CN Transelectrica SA
Company managed in a dualist system

Consolidated Financial Statements
as at and for the year ended
31 December 2013

Prepared in accordance with
International Financial Reporting Standards
as endorsed by the European Union

(free translation)

(All amounts are in thousand LEI, unless stated otherwise)

	Note	31 December 2013	31 December 2012
Assets			
Non-current assets			
Property, plant and equipment	5	3,623,555	3,750,668
Intangible assets	6	43,983	47,954
Other investments		5,989	5,989
Total non-current assets		**3,673,527**	**3,804,611**
Current assets			
Inventories	7	46,613	62,884
Trade and other receivables	8	855,953	831,415
Cash and cash equivalents	9	635,163	319,198
Total current assets		**1,537,729**	**1,213,497**
Total assets		**5,211,256**	**5,018,108**
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital		1,091,526	1,091,526
Share premium		49,843	49,843
Legal reserves		57,895	46,683
Other reserves		3,207	3,194
Revaluation reserves		555,327	605,490
Retained earnings		883,244	670,144
Total shareholders' equity	10	**2,641,042**	**2,466,880**
Non-current liabilities			
Long term deferred income	11	543,739	547,327
Borrowings	12	951,063	954,627
Deferred tax liability	15	31,061	38,409
Employee benefits obligations	13	34,145	31,130
Total non-current liabilities		**1,560,008**	**1,571,493**
Current liabilities			
Trade and other liabilities	14	723,019	748,082
Other tax and social security liabilities	17	10,164	17,172
Borrowings	12	231,222	209,151
Short term deferred income	11	35,472	4,481
Income tax payable		10,329	849
Total current liabilities		**1,010,206**	**979,735**
Total liabilities		**2,570,214**	**2,551,228**
Total shareholders' equity and liabilities		**5,211,256**	**5,018,108**

The accompanying notes 1-27 are an integral part of these consolidated financial statements.

(All amounts are in thousand LEI, unless stated otherwise)

	Note	2013	2012
Revenues			
Transmission revenues		1,156,483	1,080,214
System services revenues		629,318	570,761
Balancing market revenues		631,847	1,068,221
Other revenues		77,152	81,830
Total revenues	**18**	**2,494,800**	**2,801,026**
Operating expenses			
System operating expenses	**19**	(267,282)	(310,978)
Balancing market expenses	**19**	(631,847)	(1,068,221)
Technological system services expenses	**19**	(574,488)	(522,876)
Depreciation and amortization		(342,522)	(307,892)
Personnel expenses		(238,448)	(239,295)
Repairs and maintenance expenses		(17,651)	(14,361)
Other operating expenses	**20**	(118,662)	(169,178)
Consumables		(33,384)	(55,464)
Total operating expenses		**(2,224,284)**	**(2,688,265)**
Operating profit		**270,516**	**112,761**
Finance income		75,956	85,715
Finance cost		(97,741)	(129,949)
Net finance result	**21**	**(21,785)**	**(44,234)**
Profit before income tax		**248,731**	**68,527**
Income tax expense	**15**	(42,299)	(20,651)
Profit for the year		**206,432**	**47,876**
Basic and diluted earnings per share (lei/share)	**16**	**2.82**	**0.65**

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Semnat pentru identificare
KPMG
25. MAR. 2014
Initialised for identification

(All amounts are in thousand LEI, unless stated otherwise)

	2013	2012
Profit for the year	**206,432**	**47,876**
Other comprehensive income		
Revaluation of property, plant and equipment	-	427,498
Income tax effect of revaluation of property, plant and equipment	-	(21,739)
Actuarial (losses)/gains on defined benefit plans	(2,669)	4,336
Other comprehensive income	(2,669)	410,095
Total comprehensive income	203,763	457,971

The consolidated financial statements on pages 1 to 53 were authorized for issue by the management on 21 March 2014 and were signed on its behalf by:

Directorate,

Head of Directorate,
Chief Executive Officer
Ştefan-Doru BUCATARU

Member of the Directorate,
Responsible for the Economic Department
Constantin VĂDUVA

Member of Directorate,
Gabriel MUSTEA

21.03.2014

Member of Directorate,
Ciprian DIACONU

Chief Financial Officer
Maria IONESCU

DSFT Director,
Cristina STOIAN

Manager
Veronica CRISU

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(All amounts are in thousand LEI, unless stated otherwise)

