.31 Lei, liability deemed current, the amount of invoices issued after opening the insolvency procedure **Term:23.08.2018**
30	2177/99/2012/a40 2177/99/2012	CET SA Iasi – debtor under insolvency Transelectrica SA - creditor	Insolvency procedure	Recorded in the creditors' list for **1,935,308.24 Lei**	Denies the appeals expressed by the recurrent contenders. **Term to continue the procedure - 27.02.2018** Settlement in brief: Refutes the judiciary reorganisation plan of debtor SC CET SA (COMBINED HEAT AND ELECTRICITY PLANT IASI), seated in Iasi, Calea Chisinaului 25, and registered with ORC under no. J22/677/2002, CUI 14718982. In accordance with the provisions of article 107 para 1 let. B from Law 85/2006 on insolvency procedure decides beginning the general bankruptcy procedure of debtor SC CET SA (COMBINED HEAT AND ELECTRICITY PLANT IASI), Calea Chisinaului 25, registered with ORC under no. J22/677/2002, CUI 14718982. In accordance with the provisions of article 107 para 2 from the Law on the insolvency procedure, designates provisionally as liquidator the judiciary administrator MANAGEMENT REORGANIZARE LICHIDARE IASI SPRL seated in Iasi, str. Aleea Nicolina 82, Iasi County, registered with the Register of Professional Companies under no. 0120/31.12.2006, which will carry out the attributions provided in article 25 of the law. In accordance with the provisions of article 107 para 2 from the Law on the insolvency procedure, decides dissolving the debtor company and taking away the debtor's administration right. Sets on 21.03.2014 the maximum term to submit management to

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
					the judiciary liquidator, together with the list of documents and operations performed after opening the procedure. Decides notifying the initiation of the bankruptcy procedure to the debtor, to creditors and to the Office of the commercial register from Iasi Tribunal, to make such mention by publishing in the Bulletin of insolvency procedures. Sets on 25.04.2014 the deadline to submit the demands for liabilities occurred during the procedure. Sets the term to check up the liabilities, to elaborate, display and notify the additional liability table on 26.05.2014. The deadline to submit the contestations to the liabilities occurred during the procedure will be of at least 10 days before 24.06.2014. Sets on 24.06.2014 the term to settle the contestations to the liabilities occurred during the procedure. Sets the deadline to elaborate and display the final consolidated liability table on 24.06.2014. In accordance with article 113 from the Law on insolvency procedure, decides sealing the goods of the debtor's stocks, blocking the real estates, the social parts and carrying out the other liquidation operations. Document: Intermediary ruling 17.09.2014.
31	2183/115/2010	CET ENERGOTERM RESITA SA – debtor under insolvency Transelectrica SA - creditor	Insolvency procedure	Recorded in the creditors' list for **1,516,714.71 Lei**	**T: 28.06.2018**
32	9089/101/2013/a 152	RAAN – debtor under bankruptcy Transelectrica SA - creditor	Bankruptcy procedure	Request to be recorded in the creditors' list for **89,360,986.06 Lei**	Transelectrica SA was included with 11,264,777.30 Lei in the table of RAAN debtors, in the category of liabilities resulting from the debtor's continued activity, as the sum requested by Transelectrica, 89,360,986.06 Lei, but 78,096,208.76 Lei were not recorded in the preliminary liability table on grounds that "it is not found in RAAN's accounting book as owed amount. Moreover, the request for 78,096,208.76 Lei was expressed late being associated to the 2011 – 2013 period, therefore the liability request should have been expressed when the insolvency procedure began, namely on 18.09.2013. A contestation to the Table was filed. Mehedinti Tribunal accepted the accounting expertise evidence. **Hearing term 22.03.2018** to acknowledge the answer to the objections against the Expertise report.
33	4328/110/2013	CET SA Bacau – debtor under insolvency Transelectrica SA - Creditor	Insolvency procedure	Request to be recorded in the creditors' list for **1,484,636.78** Lei	**T: 08.05.2018** Displaying the report on funds on the instance door. Acknowledges the submission of the inventory minutes. Notifies to the judiciary liquidator to submit the proof it has notified the creditors about their submitting the funds report to the tribunal. Letter is sent to UAT Campulung to communicate whether the debtor has got goods recorded in the authority's books, and if so to indicate such goods. Establishes the term on 08.05.2018 in view of recovering from CET SA BACAU the liability held by the debtor, while elaborating a report on the funds obtained with respect to the liability which is about to be recovered and the distribution plan and to furthering the procedure. Pronounced at public hearing on 30 January 2018. **Term:30.01.2018**

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
					Document: Ruling conclusion **30.01.2018**
34	20190/3/2015	Claimant: Transelectrica Defendant: SC Dagesh Rom SRL Defendant: Adrian Baicusi	Claims	**1,353,963.60 Lei** + interest	**T: 30.03.2018**
35	3616/101/2014 3616/101/2014*	Claimant: RAAN Defendant: Transelectrica	Claims	**1,090,831.70 Lei**	**T : 10.10.2014** Settlement in brief: Admits the action. Compels the defendant to pay 1,090,831.70 Lei representing the value of invoice 1300215/31.12.2013 to the claimant. Acknowledges the claimant has not asked for law suit expenses. Appeal right within 15 days from notification, which will be submitted to Mehedinti Tribunal. Pronounced at public hearing. Document: Ruling 127/2014 / 10.10.2014 **T: 05.11.2015** Settlement in brief: Ruling: Denies the appeals as devoid of interest. Appeal right within 30 days from notification. Appeal to be submitted to the Appeal Court Craiova. Filed appeal **T:21.03.2017** Admits the appeal of defendant National Power Grid Company Transelectrica SA against ruling 843/2015 of 5 November 2015 pronounced by the Appeal Court Craiova, Section II Civil, which it repeals and sends the case for re-judgment to the same court as appeal instance. Final. **T: 07.09.2017** Admits the appeals. Repeals the sentences and sends the case for competent settlement to Bucharest Tribunal, Section VI civil. Final. Document: Ruling 124/2017 / 07.09.2017 Admits the action. The sum was enforced by RAAN in 2014. Filed appeal within the legal term.
36	45397/3/2015	C: Transelectrica D: TRADING COMPANY OET - OBEDINIENI ENERGIINI TARGOVTSI OOD – BUCHAREST BRANCH	Claims	**637,206.01 Lei**	**T: 24.06.2016** Settlement: Admits in part the prescription exception. Admits in part the suing request. Compels the defendant to pay 636,842.31 Lei to the claimant. Compels the defendant to pay 9,973.42 Lei to the claimant, as law suit expenses. Appeal within 30 days from notification. Such appeal is submitted to Bucharest Tribunal, Section VI Civil. Placed at the parties' disposal by means of the registry. **T: 28.07.2016** Settlement in brief: Admits the request to amend the material error. Decides amending the material error from the considerations and the disposition of civil sentence 3956 of 24.06.2016 pronounced by Bucharest Tribunal, Section VI Civil, meaning that the sum

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
					of law court expenses the defendant was compelled to pay was 13,501.56 Lei instead of 9,973.42 Lei, as erroneously mentioned initially. Appeal within 30 days from notification. Such appeal is submitted to Bucharest Tribunal, Section VI Civil. Pronounced at public hearing. Filed appeal **T:16.03.2017** Defers pronouncement on 30.03.2017. Settlement in brief: Denies the appeals as groundless. Final. Pronounced at public hearing on 30.03.2017. Document: Ruling 635/2017 / 30.03.2017 **The parties filed appeal.** Settlement details, 07.12.2017: Cancels as non-stamped the appeal filed by the recurrent-defendant OET ROMÂNIA LTD BULGARIA BUCHAREST BRANCH against civil ruling 635/2017 of 30 March 2017 pronounced by the Appeal Court Bucharest, Section V Civil. No other appeal.
37	627/107/2016	C: Transelectrica D: ROMENERGY INDUSTRY SRL	Claims	**1,748,339.29 Lei**	**T: 21.09.2016** Settlement in brief: Case suspended in accordance with article 75 of L. 85/2014. Doc: Conclusion - Suspension
38	7226/3/2016	Defendant: Energy Holding Claimant: Transelectrica	Claims	**1,073,561.72 Lei**	**T: 16.09.2016** Settlement: Admits in part the restricted and amended suing request. Compels the defendant to pay 1,050,000 Lei to the claimant as price for the services provided according to the fiscal invoice 6080 of 23.11.2015 and 14,129.79 Lei as delay penalties. Compels the defendant to pay 14, 916.48 Lei to the claimant as law suit expenses. Appeal within 30 days from notification. Such appeal is submitted to Bucharest Tribunal, Section VI Civil. Document: Ruling 5375/2016 / 16.09.2016. Filed appeal. **T: 04.03.2017** The instance approved the accounting expertise evidence. **T: 13.06.2017** Conducting the expertise and summoning by means of the judiciary administrator. **T: 08.05.2017** The defendant was declared insolvent. Suspended.
39	9089/101/2013/a140	Claimant: Transelectrica Defendant: RAAN	Claims	**86,513,430.37 Lei**	Suspended until settlement of file 3014/2/2014, pertaining to appeal in order to cancel a decision of ANRE.

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
40	1396/90/2016	Transelectrica – creditor CET Govora - debtor	Request to be recorded in the creditors' list TP	**28,200,440.31 Lei**	CNTEE Transelectrica SA was enlisted in the Preliminary table with total liability of 28,200,440.31 Lei, according to the Company's request. The liability of 21,962,243.71 Lei, representing principal and penalties associated to invoice 8116/08.04.2016, has been recorded under the suspensive condition of pronouncing a final court ruling in favour of ANRE under file 2428/2/2014 on the docket of the Appeal Court Bucharest, pertaining to cancelling decision 738/28.03.2014 of ANRE.**Term:02.04.2018**
41	1196/93/2016	Transelectrica – claimant UGM Energy Trading - defendant	Claims	**3,422,293.07 Lei**	**T: 20.09.2016** Settlement: In accordance with article 75 para 1 from Law 85 / 2014 regarding insolvency, it finds the lawful suspension has occurred.
42	1705/93/2016/A2	UGM Energy Trading SRL – debtor under insolvency	Claims	**3,515,687.51 Lei**	**T:29.06.2016** Settlement: opening the general insolvency procedure. **T: 14.08.2016** Settlement: submission term of liability statement. The liability was admitted in quantum of 3,515,687.51 Lei, representing the value of invoices issued by our company for services provided to debtor UGM Energy Trading SRL, calculated by 29.06.2016, when the general insolvency procedure was initiated; the liabilities amounting to 200 Lei and 41,331.59 Lei claimed by our Company as judiciary stamp fees were denied. Contestation of table was submitted within legal term. Hearing term of such contestation: 09.02.2017. It was denied as groundless The tribunal decided on 03.08.2017 to open the bankruptcy procedure.
43	2088/107/2016	C: Transelectrica - creditor D: ROMENERGY INDUSTRY SRL - debtor	Request to be recorded in the creditors' list	**16,112,165.18 Lei**	**T: 30.06.2016** Settlement: opening the general insolvency procedure **T: 16.08.2016** Settlement: The entire sum was admitted. **T: 23.04.2018** To continue the bankruptcy procedure by capitalising the goods and recovering the liabilities. The judiciary liquidator will write and submit to the file on each 15th day of every month the monthly activity reports for the previous months, as provided in para 1 of article 21 from Law 85/2006; - as regards the verification term- 5 days before the term, the synthesis report every 120 days, provided in the final part of para 1 from article 21 of Law 85/2006
44	35304/3/2016	Debtor: Electrocentrale Bucharest SA	Request to be recorded in the creditors' list	**2.286.832,15 Lei** (dc. Sum of	Settlement in brief: Admits the request of debtor SC ELECTROCENTRALE BUCHAREST SA seated in Bucharest 6, Splaiul Independentei 227, registered in the Commercial Register of Bucharest Tribunal under J40/1696/2003, Single registration (fiscal) code 15189596. In accordance with article 71 para 1 of Law 85/2014 on the insolvency preventing and insolvency procedures, opens the general procedure

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
		Creditor : Transelectrica SA		1,739,926.66 Lei is not compensated)	against debtor SC ELECTROCENTRALE BUCHAREST SA. Sets the following deadlines: a) deadline for creditors to submit their opposition to initiate the procedure - 10 days from notification, as well as the opposition settlement term that will not exceed 5 days from the expiry date of their submission; b) deadline to record the demand to have one's liabilities admitted over the debtor's assets – **08.12.2016**; c) deadline to check up the liabilities, to draw up and publish the preliminary liability table in the Bulletin of Insolvency Procedures – **05.01.2017**; d) deadline to complete the liability table – **02.02.2017**;
45	40958/3/2016	Claimant: Transelectrica Defendant: TRADING COMPANY FOR MAINTENANCE SERVICES TO THE ELECTRICITY TRANSMISSION GRID SMART SA	Claims	**2,797,095.21 Lei**, VAT included + **1,211,694.26 Lei** accessories	In accordance with article 413 para 1 pt. 1 NCPC suspends judging the case until final settlement of file 1658/3/2014. Appeal during entire suspension. Pronounced at public hearing on 07.06.2017. Document: Conclusion - Suspension **07.06.2017**
46	345/40/2017	Claimant: Transelectrica Defendant: Elsaco Energy SRL	Claims	9,198,673.80 Lei	**Term: 26.09.2017** In accordance with article 75 of Law 85/2014 as against article 412 NCPC, suspends judging the case. Appeal during the entire suspension. Pronounced at public hearing on 26.09.2017. Document: Conclusion - Suspension 26.09.2017
47	10085/3/2017	Claimant: Electromontaj SA Defendant: SMART SA, Transelectrica SA	Claims	121099,16 Euro, value of absence of use of intervention towers 100,000 Euro, revenues that could be obtained from the towers' operation	**Term: 13.04.2018**
48	3052/99/2017	Debtor: Fidelis Energy SRL Creditor: Transelectrica SA	Insolvency procedure	2,219,985 Lei, invoices + 200 Lei, the judiciary stamp fee	The liability of 2,219,985 Lei was recorded in the Preliminary table. The sum of 200 Lei of the judiciary stamp fee was not recorded.**Term:08.03.2018**

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
49	14733/3/2017	Debtor: Energy Holding SRL Creditor: Transelectrica SA	Insolvency procedure	1,199,910.16 Lei, invoices and judiciary stamp fees, the accounting expert's fee	We were recorded in the Preliminary table with 1,179,545.28 Lei as invoice values, and 20,364.88 Lei were denied as judiciary stamp fee and accounting expert's fee. Contestation of the preliminary table was filed for the denied amount. It was denied as groundless. Term of appeal 02.**04.2018**
50	2236/118/2017	Debtor: Elcomex IEA SA Creditor: Transelectrica SA	Insolvency procedure	31,189,486.75 Lei	The liability was recorded in the creditors' list. **Term:09.03.2018**
51	24552/3/2017	Claimant: Transelectrica Defendant: Asito Kapital	Payment ordinance - claims	31,180,857.96 Lei	**Term: 24.10.2017** Settlement in brief: Admits the request. Orders the debtors to pay 2,237,750.83 Euro (equivalent of 9,948,592.64 Lei at 4.4458 Euro/Lei exchange rate) within 20 days from notification of this ruling, representing unreturned down payment secured by the indemnity letter BR-1500544/18.11.2015 for down payment and 4,821,022.53 Euro (equivalent of 21,233,265.32 Lei at 4.4041 Lei/Euro exchange rate) representing unreturned down payment secured by indemnity letter BR-1500520/29.07.2015 for down payment; 200 Lei as law suit expenses. With cancellation request right within 10 days from notification. Document: Ruling 4067/2017 / **07.11.2017**
52	3093/3/2017	Debtor: Electrocentrale Bucharest Creditor: Transelectrica SA	Contestation of the preliminary liability table		Denies the request filed by contender NATIONAL POWER GRID COMPANY TRANSELECTRICA SA seated in Bucharest 3, Str. Olteni 2-4 in contradiction with debtor ELECTROCENTRALE BUCHAREST SA, by its special administrator, seated in Bucharest 6, Splaiul Independentei 227 and the judiciary administrator KPMG RESTRUCTURING SPRL seated in Bucharest 1, Sos. BUCHAREST-PLOIESTI 69-71 ground floor, app. CAM. 25, postal code 013685, pertaining to contestation of the preliminary liability table. Appeal within 7 days from ruling notification by publication in the BPI, to be submitted to Bucharest Tribunal, Section VII Civil. Pronounced at public hearing on 22.06.2017. Document: Ruling 3999/2017 / 22.06.2017 Settlement type: Groundless Settlement in brief: Denies the appeal as groundless. Final. Pronounced at public hearing on 21.11.2017.

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
					Document: Decision 2112/2017 / 21.11.2017
53	20223/3/2017	Claimant: Teletrans Defendant: Transelectrica	Claims		Term: 16.03.2018
54	16216/3/2017	Claimant: Teletrans Defendant: Transelectrica	Ascertaining action for achievement of contractual obligations and claims		Term: 23.04.2018
55	28458/3/2017	Claimant : RAAN Defendant: Transelectrica	Claims – regularisation of Jan-Dec 2016 bonus, Decision 347/2017 of ANRE	2,106,843.49 Lei	Settlement in brief: Admits the suspension request filed by the claimant. Suspends judgment until final settlement of file 9089/101/2013/a152 on the docket of Mehedinti Tribunal. Denies the defendant's suspension as remaining objectless. Appeal right during entire suit suspension, to the superior instance. Such appeal is submitted to Bucharest Tribunal, Section VI Civil. Pronounced at public hearing on 25.10.2017. Document: Conclusion - Suspension 25.10.2017
56	7141/2/2017	Contender: Transelectrica Respondent in appeal: ANAF	Cancellation of enforcement title no. 13540/22.08.2017	91,823,180 Lei	Settlement in brief: Admits the exception of material incompetence of the Appeal Court Bucharest, SCAF. Declines in favour of the Law Court of Bucharest 1 the material competence to settle the case. No appeal. Pronounced at public hearing on 08.02.2018. Document: Ruling 478/2018 **08.02.2018**
57	28460/3/2017	Claimant : RAAN Defendant: Transelectrica	Claim suit	12,346,063.10 Lei (Nov 15 – Apr 16 bonus; regularisation of	Term: **05.12.2017** Suspended until final settlement of file 9089/101/2013/a152 on the docket of Mehedinti Tribunal.

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
				2015 bonus; delay penalties)	
58	33009/3/2017	Debtor: Photovoltaic Green Power Creditor: Transelectrica SA	Insolvency procedure	Request to be recorded in the creditors' list for 693,073.51 Lei	Transelectria was recorded in the Preliminary liability table with the total sum of 693,073.51 Lei Term to continue the procedure: **12.03.2018**
59	39867/3/2017	Claimant: Bodu Sebastian Defendant: Transelectrica SA	Presidential ordinance suspending AGA decision on dividends distribution		Term: **10.11.2017** Denies the request as groundless. Mr. Bodu Sebastian filed appeal, which was denied by CAB as groundless.
60	39863/3/2017	Claimant: Bodu Sebastian Defendant: Transelectrica SA	Annulment action to repeal AGA decision 11/2017 on dividends distribution		Under preliminary procedure
61	37673/3/2017	Debtor: ENOL GRUP SA Creditor: Transelectrica SA	Request issuance of payment ordinance	2,541,312.00 Lei	Settlement in brief: Denies as groundless the request to issue payment ordinance demanded by creditor TRANSELECTRICA, in contradiction with debtor ENOL GRUP SA. Denies as groundless the creditor's request to have the law suit expenses paid. Acknowledges the debtor reserved the right to request separately law suit expense. With right to file annulment request within 10 days from the communication of this ruling, to be submitted to Bucharest Tribunal, section VI civil. Pronounced on 24.11.2017 and placed at the parties' disposal by the instance registry. Document: Final conclusion (disinvestment) 24.11.2017 Transelectrica filed annulment request registered under no. 555/3/2018.
62	48509/3/2017	Claimant: Transelectrica Defendant: Co. SMART SA	Claim suit	7,652,449 Lei + interest	Under preliminary procedure

	No. and file date	Litigating parties and their capacity	File issue	Disputed amount	Court / settlement terms
63	47332/3/2017	Claimant: FF Wind Energy International Defendant: Transelectrica	Annulling the cancellation statement / claim suit	32,777,167.35 Lei, prejudice from termination of RET connection contract 85/2011 45,000,000 Euro (devaluation of company)	Under preliminary procedure

Annex 5 - Glossary

"ANRE"	National Regulatory Authority for Energy
"ARB"	Asset regulatory base
"BSE"	Bucharest Stock Exchange, regulated market operator for trading Shares
"CLA"	Collective Labor Agreement concluded at the Company level
"EEC"	European Economic Community
"EEC"	Wind Power Plant
"PHPP"	Photovoltaic Power Plant
"TPP"	Thermal Power Plant
"PSHP"	Pumped-Storage Hydropower Plant
"NPP"	Nuclear power plant
"Company", "CNTEE"	National Power Grid Company Transelectrica SA
"OTC"	Own Technological Consumption
"BS"	Board of Supervisors
"CSR"	Corporate Social Responsibility
"d. c."	Double circuit
"NPD"	National Power Dispatcher
"EBIT"	Earnings Before Interest & Tax
"EBITDA"	Earnings Before Interest, Taxes, Depreciation and Amortization
"EBT"	Earnings Before Tax
"EMS-SCADA"	Main dispatch infrastructure (Energy Management System – Supervisory Collection And Data Acquisition)
"ENTSO-E"	European Network of Transmission System Operators for Electricity
"ENS"	Energy Not Supplied
"Euribor", "Libor", "Robor"	Interbank Interest Rate
"Formenerg"	Company for Training Romania's Power Engineers FORMENERG SA
"Group"	The company and its subsidiaries
"GD 627/2000"	Government Decision no. 627/2000 on reorganizing the National Electricity Company - S.A., published in Romania's Official Journal no. 357 of July 31st, 2000
"GD"	Government Decision
"Icemenerg Service"	Company subsidiary "ICEMENERG-SERVICE" Bucharest, subsidiary of the National Power Grid Company "Transelectrica" SA
"IFRS"	International Financial Reporting Standards
"ISO"	Independent System Operator
"ITO"	Independent Transmission Operator
"JPY"	Japanese Yen , the official currency of Japan
"KPI"	Key Performance Indicator
"OHL"	Overhead Power Line
"Leu" or "Lei" or "RON"	The official currency of Romania
"MECRMA"	The Romanian Ministry of Economy
"OJ"	Official Journal of Romania

"GO"	Government Ordinance
"ONRC"	The National Trade Register Office
"OPCOM"	Romanian Electricity Market Operator OPCOM SA
"TSO"	Transmission and system operator
"GEO"	Government Emergency Ordinance
"pa"	Per annum
"CMBC"	The Centralized Market for Bilateral Contracts
"PCR"	The agreed Price Coupling of Regions for the future Single European Market for Electricity
"BM"	Balancing Market
"PCI"	Projects of Common Interest
"DAM"	Day-Ahead Market
"PTG"	Power Transmission Grid, national and strategic interest electric grid with a nominal voltage greater than 110 kV
"NPS"	National Power System
"Smart"	The Company for Maintenance Services for the Power Transmission Grid SMART SA
"FSS"	Functional System Service
"TSS"	Technological System Service
"TEL"	Stock exchange symbol for Transelectrica
"Teletrans"	The Company for Telecommunication and IT Services in Electricity Transmission Grids TELETRANS SA
"TSR"	Total Shareholder Return
"EU"	European Union
"UM"	Unit of measurement
"USD" or "US dollars"	American Dollar, the official currency of the United States of America
"WACC"	Weighted Average Cost of Capital

Note

regarding the consolidated financial results included in the Annual Consolidated Report 2017, according to the Decision no. 6 of the Ordinary General Shareholders Meeting on April 30th ,2018

The attached note provides the financial-economic indicators included in the Directorate-elaborated Consolidated Annual Report, as updated using the Consolidated financial statements according to Decision 6 of 30 April 2018 of the Shareholders' General Ordinary Assembly of the National Power Grid Company Transelectrica SA

Directorate,

Adrian-Constantin RUSU	**Dan-Valeriu ARDELEAN**	**Andreea-Georgiana FLOREA**	**Georgeta-Corina POPESCU**	**Florin-Cristian TĂTARU**
Directorate Chairman	**Directorate Member**	**Directorate Member**	**Directorate Member**	**Directorate Member**