	Share capital	Share premium	Legal reserve	Revaluation reserve	Other reserves	Retained earnings	Total
Balance as at 1 January 2012	**1,091,526**	**49,843**	**44,608**	**231,061**	**2,864**	**669,341**	**2,089,243**
Comprehensive income for the year							
Profit for the year	-	-	-	-	-	47,876	**47,876**
Other comprehensive income							
Revaluation of property, plant and equipment	-	-	-	427,498	-	-	**427,498**
Income tax effect of revaluation of property, plant and equipment	-	-	-	(21,739)	-	-	**(21,739)**
Defined benefit plan actuarial gains	-	-	-	-	-	4,336	**4,336**
Total other comprehensive income	-	-	-	**405,759**	-	**4,336**	**410,095**
Total comprehensive income for the year	-	-	-	**405,759**	-	**52,212**	**457,971**
Legal reserve	-	-	2,075	-	-	(2,075)	-
Transfer of revaluation reserve to retained earnings	-	-	-	(31,330)	-	31,330	-
Total other elements	-	-	**2,075**	**(31,330)**	-	**29,255**	-
Contributions by and distributions to owners							
Dividends distributed	-	-	-	-	-	(80,633)	**(80,633)**
Land for which title deeds were obtained	-	-	-	-	330	(31)	**299**
Total transactions with owners	-	-	-	-	330	(80,664)	(80,334)
Balance as at 31 December 2012	1,091,526	49,843	46,683	605,490	3,194	670,144	2,466,880
Balance as at 1 January 2013	1,091,526	49,843	46,683	605,490	3,194	670,144	2,466,880
Comprehensive income for the year							
Profit for the year	-	-	-	-	-	206,432	**206,432**
Other comprehensive income							
Defined benefit plan actuarial loss	-	-	-	-	-	(2,669)	**(2,669)**
Total other comprehensive income	-	-	-	-	-	**(2,669)**	**(2,669)**
Total comprehensive income for the year	-	-	-	-	-	**203,763**	**203,763**
Legal reserve	-	-	11,212	-	-	(11,212)	-
Transfer of revaluation reserve to retained earnings	-	-	-	(50,163)	-	50,163	-
Other elements	-	-	-	-	13	-	13
Total other elements	-	-	**11,212**	**(50,163)**	**13**	**38,951**	**13**
Contributions by and distributions to owners							
Dividends distributed	-	-	-	-	-	(29,614)	**(29,614)**
Total transactions with owners	-	-	-	-	-	(29,614)	(29,614)
Balance as at 31 December 2013	1,091,526	49,843	57,895	555,327	3,207	883,244	2,641,042

The accompanying notes 1-27 are an integral part of these consolidated financial statements

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(All amounts are in thousand LEI, unless stated otherwise)

	2013	2012
Cash flows from operating activities		
Profit for the year	206,432	47,876
Adjustments for:		
Income tax expense	42,299	20,651
Depreciation and amortization	342,522	307,892
Impairment loss on trade receivables and other receivables	21,516	34,183
Reversal of impairment loss on trade receivables and other receivables	(7,756)	(953)
Reversal of impairment of property, plant and equipment	(702)	(336)
Net loss from disposal of property, plant and equipment	718	3,303
Interest expense, interest income and unrealised foreign exchange gains	22,772	42,132
	627,801	**454,748**
Changes in:		
Trade and other receivables	(25,130)	327,096
Inventories	16,273	(9,359)
Trade and other liabilities	(3,821)	(425,997)
Other tax and social security liabilities	(7,016)	9,904
Deferred income	42,587	177,224
Cash generated from operating activities	650,694	**533,616**
Interest paid	(33,299)	(35,568)
Income tax paid	(40,108)	(13,845)
Net cash from operating activities	**577,287**	**484,203**
Cash flows used in investing activities		
Purchase of property, plant and equipment and of intangible assets	(254,905)	(396,321)
Proceeds from sale of property, plant and equipment	300	1,099
Interest received	6,580	6,481
Net cash used in investing activities	**(248,025)**	**(388,741)**
Cash flows used in financing activities		
Proceeds from long term borrowings	11,163	189,808
Repayments of long term borrowings	(189,175)	(185,766)
Repayments of short term borrowings	-	(11,572)
Bonds issue	200,000	-
Dividends paid	(29,633)	(87,511)
Net cash used in financing activities	(7,645)	**(95,041)**
Net increase in cash and cash equivalents	321,617	**421**
Cash and cash equivalents as at 1 January (see Note 9)	308,708	**308,287**
Cash and cash equivalents at the end of the period (see Note 9)	630,325	**308,708**

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1. Background and general information

The main activity of CN Transelectrica SA ("the Company") and its subsidiaries (named together with the Company, "the Group") is: electricity transmission services; management of the National Energy System ("NES"); administration of the electricity market; the balancing market operator, repairs and maintenance of the transmission equipment; information technology and telecommunication services and research in energy sector. CN Transelectrica SA, the parent company, was incorporated in 2000 as a joint stock company established under the laws of Romania.

The address of its registered office is no. 33, General Gheorghe Magheru Blvd., Bucharest, sector 1. Currently, the Company's headquarters is in 2 – 4, Olteni Street, sector 3, Bucharest.

The Group's consolidated financial statements as at 31 December 2013 prepared in accordance with International Financial Reporting Standards as endorsed by European Union ("IFRS EU") are available at the Company's working point located in 2 – 4, Olteni Street, sector 3, Bucharest.

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

In accordance with the decision of the Extraordinary General Meeting of the Shareholders dated 18 July 2012, the Company adopted the dualist management system replacing the unitary management system, in order to ensure the clear separation of the management and control activities. Thus, the Company is managed by a directorate under the supervision of a supervisory board.

Incorporation of the Company

In accordance with Government Decision ("GD") no. 627 regarding the reorganisation of the National Electricity Company (the "Predecessor Entity") issued on 31 July 2000 by the Government of Romania, the National Electricity 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"). CN Transelectrica SA was established as a result of this reorganization as a joint stock company which has as main activity object the electricity transmission, management and administration of the electricity market.

As described in Note 10, at 31 December 2013, the shareholders of the Company are: the Romanian State through the Ministry of Public Finance ("MPF") which holds 43,020,309 shares, representing 58.6882% of the share capital, Fondul Proprietatea, which holds 9,895,212 shares, representing 13.499% of the share capital and other private investors (legal entities and individuals) which hold 20,387,621 shares, representing 27.8128% of the share capital.

The mission of the Group

The Mission of the Group is to ensure safety and security in functioning of NES 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 network, ensuring transparency, non-discrimination and fairness for all participants from the market.

Other information relating to the Group's activity

CN 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, the work of ETSO, UCTE and other four European Transmission System Operators ("TSO") associations have been fully integrated into European Network of Transmission System Operators for Electricity ("ENTSO-E"), centralizing 42 TSOs from 35 countries.

Transelectrica is an affiliate member to the following international organisations:

- ENTSO – E - European Network of Transmission System Operators for Electricity
- CIGRE - International Council on Large Electric Systems
- LWA - Live Work Association
- ISSA - International Social Security Association
- IEEE - Power Energy Society
- WEC - World Energy Council
- Edison Electric Institute

The Group is responsible for the secure, reliable and efficient functioning of NES, by carrying out the provisions of EU Directive no. 54/2003, art. 9.

Moody's Investor Service, the financial rating agency, has modified on 4 February 2014, the Company's rating from Ba2 negative perspective to Ba2 stable perspective.

Regulatory environment

The activity in the electricity sector is regulated by the National Agency for Electricity Sector Regulation ("ANRE"), an autonomous public institution.

ANRE has the following responsibilities in the electricity and heat energy produced in cogeneration such as: grant, suspend or revoke the permits and licenses, set-up the methodologies and criteria for the calculation of tariffs and regulated prices, approves tariffs and regulated prices, prepares framework contracts, approve commercial and technical regulations.

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

The operating activity of the Company has been carried out according to the set-up licence no. 161/2000 for electricity transmission and system services, revision 4/2011 issued by ANRE, valid until 2025.

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 prone to different changes, which may affect the Group's performances;
- ANRE decisions regarding future tariffs may affect the Group's operations;

Through ANRE Order no. 90 from 11 December 2013 is approved the certification of the Company as independent system operator ("ISO"). The order stipulates that CN Transelectrica SA has to prove that it has adopted a series of measures within a period of six months from the date this order has become effective.

Tariffs for energy transmission and system services

The energy transmission is a natural monopoly activity. The tariffs used by the Company for transmission and system services were established by ANRE (see Note 23).

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 public patrimony assets that were financed through own sources, recognized by ANRE, and used solely for providing the service of electricity transmission. Starting with the second regulated period 2008 – 2012, an adjustment of revenue was introduced for not achieving the approved level of investments during the first and the second regulated periods. This adjustment will be made in the first year of the next regulated period.

Assets resulting from additional investments made with the approval of the regulatory authority, due to exceptional circumstances from the investment program initially approved at the beginning of the regulatory period are inserted in RAB in the specific period if in the regulation period were registered savings amounts or will be included in RAB at the beginning of the next regulatory period, by the amount remaining depreciated if it was made a valuable saving.