Cristina STOIAN	**Cristiana ZIRNOVAN**	**Veronica CRISU**
Director of the Accounting&Financial Strategy Direction	Manager of the Budgeting and Managerial Reporting Department	Manager of the Accounting Department

Consolidated financial results according to the Decision no. 6 of th Ordinary General Shareholders Meeting, dated April 30th, 2018[1]

STATEMENT OF FINANCIAL POSITION

The consolidated financial position statement according to the Decision no. 6 of th Ordinary General Shareholders Meeting, dated April 30th, 2018[1] is as follows:

Indicators [thousand Lei]	31.12.2017	31.12.2016	'17/'16
ASSETS			
Non-current assets			
Property, plant and equipment	3,085,762	3,254,345	-5.2%
Intangible assets	15,612	14,775	5.7%
Other investments	32,636	32,636	0.0%
Long term receivables	-	9,775	n/a
Total non-current assets	**3,134,010**	**3,311,531**	-5.4%
Current assets			
Inventories	50,106	45,475	10.2%
Trade and other receivables	825,949	864,332	-4.4%
Other financial assets	-	135,090	n/a
Cash and cash equivalents	553,875	960,489	-42.3%
Total current assets	**1,429,445**	**2,005,386**	-28.7%
TOTAL ASSETS	**4,563,940**	**5,316,917**	-14.2%
Shareholder's equity			
Share capital	733,031	733,031	0.0%
Share premium	49,843	49,843	0.0%
Legal reserves	119,153	116,552	2.2%
Other reserves	57,627	57,627	0.0%
Revaluation reserves	408,899	458,184	-10.8%
Retained earnings	1,366,936	1,714,462	-20.3%
Total equity attributable to the Group owners	**2,735,489**	**3,129,699**	-12.6%
Non-controlling interests	4,065	5,484	-25.9%
Total equity	**2,739,554**	**3,135,183**	-12.6%
Non-current liabilities			
Long term deferred revenues	412,866	433,692	-4.8%
Long term borrowings	195,186	501,930	-61.1%
Deferred tax liability	27,263	32,565	-16.3%
Employee benefits obligations	62,513	58,050	7.7%
Total non-current liabilities	**697,828**	**1,026,237**	-32.0%
Current liabilities			
Trade and other liabilities	693,349	877,058	-20.9%
Provisions	42,921	55,274	-22.3%
Other tax and social security liabilities	11,225	12,291	-8.7%
Short term borrowings	338,183	155,548	117.4%
Short term deferred revenues	40,881	38,025	7.5%
Income tax payable	-	17,301	n/a
Total current liabilities	**1,126,558**	**1,155,497**	-2.5%
Total liabilities	**1,824,386**	**2,181,734**	-16.4%
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	**4,563,940**	**5,316,917**	-14.2%

[1] The information included in the Consolidated statement of the financial position, the profit & loss account and the treasury flow statement from the 2017 Consolidated Annual Report elaborated by governance structures on 28 March 2018 was updated using the Consolidated Financial Statements in accordance with Decision 6 of 30 April 2018 of the Shareholders' General Ordinary Assembly of the National Power Grid Company Transelectrica SA

PROFIT AND LOSS ACCOUNT

At Group level the profit and loss account statement according to the Decision no. 6 of th Ordinary General Shareholders Meeting, dated April 30th, 2018 is as follows:

Indicators [thousand Lei]	**2017**	**2016**	**'17/'16**
Operational revenues. of which:	**3,068,004**	**2,738,088**	12.0%
- Transmission revenues	1,054,629	1,146,257	(8.0)%
- System service revenues	650,747	716,340	(9.2)%
- Balancing market revenues	1,304,613	814,080	60.3%
- Other revenues	58,015	61,411	(5.5)%
Operational expenses. of which:	**(3,003,859)**	**(2,396,372)**	25.4%
- System operating expenses	(257,917)	(230,757)	11.8%
- Balancing market expenses	(1,304,613)	(814,080)	60.3%
- Technological system services expenses	(661,323)	(561,027)	17.9%
- Depreciation and amortization	(321,027)	(331,433)	(3.1)%
- Personnel expenses	(237,262)	(271,938)	(2.8)%
- Repairs and maintenance expenses	(52,383)	(28,913)	81.2%
- Consumables	(22,206)	(27,741)	(20.0)%
- Other operational expenses	(147,127)	(130,483)	12.8%
Operational result	**64,145**	**341,716**	n/a
Financial revenues	17,229	28,676	(39.9)%
Financial expenses	(40,854)	(48,520)	(15.8)%
Financial result	**(23,625)**	**(19,844)**	19.1%
Earnings befor tax	**40,520**	**321,872**	n/a
Income tax	(19,096)	(62,878)	(69.6)%
NET Result	**21,424**	**258,994**	n/a
Basic and diluted earnings per share [Lei/share]	**0.29**	**3.53**	n/a

CASH FLOWS

At Group level the cash flows statement according to the Decision no. 6 of th Ordinary General Shareholders Meeting, dated April 30th, 2018 is as follows:

Indicators [thousand lei]	2017	2016
Cash flows from operating activities		
Recording loss in retained earnings from correction off accounting errors	(75,727)	-
Result for the year	**21,424**	**258,994**
Adjustments for		
Income tax expense	19,096	62,878
Depreciation expenses	321,027	331,433
Expenses on provisions for impairment of trade receivables and other receivables	74,586	32,739
Losses from various debtors	45,081	-
Income from reversal of value losses for trade receivables and other receivables	(61,874)	(11,324)
Net expenses for adjustments for inventory impairment	1,612	-
Loss from disposal of intangible assets,net	838	273
Financial expenses regarding the adjustments for impairment of fixed assets	2,867	411
Value adjustments for property, plant and equipment	382	18,805
Value adjustments for provisions	(12,884)	19,100
Interest expense, interest income and unrealized foreign exchange gains	21,484	19,844
Cash flows before changes in working capital	**357,912**	**733,152**
Changes in:		
Trade and other receivables	(6,243)	308
Inventories	(10,374)	(156,359)
Trade and other liabilities	(81,148)	51,861
Other tax and social security liabilities	(1,066)	3,597
Liabilities paid according to NAFA tax decision	(99,891)	-
Deferred income	(17,970)	(29,640)
Cash generated from operating activities	**141,220**	**602,919**
Interest paid	(22,246)	(25,390)
Income tax paid	(8,861)	(66,538)
Net cash from operating activities	**110,013**	**510,992**
Cash flows used in investing activities		
Purchase of property, plant and equipment and of intangible assets	(191,801)	(142,730)
Other financial assets	135,090	(65,005)
Dividends received	-	1,219
Interest received	5,991	5,880
Cashing from the sale of property, plant and equipment	26	-
Net cash used in investing activities	**(50,694)**	**(200,636)**
Cash flows used in financing activities		
Proceeds from long term borrowings		
Repayments of long term borrowings	(134,372)	(162,486)
Repayments of short term borrowings	3,776	4,133
Dividends paid	(165,541)	(194,342)
Special dividends acordingly with GD 29/2017	(169,799)	-
Net cash used in financing activities	**(465,935)**	**(352,695)**
Cash flows from operating activities		
Net increase in cash and cash equivalents	**(406,614)**	**(42,339)**
Cash and cash equivalents as at January 1st	**960,489**	**1,002,829**
Cash and cash equivalents at the end of the period	**553,875**	**960,489**

ANNUAL CONSOLIDATED REPORT

2017

Report of the Supervisory Board regarding the consolidated financial statements drafted according to the International Financial Reporting Standards

The Supervisory Board relies on corporative governance principles, which establish the Company's responsible, professional and ethical attitude in relation with the main stakeholders. The Board examines the Company's strategy and its environmental premises it operates in, in order to plan Transelectrica's development and its performance, thus ensuring a rigorous formulation of objectives.

Within the Supervisory Board, the Company's Directorate provided detailed information regarding the consolidated financial statements of 2017.

The consolidated financial statements were presented to the Supervisory Board for review. At the meeting for the approval of the financial statements of 2017, the Audit Committee submitted to the Supervisory Board a report concerning the review of the results for the financial year 2017 and recommended to the Supervisory Board the approval of the consolidated financial statements drafted according to OMPF no. 2844/2016.

At the same time the Directorate's Annual Report elaborated in accordance with the requirements from the capital market legislation was reviewed by Supervisory Board members. The Consolidated Annual Report for 2017 provides a true and fair view of the Company's consolidated results for the financial year 2017.

The Audit Committee assists the Supervisory Board in fulfilling its own oversight responsibilities for the financial reporting process, the management reporting, the internal control system, the audit process, and the organizational process to monitor the compliance with laws, regulations and the code of conduct.

With highest consideration,

Supervisory Board Member

Chairman of the Supervisory Board

2017 Annual Consolidated Report regarding the consolidated financial statements drafted according to the International Financial Reporting Standards

To the best of our knowledge the consolidated financial-accounting statements as of December 31st 2017, drafted according to the applicable accounting standards, provide an accurate image consistent with reality of the assets, liabilities, financial position, profit and loss account of the Transelectrica Group, and the 2017 Consolidated Annual Report contains accurate and realistic information with respect to its development and performance, as well as the description of the main risks and uncertainties specific to the activity being carried out.

This Report presents **only the new elements compared to the 2017 Annual Report**, which result from the consolidation of Company's financial statements with its Subsidiaries.

Directorate:

Georgeta- Corina	**Andreea Georgiana**	**Dan-Valeriu**	**Florin-Cristian**
POPESCU	**FLOREA**	**ARDELEAN**	**TĂTARU**
Chairman	**Member**	**Member**	**Member**

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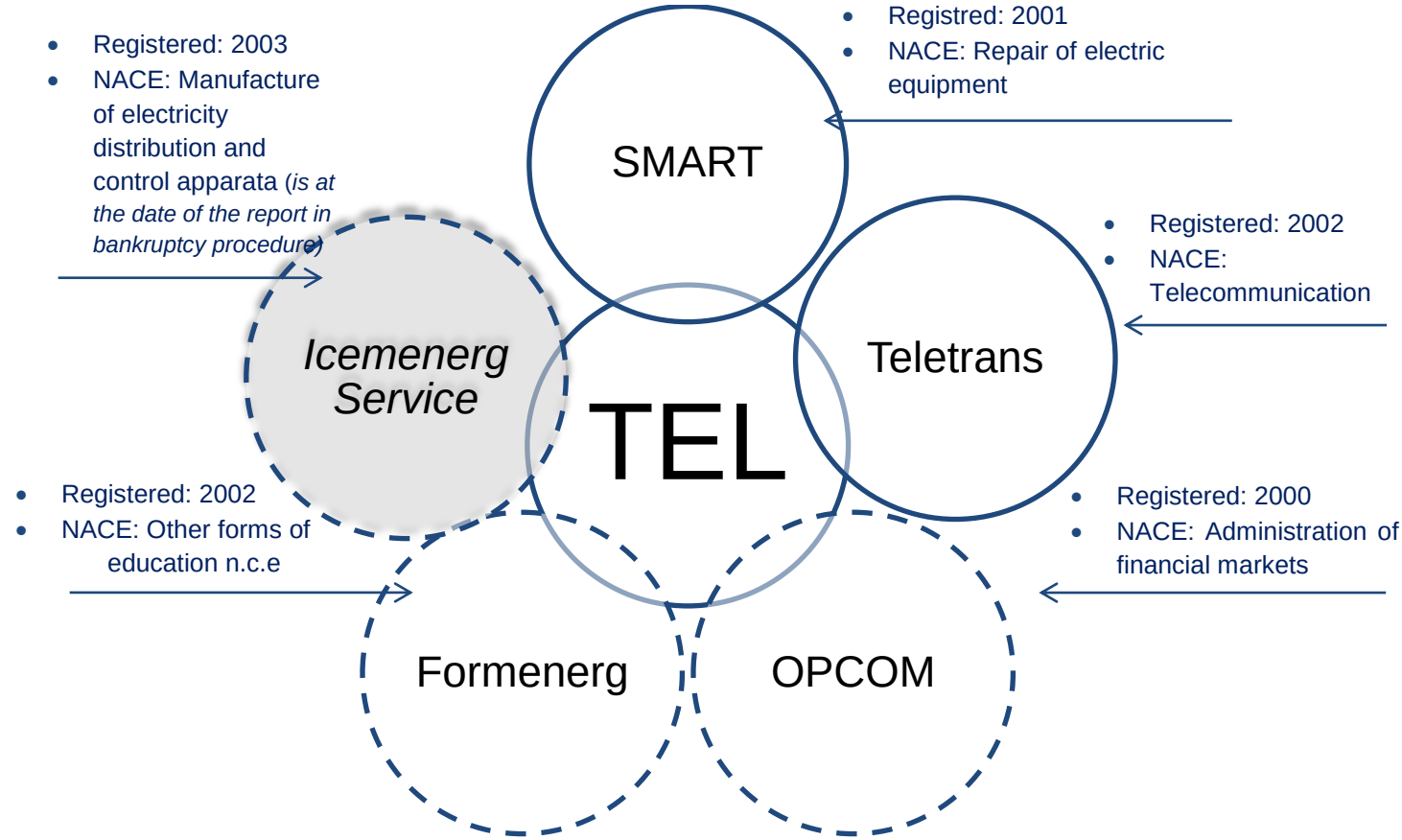
PRESENTATION



On the date of this report Transelectrica has four subsidiaries in its structure, romanian legal entities, organised as joint stock companies where it is the sole shareholder, namely: OPCOM[1], Formenerg, Teletrans, and Icemenerg Service(which at the date of this report is in bankruptcy proceedings).

In the case of Smart, following the increase of its share capital on December 23rd, 2014 by the Management Board of Smart with the value of land plots for which certificates authenticating the ownership rights have been previously obtained, the Company became the major shareholder with a 70% shareholding of the subsidiary's share capital.

Among the Company's subsidiaries, only Smart and Teletrans are included in the Group's financial consolidation perimeter. Formenerg and Icemenerg-Service have not been taken into consideration for

[1] According to GEO 86/ 2014 the Ministry of Economy, Trade and Tourism is mandated to initiate and approve all operations and steps necessary in order to transfer the shares held by the National Power Grid Company Transelectrica SA in the Company Electricity and Natural Gas Market Operator OPCOM SA in the Company Training Power Engineers of Romania FORMENERG SA to the state private property and the administration of the Ministry of Economy, Trade and Tourism, while observing the applicable legal provisions.

the consolidation because according to the applicable accounting legislation, the impact of their activities is considered as being insignificant for the purpose of the consolidation, while OPCOM is subject to ANRE regulations and holds an independent position on the energy market, and therefore Transelectrica does not have control over it.

The subsidiaries participating to the consolidation perimeter (Smart and Teletrans) began procedures with a view to implement the corporative governance principles, in accordance with the regulations of GEO no. 109/2011 on the corporate governance of public enterprises. Thus, the recruited managers will be made responsible and remunerated according to the administration and management plans (which should include optimum administration/management structures) as provided in GEO no. 109/2011. By implementing the corporate governance principles, the Company intends to increase the efficiency of the two Subsidiaries' activities.

SMART

The main object of activity of the SC SMART SA subsidiary is reviewing and repairing of live apparatus and equipment, transformers and autotransformers, as well as the remedy of incidents in electric installations and micro-production of electric equipment. The Company has 8 subsidiaries with no legal personality, situated in the same locations as Transelectrica's branches.

- As of December 31st, 2017, the share capital amounts to 55,036 thousand lei, of which 38,528 thousand lei is subscribed and fully paid up by Transelectrica. The results of SMART are consolidated with the Company's financial results
- According to letter no. 165/13.01.2015 (registered at Transelectrica under no. 1552/14.01.2015) transmitted by the subsidiary, starting with 30.12.2014, when the capital had been increased by contribution in kind with the value of the land plots for which certificates authenticating the ownership rights were obtained, the shareholder structure is the following:
    - CNTEE Transelectrica SA – 70.005% - 3,852,860 shares
    - Romanian State through the Ministry of Economy – 29.994% - 1,650,770 shares.

TELETRANS

SC Teletrans SA was established under Decision no. 13/04.12.2002 of Transelectrica's General Assembly of Shareholders, pursuant to Law no. 31/1990 and the Orders no. 3098 and no. 3101 of 23.10.2002 issued by the Ministry of Industry and Trade.

- TELETRANS shares are 100% held by Transelectrica.
    - Based on the Articles of Association and the applicable legislation, Teletrans holds the ANCOM certificate for networks or electronic communications service provider since 2002 (GEO no. 679/2002), allowing it the right to provide the following electronic communications services:
    - Public electronic communications networks (starting with November 11th, 2004);
- Publicly available electronic communications services: (i) Leased line services and (ii) Electronic communications services other than telephony and leased lines (as of 01.07.2003);
- Private electronic communications networks and services (starting 15.01.2003)
- Also, TELETRANS personnel benefit from certifications relevant to the operation and management of critical infrastructure IT & C systems.

- The share capital on 31.12.2017 was 6,874 thousand Lei, Transelectrica being sole shareholder. Teletrans results are consolidated with the Company's financial ones.

FORMENERG

FORMENERG Dam forma energiei!

Subsidiary SC FORMENERG SA is a company whose main business is training the personnel from the energy sector, Distrigaz Sud Retele, Distrigaz Confort, Cez Distribution, Omv Petrom, FDEE Electrica Distributie Transylvania Sud being among its clients. The Company provides a wide range of short term courses (a week or two) in domains such as- public procurement, human resources, finance-accounting, marketing and communication, operation, maintenance, energy strategy, natural gas, IT, legislation, licensing of electricians etc.

The share capital is 1,948 thousand lei, fully paid up, represented by 194,842 shares of 10 lei nominal value each.

ICEMENERG – SERVICE

On June 9th ,2017, the Bucharest Court of Appeal, VII Civil Division, ordered the bankruptcy procedure through the simplified procedure of the debtor, ICEMENERG SERVICE - SA Subsidiary, designating Solvendi SPRL as a provisional liquidator.

Subsidiary Icemenerg Service SA is focused on the design, manufacture and distribution of metering, running and control apparatuses meant for the power system, having got ISO 9001 and IQ NET certification from SRAC ROMANIA, ANRE licensed.

- The share capital amounts to 493 thousand Lei, fully paid on August 22nd, 2003, represented by 49,300 shares of 10 lei nominal value each.
- By Order no. 855/10.12.2004 of the Minister of Economy and Trade (on instituting the special administration procedure and financial supervision), starting with 23.12.2004 the special administration and financial supervision procedure was instituted in the SC ICEMENERG – SERVICE SA subsidiary during the privatization period of ICEMENERG – SERVICE SA, subsidiary of Transelectrica, with a view to determine the manner of administration and management as well as the measures to be taken in order to expedite the company's privatization process.
- Decision no. 1/28.02.2017 of the General Assembly of Shareholders approves the default of the company in simplified form.
- On the date of June 9th 2017, the Bucharest Court of Appeal, Civil Division VII, ordered the bankruptcy procedure through the simplified procedure of the debtor, ICEMENERG SERVICE -SA Subsidiary, Transelectrica recorded an impairment adjustment in the amount of 493 thousand lei in 2016 for the shares held at SC ICEMENERG SERVICE SA.
- CNTEE Transelectrica SA submitted to the registry of the court (Bucharest Court) a statement of claim in file no. 18051/3/2017 requesting the enrollment at the debtor of Icemenerg Service SA with the amount of 92.2 thousand lei representing the value of the financing made by CNTEE Transelectrica SA under the Convention no. C 156 / 21.06.2006, for the preparation of the privatization of the Company "Icemenerg-Service" Branch SA, out of which: the amount of 63.1 thousand lei representing registration fee at the ONRC of the share capital increase and the amount of 29.2 thousand lei reprsenting evaluation report prepared by Inco Consulting SRL, sums recorded and detailed in the supporting documents annexed to the application, prior to the opening of the

procedure. Also, the amount of 200 lei was requested, reprsenting the judicial stamp duty, related to the enrollment aplication of CNTEE Transelectrica SA at the advanced list of creditors in this file.

- On 07.08.2017, the judicial administrator SOLVENDI SPRL confirmed the inclusion in the preliminary table of receivables of the debtor of "Icemenerg-Service" S.A., the amount of 92.2 thousand lei, representing the value of the financing made by CNTEE Transelectrica SA based on the Convention no. C 156 / 21.06.2006, for the preparation of the privatization of the subsidiary "Icemenerg-Service" SA, to which is added the amount of 200 lei representing the judicial stamp duty related to the application for enrollment at the credential table.

OPCOM

OPCOM was established according to GD 627/2000 on the reorganisation of the National Electricity Company SA as subsidiary, whose sole shareholder is Transelectrica .

- As of December 31st, 2017, the share capital amounts to 30,687 thousand lei.
- The main activities of OPCOM are: organizing, managing and supervising the centralized electricity markets as well as managing and supervising of the centralized market from the natural gas sector.

- Transelectrica does not exercise actual direct control over the decision making mechanisms of OPCOM, whose administration is performed according to ANRE regulations.

IDENTIFICATION DETAILS

OPCOM

Headquarters	Bucharest 3, Bd. Hristo Botev 16-18
Number in the commercial register	J40 / 7542/ 2000
Single (fiscal) registration code	13278352
Share capital	8,100,000 Lei divided into 810,000 nominative shares of 10 Lei nominal value each
Sole shareholder	Transelectrica
Establishment document	Governmental Decision 627/ 2000

SMART

Headquarters	Bucharest 1, Blvd. Gen. Gh. Magheru 33
Number in the commercial register	J40/ 8613 / 2001
Single (fiscal) registration code	14232728
Share capital	55,036,300 Lei divided into 5,503,630 nominative shares of 10 Lei nominal value each
Shareholders	Transelectrica – 70.005% Romanian State – 29.995%
Establishment document	GD 710/ 2001 with respect to establishing the subsidiary Trading Company for Maintenance Services in the Electricity Transmission Grid SMART SA by reorganisation of certain activities of the National Power Grid Co. Transelectrica SA

TELETRANS

Headquarters	Bucharest 3, Bd. Hristo Botev 16-18
Number in the commercial register	J40/ 12511/ 2002
Single (fiscal) registration code	15061510
Share capital	6,874,430 Lei divided into 687,443 nominative shaes of 10 Lei nominal value each
Sole shareholder	Transelectrica
Establishment document	AGA decision of 20.03.2002

FORMENERG

Headquarters	Bucharest 4, Blvd. Gheorghe Sincai 3
Number in the commercial register	J40/ 2265/ 2002
Single (fiscal) registration code	14529126
Share capital	1,948,420 Lei divided into 194,842 nominative shares of 10 Lei nominal value each
Sole shareholder	Transelectrica
Establishment document	Decision 33 of Transelectrica's AGA of 19.11.2001

ICEMENERG SERVICE

Headquarters	Bucharest 3, Blvd. Energeticienilor 8
Number in the commercial register	J40 / 11414 / 2003
Single (fiscal) registration code	15689117
Share capital	493,000 Lei divided into 49.300 nominative shares of 10 Lei nominal value each
Sole shareholder	Transelectrica
Establishment document	GD 2294/ 9.12.2004 approving the transfer of the share package held by subsidiary Trading Company Energy Research and Modernising Institute ICEMENERG SA Bucharest in subsidiary Trading Company ICEMENERG-SERVICE SA Bucharest to the National Power Grid Company Transelectrica SA

CONSOLIDATION OF FINANCIAL STATEMENTS

The general results of Group activities on 31.12.2017 were as follows:

Indicators [thousand Lei]	TEL	SMART	TELETRANS	Consolidation adjustments	TOTAL
Operational revenues	3,060,317	70,573	35,934	(98,820)	**3,068,004**
Operational expenses	*(3,068,050)*	*(73,667)*	*(33,346)*	*95,477*	**(3,079,586)**
Gross operational result	**(7,733)**	**(3,094)**	**2,589**	**(3,343)**	**(11,582)**
Financial result	*(21,120)*	*(340)*	*14*	*(2,180)*	**(23,625)**
Result before tax	(28,853)	(3,434)	(2,603)	(5,523)	**(35,207)**
Net result	**(47,945)**	**(3,434)**	**(1,970)**	**(5,379)**	**(54,788)**

Source: Transelectrica

Indicators [thousand Lei]	TEL	SMART	TELETRANS	Consolidation adjustments	TOTAL
Non-current assets	3,137,967	77,269	4,228	(85,454)	**3,134,010**
Current assets	1,370,806	50,944	30,969	(23,274)	**1,429,445**
TOTAL ASSETS	**4,508,773**	**128,213**	**35,197**	**(108,728)**	**4,563,455**
Shareholder's equity	2,717,147	73,577	30,416	(84,071)	**2,739,069**
Total liabilities	1,791,627	52,636	4,781	(24,657)	**1,824,386**
- LT liabilities	683,511	5,974	0	8,343	**697,828**
- ST liabilities	1,108,115	46,662	4,781	(33,000)	**1,126,558**
TOTAL EQUITY AND LIABILITIES	**4,508,773**	**128,213**	**35,197**	**(108,728)**	**4,563,455**

Source: Transelectrica

The general results of the activities performed by the group consisting of the Company and the two Subsidiaries that consolidate with are as follows:

Indicators [thousand Lei]	2017	2016	2015	'17/'16 [%]
Total revenues	3,085,233	2,766,764	3,028,888	11.5%
Total expenses	(3,120,441)	(2,444,892)	(2,611,984)	27.5%
Gross result	**(35,207)**	**321,872**	**416,904**	n/a
Net result	**(54,788)**	**258,994**	**346,105**	n/a

Source: Transelectrica

ACTIVITIES

In 2017 the two Subsidiaries included in the consolidation carried out activities in accordance with their main areas of activity, as follows:

- **TELETRANS** – has carried out activities as follows:
    - Services in the Information Technology domain:
        - Services offered to corporative clients on the Romanian market and asked by Transelectrica: outsourcing type services to administer information systems, administration of IT networks, IT systems and applications, elaborating IT software specific to clients, designing and constituting IT networks- LAN, MAN and WAN, design and implementation of IT systems, building IT systems and applications that use relational databases, ERP systems, making Internet sites, web-based applications, support services, preventive/corrective maintenance of IT equipment and systems, hardware and software maintenance;
        - IP services offered on the Romanian market to corporative clients, to suppliers of telecommunication and internet services: wide band internet services, physical supports for such connection;
    - Services for telecommunications:
        - For Transelectrica: services under Service Level Agreement (SLA) and services upon order;
        - For governmental organisations and other clients on Romania's liberalised telecommunication market by rented line services, dark fibre, co-location services and services associated to them.
    - Services in the Process Information domain:
        - Maintenance of process information systems / equipment;
        - Management of process information systems;
        - Elaborating and implementing new applications or developing existing ones;
        - Implementation and commissioning of process information systems;
        - Integrating the new command-control systems from refurbished substations into the EMS/SCADA;
        - Remote control/tele-management of electric substations from the Territorial Power Dispatcher (DET)/ National Power Dispatcher (DEN);

- **SMART** – has carried out activities:
  - As supplier of services and work for:
    - Maintenance of electric power installations;
    - Refurbishments and modernisations of electric power installations.
  - As supplier of consulting and design,
    - Devising specific products for electric power installations
  - of:
    - Installing primary instrumentation (vacuum, SF6, oil, air insulated);
    - Installing digital equipment and systems for protections, metering and command-control;
    - Laying and connecting (high voltage, secondary circuits, optical fibre) cables;
    - Controls and parameter setting for digital equipment.
  - Technical reviews, technical inspections, current and capital repairs, interventions upon accidental events and expertise operations, for clients from the energy sector and not only them, mainly to:
    - Installations and equipment that transmit and distribute low, medium, high and very high voltage electricity (750 kV inclusive);
    - Protection, automation, metering and command-control equipment and circuits for transformer and connection substations;
    - Transformers and autotransformers of all power and voltage levels (up to 500 MVA and 750 kV);
    - Overhead and cable lines (110 kV ÷ 750 kV).

GOVERNANCE STRUCTURES

In 2017 the executive governance of Subsidiaries was provided by the following persons:

SMART:

Florin-Cătălin STERE	CEO
Adrian CORBU	Deputy CEO I
Adriana FLOREA	Deputy CEO II

TELETRANS:

Dan DASOVEANU	CEO
Alia MEKKAOUI	Economic Manager
Marius BITA	Legal Department Manager

FORMENERG:

Dragoş FLORESCU	CEO
Marcel NICULESCU	Economic Manager
Dominic Valentin COSTEA	Professional Development Manager
Ioana VOICESCU	Marketing Manager

OPCOM:

Victor IONESCU	CEO
Silvia FEDIUC	Economic Manager
Luminiţa LUPULUI	Transactions - Electricity Settlement Manager

FINANCIAL REPORT

FINANCIAL POSITION STATEMENT

The consolidated financial position statement is as follows:

Indicators [thousand Lei]	31.12.2017	31.12.2016	'17/'16
ASSETS			
Non-current assets			
Property, plant and equipment	3,085,762	3,254,345	-5,2%
Intangible assets	15,612	14,775	5,7%
Other investments	32,636	32,636	0,0%
Long term receivables	-	9,775	n/a
Total non-current assets	**3,134,010**	**3,311,531**	-5,4%
Current assets			
Inventories	50,106	45,475	10,2%
Trade and other receivables	825,464	864,332	-4,6%
Other financial assets	-	135,090	n/a
Cash and cash equivalents	553,875	960,489	-42,3%
Total current assets	**1,429,445**	**2,005,386**	-28,8%
TOTAL ASSETS	**4,563,455**	**5,316,917**	-14,2%
Shareholder's equity			
Share capital	733,031	733,031	0,0%
Share premium	49,843	49,843	0,0%
Legal reserves	57,627	116,552	2,2%
Other reserves	116,552	57,627	0,0%
Revaluation reserves	408,899	458,184	-10,8%
Retained earnings	1,369,052	1,714,462	-20,1%
Total equity attributable to the Group owners	**2,735,004**	**3,129,699**	-12,6%
Non-controlling interests	4,065	5,484	-18,4%
Total equity	**2,739,069**	**3,135,183**	-12,6%
Non-current liabilities			
Long term deferred revenues	412,866	433,692	-4,8%
Long term borrowings	195,186	501,930	-61,1%
Deferred tax liability	27,263	32,565	-16,3%
Employee benefits obligations	62,513	58,050	7,7%
Total non-current liabilities	**697,828**	**1,026,237**	-32,0%
Current liabilities			
Trade and other liabilities	693,349	877,058	-20,9%
Provisions	42,921	55,274	-22,3%
Other tax and social security liabilities	11,225	12,291	-8,7%
Short term borrowings	338,183	155,548	117,4%
Short term deferred revenues	40,881	38,025	7,5%
Income tax payable	-	17,301	n/a
Total current liabilities	**1,126,558**	**1,155,497**	-2,5%
Total liabilities	**1,824,386**	**2,181,734**	-16,4%
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	**4,563,455**	**5,316,917**	-14,2%

Source: Transelectrica

PROFIT AND LOSS ACCOUNT

At Group level the profit and loss account statement is as follows:

Indicators [thousand Lei]	2017	2016	'17/'16
Operational revenues. of which:	**3,068,004**	**2,738,088**	12.0%
- Transmission revenues	1,054,629	1,146,257	-8.0%
- System service revenues	650,747	716,340	-9.2%
- Balancing market revenues	1,304,613	814,080	60.3%
- Other revenues	58,015	61,411	-5.5%
Operational expenses. of which:	**(3,079,586)**	**(2,396,372)**	28.5%
- System operating expenses	(257,917)	(230,757)	11.8%
- Balancing market expenses	(1,304,613)	(814,080)	60.3%
- Technological system services expenses	(661,323)	(561,027)	17.9%
- Depreciation and amortization	(321,027)	(331,433)	-3.1%
- Personnel expenses	(237,262)	(271,938)	-12.8%
- Repairs and maintenance expenses	(52,383)	(28,913)	81.2%
- Consumables	(22,206)	(27,741)	-20.0%
- Other operational expenses	(222,854)	(130,483)	70.8%
Operational result	**(11,582)**	**341,716**	n/a
Financial revenues	17,229	28,676	-39.9%
Financial expenses	(40,854)	(48,520)	-15.8%
Financial result	**(23,625)**	**(19,844)**	19.1%
Earnings befor tax	**(35,207)**	**321,872**	n/a
Income tax	(19,581)	(62,878)	-69.6%
NET Result	**(54,788)**	**258,994**	n/a
Basic and diluted earnings per share [Lei/share]	**(0.75)**	**3.53**	n/a

Source: Transelectrica

CASH FLOWS

At Group level the cash flows statement is as follows:

Indicators [thousand Lei]	2017	2016
Cash flows from operational activities		
Result of the year	**(54,788)**	**258,994**
Adjustments for:		
Income tax expense	19,581	62,878
Depreciation expenses	321,027	331,433
Expenses on provisions for impairment of trade receivables and other receivables	74,586	32,739
Losses from various debtors	45,084	-
Income from reversal of value losses of trade receivables and other receivables	(61,874)	(11,324)
Net expenses for inventory adjustment	1,612	-
Loss from disposal of intangible assets, net	838	273
Financial expenses regarding the adjustments for impairment of fixed assets	2,867	411
Value adjustments forproperty, plant and equipment	382	18,805
Value adjustments for provisions	(12,884)	19,100
Interest expense, interest income and unrealised foreign exchange rate gains	21,484	19,844
	357,913	**733,152**
Changes in:		
Trade and other receivables	(10,859)	(156,359)
Inventories	(6,243)	308
Trade and other liabilities	(80,663)	51.861
Other tax and social security liabilities	(1,066)	3,597
Liabilities paid according to NFA tax decision	(99,891)	-
Deferred income	(17,970)	(29,640)
Cash flows from operational activities	**141,123**	**602,919**
Interest paid	(22,246)	(25,390)
Income tax paid	(8,861)	(66,538)
Net cash from operational activities	**107,015**	**510,992**
Cash flows used in investments activities		
Purchase of property, plant & equipment and of intangible assets	(191,801)	(142,730)
Other financial assets	135,090	(65,005)
Dividents received	-	1,219
Interest received	5,991	5,880
Cashing from the sale of property, plant and equipment	26	-
Net cash used in investments activities	**(50,694)**	**(200,636)**
Cash flows used in financing activities		
Proceeds from long term borrowings		
Repayments of long term borrowings	(134,372)	(162,486)
Repayments of short term borrowings	3,776	4,133
Dividends paid	(165,541)	(194,342)
Special dividends paid according to GO 29/2017	(169,799)	-
Net cash used in financing activities	**(465,935)**	**(352,695)**
Cash flows from operating activities		
Net increase in cash and cash equivalents	(465,935)	(42,339)
Cash and cash equivalents as at 1 January	**960,489**	**1,002,829**
Cash and cash equivalents at the end of period	**553,875**	**960,489**

LITIGATIONS

RAAN

Pending with the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section, the case file no. 9089/101/2013/a140 was recorded, involving the "claims in the amount of 86.5 mil. lei", a case file in which the Company is the defendant, the plaintiff being the Autonomous Authority for Nuclear Activities - RAAN.

By the application for summons filed by the plaintiff, Transelectrica SA was asked to pay the amount of 86.5 mil lei.

On May 19th, 2016, the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section, pronounced a closing of the meeting by which it ordered the following: "on the grounds of Article 413 (1) of the Civil Procedure Code, suspends the case until the settlement of the file no. 3014/2/2014 on the docket of the High Court of Cassation and Justice. With appeal throughout the suspension. Pronounced on May 19th, 2016, in open court."

We also mention the fact that, by the closing from September 18th, 2013, ruled by the Mehedinti Court in file no. 9089/101/2013, the opening of the general insolvency proceedings has been ordered against the debtor Autonomous Administration for Nuclear Activities R.A. (R.A.A.N.)

Through the sentence no. 387/March 20th, 2014, the Mehedinti Court confirmed the reorganization plan of the debtor Autonomous Administration for Nuclear Activities, proposed by the insolvency administrator Tudor & Partners SPRL and voted by the General Assembly of Creditors according to the minutes of February 28th, 2014.

By interim decision no. 10/January 28th, 2016, pronounced by the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation, the liquidator ordered the commencement of the bankruptcy procedure for the debtor pursuant to Article 107 (1) C of Law. no. 85/2006, and the dissolution of the debtor and cancellation of the debtor's right to administer.

Through the Decision no. 563/June 14th, 2016, the Court of Appeal Craiova – the Civil Section II dismissed the appeals against the interim judgment no. 10/January 28th, 2016, ruled by the Mehedinti Court - Civil Section II, Administrative and Fiscal Litigation Section.

Through the closing session on June 30th, 2016, the Mehedinti Court - Section II Civil, Administrative and Fiscal Litigation Section set the new procedural time limit as follows: "Sets the deadline for the submission of claims arising in the proceedings to August 13th, 2016. Sets the deadline for the verification of claims arising during the procedure, preparation, display and communication of additional table of receivables on September 29th, 2016. Sets the deadline for filing objections against receivables arising in the proceedings on October 9th, 2016 and for resolving the objections against receivables arising in the proceedings on October 20th, 2016. Sets the deadline for the preparation and display of the consolidated final table on November 10th, 2016."

Together with filing the receivables declaration in the bankruptcy proceedings of RAAN, Transelectrica SA may invoke the provisions of Article 52 of Law no. 85/2006, applicable to the bankruptcy proceedings for RAAN, provisions taken from Article 90 of Law no. 85/2014 concerning the creditor's right to invoke the compensation of his receivable with the one of the debtor, when the legal provisions on compensation in legal proceedings are completed on the date of commencement of the procedure.Transelectrica SA has been registered in the table of debtor RAAN with the amount of 11.3 lei under the category of receivables resulting from the continuation of the debtor's activity, the amount requested by our company being equal to 89.4 mil lei, our amount of 78.1 mil lei not being registered in the preliminary table because

"this is not listed as owed in RAAN's accounting records." Moreover, the liquidator considered that the request regarding the registration in the table of the amount equal to 78.1 mil lei is tardily filed, being related to the timeframe 2011 – 2013, reason for which the receivable declaration should have been filed at the moment of commencement of the insolvency proceedings, namely on September 18th, 2013. An appeal was filed against the Table. The Mehedinți Court approved the accounting expertise proof. The parties lodged objections against the audit expertise report, which were admitted by the court who set the hearing on February 22nd, 2018.

COURT OF AUDITORS

Following an inspection conducted in 2013, the Court of Auditors ordered certain measures to be implemented by the Company as a result of a series of deficits foung during this inspection. The decision and closing issued by the Court of Auditors have been appealed before the Court of Appeal Bucharest, the file no. 1658/2/2014 being constituted.

At the hearing from January 20th, 2016, the court postponed the case so that the appointed accounting expert can express his point of view regarding the objections of the plaintiff against the expert report concerned and so that the technical expert can perform the expertise. On June 29th, 2016, the court postponed the case so that the technical expertise report may be finished. The next hearing was set on October 26th, 2016, and until the date of drafting this report, no other changes have been registered.

At the hearing from February 8th, 2017, the objections against the expert report have been notified. The following court hearing date was set on March 22nd, 2017.

Also, following an inspection conducted in 2017, the Court of Auditors has ordered certain measures to be implemented by the Company as a result of deficiencies found during this control. CNTEE Transelectrica SA filed a total of 8 appeals against the measures ruled by the Romanian Court of Auditors (CCR) via Decision no. 8/27.06.2017 requesting the annulment thereof, as well as the Decision no. 77/03.08.2017 registered with the Company's secretariat under no. 29117/08.08.2017, as well as the Control Report no. 19211/26.05.2017, as follows:

- Case file no. 6578/2/2017 pertains to the annulment of the findings from point 9 and the measures ruled at point II.11;
- Case file no. 6577/2/2017 pertains to the annulment of the findings from point 13 and the measures ruled at point II.13;
- Case file no. 6576/2/2017 pertains to the annulment of the findings from points 7.1, 7.2 and 8 and the measures ruled at point II.10;
- Case file no. 6574/2/2017 pertains to the annulment of the findings from point 5.2 and the measures ruled at point II.8;
- Case file no. 6581/2/2017 pertains to the annulment of the findings from point 6 and the measures ruled at point II.9;
- Case file no. 6580/2/2017 pertains to the annulment of the findings from point 10 and the measures ruled at point II.12;
- Case file no. 6582/2/2017 pertains to the annulment of the findings from point 11 and the measures ruled at point I.5;

- through the Decision no. 274/2017, CAB ruled the following: "Rejects the request as groundless. With right of appeal within 5 days from notification, with the remission of sentence on the head of the claim, which is submitted to the Court of Appeal Bucharest. With right of appeal within 15 days from notification, with the annulment of the action on the head of the claim, which is submitted to the Court of Appeal

Bucharest. Ruled on January 29th, 2018, pursuant to Art. 402 in conjunction with Art. 396 (2) of the Romanian Civil Procedure Code, notified via the registry of the court." as per the information available on the court website.

Case file no. 6583/2/2017 pertains to the annulment of the findings from point 5.1 and the measures ruled at point II.7;

- through the Decision no. 5207/2017, Bucharest Court of Appeal ruled the following: " Dismisses the plea of inadmissibility raised by the defendant as unfounded Dismisses the application for annulment as unfounded. Rejects the suspension request as groundless. Rejects the plaintiff's request to order the defendant to pay the legal costs, as groundless. With right of appeal within 5 days from notification with regard to the solution given for the suspension request, within 15 days from notification with regard to the solution given for the merits of the case and the request to appeal will be submitted to the Court of Appeal Bucharest – Section VIII Administrative and Fiscal Litigation. Ruled in open court today, December 28th, 2017." as per the information available on the court website.

Note:the litigations are registered on the docket of the Bucharest Court of Appeal and are currently in different settlement stages.

ANRE- THE NATIONAL REGULATORY AUTHORITY FOR ENERGY

CNTEE Transelectrica SA filed a complaint against the Order of the ANRE Chairman no. 51/June 26th, 2014, registered at ANRE under no. 47714/ August 4th, 2014, and an appeal to the Bucharest Court of Appeal,which is the subject of the file no. 4921/2/2014, requesting either the amendment of the aforementioned Order, or the issuance of a new order, which should recalculate the RRR value at the level of 9.87% (recalculated with a (β) coefficient of 1.0359, according to the internal analyses conducted by Transelectrica) or, should this request be rejected, using the same percentage of 8.52% set by ANRE for the year of 2013 and for the first semester of 2014.

On June 26th, 2014, the ANRE Order no. 51 was issued, published in the Official Journal under no. 474/June 27th, 2014 regarding the approval of the average tariff for the transmission service, the tariff for the system service and the zonal tariffs for the transmission service, payable to the National Power Grid Company "Transelectrica" - SA, and the repealing of Addendum no. 1 of the ANRE Chairman's Order no. 96/2013 regarding the approval of the average tariff for the transmission service, the tariff for the system service, the zonal tariffs for the transmission service and the tariffs for the reactive electrical energy, payable to economic agents from the electricity sector.

The values taken into consideration for calculating the Regulated Rate on Return (RRR) by ANRE, according to the Methodology on establishing the tariffs for the electricity transmission service, approved by ANRE Order no. 53/2013 ("the Methodology") have determined a RRR value of 7.7%.

CNTEE Transelectrica SA considers that the enforcement of the provisions of Article 51 of the Methodology on establishing the Beta (β) parameter at the value of 0.433 shall determine the financial damage of the company by decreasing the rentability with an estimated value of 138.4 mil. lei4, having a significant impact on the financial interests of the company.

At the hearing from February 9th, 2016, the court admitted the evidence with the audit expertise - specialization financial investments and other entities of movable goods, extended the discussion on the

[3] *The value that caused the decrease of the RRR to 7.7%*

[4] *Value calculated compared to the RRR of 8.52%*

technical evidence discussion - electroenergetic specialization, after administering the evidence with the audit expertise - specialization financial investments and other entities of movable goods.

At the hearings from March 25th, 2016, April 22nd, 2016, June 10th, 2016 and March 3rd, 2017, the court postponed the judgement of the cause because of the missing technical expertise report. The next hearing was set for February 13th, 2018.

OPCOM

On March 4th, 2014, the European Commission issued a communication stating that it has imposed a fine of 1,031,000 EUR to the subsidiary of SC OPCOM S.A. for the abuse of dominant position on the Romanian market in order to facilitate the trading of electricity on the spot market, in breach of the EU antitrust rules. The Company was included in the trial acting as parent company to the subsidiary SC OPCOM S.A., being jointly responsible for paying the fine.

The General Assembly of Shareholders of the subsidiary OPCOM SA decided at the meeting from June 10th, 2014, upon full payment of the fine amounting to 1,031,000 euro imposed by the Directorate General for Competition – European Commission for breaching of Article 102 of the Treaty on the Functioning of the European Union, according to the Decision no. AT 39984 in the antitrust case. The subsidiary SC OPCOM SA has made full payment of the fine set by the European Commission.

On November 24th , 2014, the subsidiary SC OPCOM SA summoned CNTEE Transelectrica SA in order to force it to pay the amount of 582,086.31 euro (2.6 mil lei at the National Bank of Romania exchange rate from November 24th, 2014), representing the amount paid by her as fine, from the total of the fine amounting to 1,031,000 euro.

Also, the subsidiary SC OPCOM SA requested the court to order the Company to pay the amount of 0.85 mil lei as lawful interest related to the period between June 11th, 2014 - November 24th, 2014, plus legal expenses amounting to 0.38 mil lei.

The action filed by the Subsidiary OPCOM SA is subject of the file no. 40814/3/2014 on the docket of the Bucharest Court, Section VI Civil, involving claims, litigation with professionals matter, and the hearing date was set on June 29th, 2015. The Company filed counterstatement for the application for summons, claiming exceptions and substantive defenses regarding the unfoundedness and unlawfulness of the action.

On July 24th, 2015, the Bucharest Court ruled the judgement no. 4275/2015, by which it ordered the following: "Admits the application for summons filed by plaintiff Romanian Gas and Electricity Market Operator - OPCOM S.A. against defendant National Power Grid Company "Transelectrica" S.A. Orders the defendant to pay the plaintiff the amount of 582,086.31 euro, representing the amount paid by the plaintiff in the defendant's stead from the fine in the amount of 1,031,000 euro, imposed by the Decision of the European Commission on March 5th, 2014 in the case no. AT.39984 and of the lawful interest related to the amount of 582,086.31 euro, calculated on June 11th, 2014 and up until de day of the actual payment. Orders the defendant to pay the plaintiff the amount of 0.38 mil lei, as legal expenses. With right of appeal within 30 days from notification. The request for appeal shall be lodged before the Bucharest Court – Section VI Civil."

Against the sentence no. 4275/2015, pronounced in the aforementioned file, Transelectrica SA formulated an appeal, which was registered before Bucharest Court of Appeal. The resolution of the Court of Appeal is the following: Admits the appeal. Changes the appealed civil sentence completely, meaning that it rejects the application for summons as ill-founded. Orders the appellee - plaintiff to pay the trial expenses to the appellant - defendant amounting to 16,129 lei, representing legal stamp duty. With appeal within 30 days from notification. Ruled in open court today, October 10th, 2016. Document: Decision 1517/2016 from October 10th, 2016.

OPCOM S.A. filed a second appeal. The High Court of Cassation and Justice decided the following: Grants, in principle, the appellant-plaintiff Operatorul Pieței de Energie Electrică și Gaze Naturale – OPCOM S.A. motion against decision no. 1517/10.10.2016, ruled by the Bucharest Court of Appeal – Section V Civil. Sets the hearing for solving the appeal on March 13th , 2018. The parties will be summoned. Ruled in open court on December 5th , 2017.

In 2014, the company recorded a provision amounting to 2.7 mil lei for the litigation with the subsidiary SC OPCOM SA.

CONAID COMPANY SRL

In 2013, Conaid Company SRL took legal actions against CNTEE Transelectrica for the unjustified refusal of the latter to sign an addendum to the connection agreement or to sign a new connection agreement, and requested the compensation for costs incurred up to that time, amounted to 17.4 mil lei and loss of profit for the period 2013 - 2033 amounting to EUR 722,756,000. So far, the Company did not conclude an addendum to the connection agreement because the suspensive provisions included therein have not been met by Conaid Company SRL. A new connection agreement would have had to be concluded by March 11th , 2014, the date on which the technical connection permit has expired. On the date of these financial statements, the amounts claimed by Conaid Company SRL were regarded as contingent liabilities as it is unlikely to settle this obligation, there will be necessary outflows of resources embodying economic benefits and the value of obligation cannot be evaluated with sufficient reliability. The file no. 5302/2/2013 was on the dockets of the High Court, involving the obligation of issuing of an administrative document, the procedural stage – second appeal, the next hearing being on December 9th , 2015. At this hearing, the High Court of Cassation and Justice admitted, in principle, the second appeals and set the hearing, in substance, of the second appeals on April 8th , 2016, Formation 4, summoning the parties. The judgement was postponed for June 17th, 2016, when the court reserved judgement, postponing the judgement until June 29th, 2016, when it pronounced Decision no. 2148/2016, by which it ordered the following: "Rejects the exceptions invoked by the appellant - plaintiff S.C. Conaid Company S.R.L., via insolvency administrator RVA Insolvency Specialists SPRL, and by the appellant - defendant National Company for Energy Transportation Transelectrica S.A. Admits the second appeal filed by the defendant National Company for Energy Transportation Transelectrica S.A. against the hearing protocol of February 18th, 2014 and the civil sentence no. 1866 of June 11th , 2014, pronounced by the Court of Appeal Bucharest – Section VIII, Administrative and Fiscal Litigation Section. Partially invalidates the contested protocol and judgment and refers the case to the Bucharest Court – Section VI Civil, for settlement of the application of the plaintiff sought against the National Power Grid Company Transelectrica S.A. Maintains the other provisions of the sentence concerning the plaintiff's action against the National Regulatory Authority for Energy. Rejects the second appeals of the plaintiff SC Conaid Company S.R.L. via insolvency administrator RVA Insolvency Specialists SPRL and the intervener S.C. Duro Felguera S.A. against the civil sentence no. 1866 of June 11th , 2014 pronounced by the Bucharest Court of Appeal – Section VIII, Administrative and Fiscal Litigation. Rejects the second appeal filed by the defendant National Power Grid Company Transelectrica S.A. against the hearing protocol from March 25th , 2014, pronounced by the Bucharest Court of Appeal - Section VIII, Administrative and Fiscal Litigation. Final. Ruled in open court on June 29th , 2016.

On the docket of Bucharest Court – Section VI Civil, the case was registered under no. 12107/3/2017. By civil sentence no. 4364/23.11.2017, the Court admits the exception to the ineligibility of the claim and rejects it as ineligible. It also rejects the motion to intervene in the interest of the plaintiff. With right of appeal within 30 days from notification. The appeal is lodged at the Bucharest Court - Section VI Civil. Sent to the parties via registry on November 23rd , 2017.

FF WIND ENERGY INTERNAȚIONAL SRL

Case file no. 47332/3/2017 on the docket of the Bucharest Court - Section VI Civil, by which the company FF Wind Energy Internațional SRL requests the following against CNTEE Transelectrica SA: - the annulment of the unilateral statement for the termination of the PTG connection agreement no. 85/14.03.2011 issued on March 2nd, 2016 under no. 8295, - ordering the Company to pay the amount of 33 mil. lei as damages following the termination of the agreement and to pay the amount of 45,000,000 euro as the amount of depreciation of the company FF Wind Energy Internațional SRL caused by the impairment of its purpose.

Status of the file: in preliminary proceedings for notification of the action and filing statement of defense.

The company is involved in significant litigations in which it has the quality of plaintiff, especially for debt recovery (e.g. Eco Energy SRL , Petprod SRL, Total Electric Oltenia SA, Arcelormittal Galati SA, Regia Autonomă de Activități Nucleare, Romenergy Industry SRL, Energy Holding SRL, UGM Energy Trading SRL).

The Company registered adjustments for value losses regarding customers and other claims at issue as well as for bankrupt customers.

ANAF - NATIONAL AGENCY FOR FISCAL ADMINISTRATION

NAFA control over the 2005-2010 period took place between 14.12.2011-30.06.2017. Following the inspection, a tax inspection report was finalized with the Taxation Decision no. F-MC 439 / 30.06.2017, supplemented with additional notes on 12.07.2017.

The amount of 99,891 is made up of 99,013 (according to the Decision mentioned above) and to which have been added accessories in the amount of 877, for the period 01.07.2017-26.09.2017, the date of extinguishment of the obligation to NAFA.

The amount of 99,013 is made up of the amount of 35,105 representing additional debts (profit tax and VAT) and 63,908 of the tax related tax liabilities (interest / increase and delay penalties). The amount of 99,927 is influenced by the inclusion of the amount of 99,013, according to the Taxation Decision no. F-MC 439 / 30.06.2017 issued on 12.07.2017 by NAFA.

The additional tax liability structure in the amount of 35,105 is shown in the table below:

Year	2005*	2006*	2007*	2008	2009	2010	Total
Income tax	231.5	13,577.5	5,224.0	809.4	1,978.9	1,671.3	**23,492.6**
VAT	0.0	76.4	6,199.6	772.7	2,416.9	2,147.0	**11,612.5**
TOTAL	**231**	**13,654**	**11,424**	**1,582**	**4,396**	**3,818**	**35,105**

*Note:

1) Period 1: Sept 2005 - Nov 2007: 123 missing bills, justified by the Company as burned in the fire that occurred on the night of June 26-27, 2009, at the work point of the Millennium Business Center building in Armand str. Calinescu nr. 2-4, sector 2;

2) Period 2: Dec 2006 - May 2007: 349 bills found missing in the same fire

Period 1: Sept 2005 - Nov 2007: 123 missing invoices, justified by the Company as burned in the fire that occurred on the night of June 26-27, 2009, at the work point of the Millennium Business Center Building in Armand Calinescu Street no. . 2-4, sector 2;

2) Period 2: Dec 2006 - May 2007: 349 bills found missing in the same fire

3) The VAT for the period 1 for a number of 123 invoices and not found in the above amounts, being retained in another fiscal inspection report (RIF) issued in 2011, litigation lost by the Company on 30.04.2014 and definitively on 01.03.2017. For the amount paid by the Company (44,443) there were adjustments for the impairment of the receivable in 2012 and 2014. In 2017, the receivable loss expense was recorded, together with the reversal of the depreciation adjustment, with a ntTVA effect for the sept 2005-nov 2006 for a number of 123 invoices was retained in another tax inspection report issued in 2011, the litigation for the amount paid by the Company (44,443) was definitively lost on March 1, 2017

4) Profit tax on the 123 burned invoices: 13,735

5) Profit tax on the 349 burned invoices: 4.787

6) VAT collected for the 349 burned invoices: 5.695

Amounts highlighted under 4), 5) and 6) represent the amounts of the Fiscal report ended on 30.06.2017.

Interests / increases and late payment penalties from the beginning of the period up to the date of execution are shown below:

	**Amount 2005-2016	Amount 2017	Total
Interest/ delay increases and penalties for Income Tax	47,211	1,704	**49,915**
Interest/ delay increases and penalties for for VAT	14,583	362	**14,946**
TOTAL	**62,794**	**2,066**	**63,860**

**Note:

1) Additionaly amount for 123 burned invoices : 31,429
2) Additionaly amount for 349 burned invoices : 22,591

Apart from the details presented in the above mentioned Memorandums, the NAFA findings for the 2005-2010 period include both additional debits and accessories corresponding to the unrealized system technological services provided in the framework agreements approved by ANRE, for which Transelectrica records revenues from penalties. At the same time, NAFA retained additional debits and accessories corresponding to the findings of the Court of Accounts regarding the expenditures that were not aimed at the continuous training of the employees and which are not forms of professional training and for which the RCC Decision no. 14/2011.

In 2017, the Company challenged the NAFA Taxation Decision and, given that until March 13, 2018, the NAFA had failed to resolve the appeal, it requested the annulment of the Decision by the Court of Appeal of Bucharest file No 1802/2/2018.

Thus, by eliminating the amount of 97,824 related to the debits and the interest / penalties and the delay penalties retained in the NAFA Decision from the Other Expenses from the operation, the recalculated operating result is as follows:

th lei	2017	2016
Revenues		
Transmission revenues	1,054,629	1,146,257
Revenues from system services	650,747	716,340
Revenues on the balancing market	1,304,613	814,080
Other revenues	58,015	61,411
Total revenues	**3,068,004**	**2,738,088**
Operating expenses		
Expenses for operating system	(257,917)	(230,757)
Expenses for balancing market	(1,304,613)	(814,080)
Expenses regarding the technological system servic	(661,323)	(561,027)
Depreciation	(321,027)	(331,433)
Personnel expenses	(237,262)	(271,938)
Expenses for repair and maintenance	(52,383)	(28,913)
Expenses for materials and consumables	(22,206)	(27,741)
Other operating expenses	(122,963)	(130,483)
Total operating expenses	(2,979,694)	(2,396,372)
Operational result	**88,310**	**341,716**

The Company considered the taxation base was not reasonably determined by ANAF depending on the fully regulated nature of such activity on the electricity market, but it was set proportionally to the number and value of invoices during the verified time interval. Transelectrica deemed itself entitled to take proceedings in court because it considers ANAF did not take into account all the data and documents relevant for estimation, as provided in the Fiscal procedural code applicable then. Thus the Company took ANAF to the Appeal Court of Bucharest in August 2012 to recover the amount and requested to admit the document proof and the judiciary accounting expertise proof.

On 18 September 2013 the expertise report was issued and submitted to the case file on the 20 September 2013 term. On the 18 October 2013 term the parties expressed objections to the judiciary expertise report, which were admitted by the Appeal Court on the 15 November 2013 term and were notified to the designated expert. On the 7 March 2014 term the expert submitted the answer to the Company's objections. As against the revenues taken into account by ANAF, used by ANAF when estimating the collected value added tax amounting to 16,303, the judiciary accounting expertise report found unjustified revenues in sum of 551 to which sum the value added tax and accessories to it should have been calculated. The hearing was deferred in order to acknowledge the answer to the objections made to the expertise report.

On the hearing date 30.04.2014 the settlement pronounced by the first instance, the Appeal Court Bucharest, Section VIII of Administrative and Fiscal Disputes (Ruling 1356/2014) in File 6657/2/2012 was: "Denies the request of claimant CNTEE Transelectrica SA (Contestation against the Administrative fiscal deed of ANAF)".

The Company filed appeal by requesting to be set within the term submitted in this file, with hearing term set on 07.04.2016, session that took place in the High Court of Cassation and Justice, Administrative and Fiscal Disputes Section. On 07.04.2016 a new term was set on 02.06.2016 for absence of procedure, term when the instance deferred pronouncement on 16.06.2016.

On this term the High Court of Cassation and Justice, Administrative and Fiscal Disputes Section pronounced ruling 1945/16.06.2016, stipulating as follows: "Admits the request and resets the recurrent-claimant within the appeal filing term. Denies as groundless the appeal filed by the National Power Grid Company Transelectrica against Sentence 1365 of 30 April 2014 of the Appeal Court Bucharest, Section VIII of administrative and fiscal disputes section. Irrevocable. Pronounced at public hearing today, 16 June 2016". Ruling 1945/16.06.2016 pronounced by the High Court of Cassation and Justice was notified to the Company by photocopy.

Contest for cancellation was filed against ruling 1945/16.06.2016 submitted to the High Court of Cassation and Justice. On 01.03.2017 the High Court of Cassation and Justice decided in ruling 779 as follows: "denies the exception of inadmissibility of contestation for cancellation filed by contender Transelectrica SA, invoked by statement by the respondent in appeal General Directorate Administrating Large Tax Payers. Denies as groundless the contestation for cancellation filed by contender Transelectrica SA against civil ruling 1945 of 16 June 2016 of the High Court of Cassation and Justice, Section of administrative and fiscal disputes, pronounced in file 6657/2/2012. Irrevocable". Until the elaboration date of these financial statements the Company has not received the printed ruling 779/01.03.2017.

The additional payable liabilities set by ANAF-DGAMC under the taxation decision 62/2011 were registered under "other operational expenses" by including the provision constituted in the financial years 2012 and 2014 into revenues.

- recording under "operational expenses regarding depreciation allowances for current assets" the depreciation allowances for:

  - Elcomex IEA SA in sum of 31,868;
  - Arelco Power SRL in sum of 18,782;

- other uncertain clients and sundry debtors in sum of 7,602 (Elsaco Energy SRL, Eva Energy, Enol Grup SA, CET Govora SA, PetProd SRL (etc)

The Company is also involved in:

-Litiations with subsidiary SMART SA

Case file no. 3269/3/2015 registered at theBucharest Tribunal, Section VI Civil, renumbered 1015/2/2018 with the Court of Appeal Bucharest.

Case file subject:

Compelling SMART SA to pay 1,841 , VAT included and the sum of 232 as accessories – representing the reduced value of our patrimony by the defendant's violating the provisions of contracts C. 43/2005 and C.237/2010.

Case file stage: On the hearing date 11.10.2017 Bucharest Tribunal pronounced civil ruling 3592/11.10.2017, whereby it denied as inadmissible the action filed by CNTEE Transelectrica SA in contradiction with the Company of Maintenance Services to the Electricity Transmission Grid SMART SA.

On 04.12.2017 CNTEE Transelectrica SA filed appeal against civil ruling 3592/2017 pronounced by Bucharest Tribunal on 11.10.2017. Such appeal is included in file 1015/2/2018 on the docket of the Appeal Court Bucharest, with hearing term set on 07.05.2018.

Case file no. **40958/3/2016** registered with Bucharest Tribunal, Section VI Civil

Case file subject:

Compelling Company SMART SA to pay 2,797 , VAT included + 1,212 accessories calculated to the amount of 2,872 Smart has misunderstood the sum of 2,871,823.43 Lei represented accessories (interest rates).

File stage: On the hearing date 07.06.2017 the instance in accordance with article 413 para 1 pt. 1 NCPC suspended judging the case until the final settlement of file 1658/3/2014 on the docket of the Appeal Court Bucharest in contradiction with the Court of Accounts. Appeal right during the entire suspension period.

Remarks about the circumstances when such action was initiated

Item 3 from Ruling 37/2013 of the Court of Accounts retained the following: “Making undue payments in the estimated sum of 314 for deforestation services provided by the same provider at higher tariffs as well as for services provided on the same surfaces” (pages 3-6 of Ruling 37/2013)

1. Case file no. 48509/3/2017 registered with Bucharest Tribunal, Section VI Civil

File subject:

CNTEE Transelectrica SA requests by court action to have SMART SA compelled to:

a) Return to our company the amount of 7,652 where VAT is to be added, as prejudice incurred by our company as a consequence of the defendant’s enrichment with no just cause, in the first place, and as undue payment, in the second place;

b) Compelling the defendant to pay the non-achieved benefits associated to the sum paid under the enrichment title without just cause, in the main, calculated from the date when the subscribed made the undue payments to the defendant until the date when the law court was notified, in quantum of 2,773, as well as compelling the defendant to further pay the non-achieved benefits until the actual return date of the sum representing the principal by the defendant.

Case file stage: found in the preliminary procedure. On 12.03.2018 we were notified the contestation filed by SMART which we answered on 22.03.2018, and the first hearing term is to be set later.

- Litigations with the subsidiary Teletrans SA

1. Case file no. **20223/3/2017** registered with Bucharest Tribunal, Section VI Civil

Case file object**:**

Teletrans SA requests compelling CNTEE Transelectrica SA to pay 4,635 , as value of the performance bond constituted as per contract C243/2010, to which the sum of 293 is added, legal interest calculated on the maturity date until law suit opening – 31.05.2017.

stage of the case file :Court hearing term on 13.04.2018, in view of settling the dispute in amiable manner.

2. Case file no. **16216/3/2017** registered with Bucharest Tribunal, Section VI Civil

Case file object:

By its suing request Teletrans SA asks the instance

- To ascertain the services under contract 03/2007 have been fully provided, as added;
- In subsidiary to ascertain the services under contract 03/2007 have been provided and partially accepted, as it has been added;

- To oblige Transelectrica to pay 4,649 , to which VAT of 883,360.56 Lei is added, representing the amounts of invoices 115/2017, 123/2017 up to 143/2017;
- To oblige Transelectrica to pay 214,355.40 Euro plus VAT, at the exchange rate on the invoice issuance dates, representing the value of services provided and partially accepted for the contractual interval May 2014 – November 2016, "in subsidiary if admitted the second subject of the request not the first subject of the request";

stage of the case file: hearing term 23.04.2018, in view of settling of the litigation amicably.

- **OTHERS**

The company is involved in significant litigations, especially for receivables recovery (e.g. Petprod SRL, Total Electric Oltenia SA, Arcelormittal Galați SA, Regia Autonomă de Activități Nucleare, Romenergy Industry SRL, Energy Holding SRL, UGM Energy Trading SRL, Elsaco Energy, Elcomex, SC ICPE Electrocond SA, CET SA Iași, CET Energoterm Reșița SA, SC Electrocentrale Oradea, SC Total Electric Oltenia SA and others). At the same time, the Company is also involved in litigations against former Directorate and Board of Supervisors members, regarding the mandate agreements concluded between the Company and themselves.

CONTINGENCIES

The following control measures are ongoing at the Company's headquarters

Ministry of Public Finance - General Division for Economic and Financial Inspection - an inspection activity that started on 15.09.2017 and which was suspended by Address 243104 / 29.11.2017 on the same date. The objectives undergoing verification for 2012-2016 are presented below:

- substantiating and executing the revenues and expenses budget;

- compliance with the budgetary, economic, financial and accounting discipline;

- compliance with the legal provisions regarding the public and private property of the state and of the units

-administrative-territorial units, held in any form;

- compliance with the provisions of the Government Order no. 64/2001 on the distribution of profits to the national entities,national companies and commercial companies with full or majority state capital, as well as self-governing administrations with subsequent amendments and completions;

- the use of reserve holdings;

- the way of organizing and exercising the compulsory forms of internal / managerial control;

- the way in which the amounts granted from the consolidated general budget were substantiated and justified.

The inspection started on 15.09.2017 and was suspended on 29.11.2017.

The Ministry of Economy –Control Body Division of the Minister– the control began on January 18th, 2018 – the objectives of the control are: verifying the compliance with legal provisions and internal norms pertaining to the entity's organization and functioning, verifying the way in which the acquisition activity is organized and performed, verifying the way in which consultancy, legal assistance and representation and litigation agreements are concluded and performed, verifying the way in which the sponsorship

agreements are concluded and performed, inspection of the transportation expenses, analysis of the way in which orders, instructions and other requirements of the Ministry of Economy in the specific field of activity are fulfilled, verifying the completion status of the measures ruled via previous reports, comparative analysis of the entity's economic and financial results in the last three years of activity.

The National Agency for Public Procurement – the control started on February 26th, 2018 – the control is aimed at verifying the compliance to the rules pertaining to the drafting of of the technical specifications in the procedure of awarding the contract having as object Retehnologizarea Staţia 220/110 kV Turnu Severin Est - participation notice no.166637 / 15.03.2016.

On December 31st, 2017 the subsidiary Teletrans S.A.underwent a control by General Division of Economic and Financial Inspection of the Ministry of Public Finance, completed in 2018.

According to the economic and financial inspection report draft issued on February 21st,2018, the Teletrans subsidiary would have caused prejudice to the state budget in the amount of 88,778 lei, as a result of the contracts concluded with different companies, which concerned the use of capacities and digital streams of the public telecommunications infrastructure. On December 31st, 2017, the Company's management did not have the necessary information to conduct a meaningful review to determine the effect of the results of this draft statement on the separate financial statements for the year ended on December 31st,2017. As of December 31st, 2017, Teletrans SA, subsidiary of the Company, was undergoing a control that began on May 29th , 2015 by the General Division of Economic and Financial Inspection of the Ministry of Public Finance, the period being verified 01.01.2010-31.12.2014, according to the Service Order no. 82 / 27.05.2015 and 01.01.2015- present, according to the Service Order no. 38 / 31.05.2017, the objectives of the economic-financial inspection action being:

- substantiating and executing the revenue and expenses budget;
- Compliance with the budgetary economic-financial and accounting discipline;
- Compliance with the legal provisions regarding assets of the public and private state domain and of the administrative territorial units;
- The organisation and exercise of compulsory internal / managerial control;
- verifying the compliance with the provisions of GO 26/2013 on enhancing financial discipline of certain economic operators where the state or administrative territorial units are single or majority shareholders, or hold directly or indirectly majority participation in 2015 – to date.

According to the economic–financial report draft issued on 21st, February 2018, subsidiary Teletrans would have caused prejudice to the state budget in the amount of 88,778 , after concluding contracts with various companies pertaining to the utilization of digital capacities and flows from the public telecommunication infrastructure.

By Address no. 13443 of 26.03.2018 Teletrans communicated to Transelectrica the following

- In 21.02.2018 – 10.03.2018 several meetings took place between the representatives of Teletrans and the representatives of the Ministry's audit team, meetings that established that the basis of calculation used in the draft report was erroneous, being strictly reported to the revenues recorded without taking into account the expenses made (the total depreciation of the purchased equipment, the human resource as well as the total of the indirect related expenses of this activity) and without fully understanding the commercial and legal relations between Transelectrica and Teletrans;
- Consequently, the audit team together with the managers of the Economic-Financial Audit Division from the Ministry of Finance provided a new term to Teletrans by which it should submit the reviewed situation and additional explanations for the reviewed time interval, extending the 27.02.2018 term by 30.03.2018.

Teletrans letter also specified that, taking into account the above, the managerial team of Teletrans has got solid reasons to believe the finding about the so-called deviation from the draft audit report will be removed and this report will find Teletrans performed correct commercial activities.

Regarding the lawfulness of the exploitation of the surplus fiber optics, in argumenting the legal nature of the contractual relationship, was taken into account the legal opinion issued by Bostina & Asociatii , according to which tthe previous contract C45 / 2006 had been qualified as a mandate contract without representation having as object " The conclusion by SC TELETRANS SA in its own name but in the account of Transelectrica's public telecommunication network for the purpose of trading the capacity and its infrastructure elements". The qualifying date of the legal act made possible the conclusion of Convention C 111/2014, while maintaining the nature of legal relations between the parties..

Considering that the ANAF-DGAMC findings for the period 2005-2010 include both additional debits and accessories corresponding to the technological services provided in the framework agreements approved by ANRE and considering that until the financial statements were drafted, the official reply from the Authority regarding the modification of the framework contract as requested by the Company was not received, at this moment it is not possible to accurately estimate the possible influence of the authorities' interpretation of the unrealized system technological services for which Transelectrica records revenue from penalties for the capacities not provided to it under the contract, under the conditions provided by IAS 37 Provisions , contingent liabilities and contingent assets.

At the same time, according to the Court of Auditors' findings regarding the expenditures that were not aimed at the continuous training of the employees and which are not forms of professional training and for which the RCC Decision no. 14/2011, ANAF-DGAMC retained additional debits and corresponding accessories.

Currently there are litigations with the Court of Auditors regarding controls from 2013 and 2017. Taking into account the findings of the Court of Auditors from the Decisions of the years 2013 and 2017, there is the potential of additional tax liabilities that cannot be accurately determined at this time under the provisions of IAS 37 Provisions, Contingent Liabilities and Contingent Assets .

Thus considering the above on December 31st 2017 the Company's management did not have the necessary information to make a sound analysis in order to determine the effect of the results of this draft report on the separate financial statements for the year ended 31 December 2017.

From 16.01.2017 to 05.05.2017 Romania's Court of Auditors conducted an audit at Smart SA pertaining to " Control of the asset management of the national electricity transmission network ".

Upon completion of the control, the Inspection Report was issued on 05.05.2017. The use of the Inspectionl Report was carried out according to Decision no. 6 / 07.06.2017. Against this decision, Smart SA filed an appeal.

The appeal was settled by the Appeals Commission through the Closing no. 75 / 25.07.2017, by which the appeal was rejected. The closingn was received by the company on 31.07.2017.

Within the legal term Smart SA filed a complaint against Closing no. 75/25.07.2017 issued by the Appeal Remedies Commission ,established at the level of the Court of Auditors of Romania, requesting the annulment of the closing, as well as the annulment of the Decision no. 6 / 07.06.2017 issued by the Court of Ausitors - Department IV. The complaint is the subject of the case file no. 6412/2/2017, appearing before the Bucharest Court of Appeal, Section VIII administrative and fiscal litigation.

Since, from the date of receiving the Closing no. 75 / 25.07.2017, the state of suspension of the obligation to execute the Decision no. 6/2017 has ceased ,in order to carry out the measures ordered by the Court of Auditors by decision, the Plan of Measures registered under no. 5790 / 23.08.2017 has been developed and implemented.

The initial deadline for carrying out the measures ordered by the Romanian Court of Auditors was 29.12.2017. The deadline was extended until 30.06.2018.