The weighted average cost of the regulated asset base in 2013 for the electricity transmission activity is of 8.52% (2012: 7.5%). As at 31 December 2013 the value of the regulated assets base is around Lei 3.08 billion. For 2014 the weighted average cost of the regulated asset base for the electricity transmission activity is of 8.52%

Local and international stock exchange indexes

Starting with 6 March 2007, CN Transelectrica SA shares are part of BET index managed by the Bucharest Stock Exchange, with a share of 2.05% (31 December 2012: 4.09%), at a stock exchange capitalization amounting to RON 1,157,457 thousand at 31 December 2013 (31 December 2012: RON 930,217 thousand). The BET index (Bucharest Exchange Trading) is a selective index that reflects the evolution of the 10 most liquid companies listed on BVB, except the Financial Investments Societies (SIF).

Starting with 2 January 2007, CN Transelectrica SA shares are part of Dow Jones Wilshire Global Indexes - a group of indexes that intend to offer the widest available measure of global markets. CN Transelectrica shares are part of:

- Dow Jones Wilshire Global Total Market Index SM;
- Dow Jones Wilshire Romania Index SM;
- Dow Jones Wilshire Electricity Index SM.

Company's revenues

The main revenue generating activities for the Company are:

- The electricity transmission services;
- The system services (the technical operational management of NES);
- Balancing Market Operator.

Electricity transmission service

The transmission service consists mainly in assuring the electricity transmission between two or more points of the electricity transmission grid ("ETG"), in compliance with the continuity, safety and quality standards.

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

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

The end users of the transmission service are, on one hand, the participants introducing electricity into the ETG (electricity producers and suppliers including importers) and, on the other hand, the companies which extract electricity from the grid (electricity suppliers, the producers/suppliers that export it, as well the eligible consumers). According to ANRE Order no. 54/19.07.2013, starting with 1 August 2013, the extraction component of the transmission tariff no longer applies to the quantity of energy exported and the injection component of the transmission tariff no longer applies to the quantity imported.

System services

The Company's responsibility is to maintain the National Energy 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 Company uses its own resources called functional system services and purchases technological system services from the electricity producers.

CN Transelectrica SA provides these services under the regulated tariff approved by ANRE which is applied to the same base (electricity delivered to consumers) and includes:

- tariff for technological system services;
- tariff for functional system services.

Technological system services are purchased from energy producers at the request of CN Transelectrica SA under a procedure established by the Union for the Coordination of Transmission of Electricity and regulated by ANRE for maintaining the operational safety of the NES as well as the quality of electricity transmitted to the parameters required by the regulation in force. CN Transelectrica SA re-invoices the entire amount of system services purchased from producers (except for the energy component which covers the technological grid losses) to other electricity suppliers licensed by ANRE which benefit of such services in the end.

Functional system services refer to the dispatch services that CN Transelectrica SA provides and they consist in planning and operationally managing the NES, as well as the other activities of CN Transelectrica SA with a view to balance in real time the output and the consumption in order to cover safely the power consumption with minimum operation costs and a good operational safety of the NES.

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.

CN Transelectrica SA is the balancing market operator who, based on procedures and regulations approved by ANRE, must approve all the participants to the balancing market, collect, verify and process all the offers and perform the clearing procedures.

High efficiency cogeneration

Starting with 1 April 2011, CN Transelectrica SA is the administrator of the support scheme for high efficiency cogeneration. The main purpose of the scheme is to promote high efficiency cogeneration of heat and power systems so as to render electricity production more environmentally friendly. It aims to provide access to power markets for electricity produced in high-efficiency cogeneration plants through a bonus granted as the total production costs of the electricity generated by such installations exceed prevailing market prices. The support scheme targets electricity and heat producers owning or operating high-efficiency power plants units so as to encourage new investments in cogeneration as well as the replacement or refurbishment of existing facilities.

The Government Decision no 1215/2009 establishes the necessary legal framework according to the regulations of the European Union, 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 production costs and market prices. ANRE has calculated a bonus, which is a sum per megawatt hour ("MWh") of electricity produced and will be applicable to the electricity produced by the plant and sold on the market. The beneficiaries of the bonus are the producers that meet certain qualification criteria for the scheme and are established by ANRE.

According to provisions of article 14 of the Government Decision no. 1215/2009, CN Transelectrica SA is designated as being responsible for the administration of the support scheme. The main tasks that belong to the Company as the administrator of the support scheme are represented by the collection of 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 electric and thermal energy in high efficiency cogeneration; to conclude contracts with the contribution collectors (energy suppliers) and with the producers that will be the beneficiaries of the scheme; to verify the total value of the contribution to be paid; to issue the invoices; 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 late penalties to the producers for not paying the bonus before due date.

The Company acts as an agent of the State in collecting and distributing money, and as the commission resulting from this activity is zero, this does not affect the profit and loss account of the Company.

Operating environment

Although Romania is a member of the European Union starting with 1 January 2007, the Romanian economy has the characteristics of an emergent market, such as a high current account deficit, a financial market relatively undeveloped and variances of the exchange rates.

Currently, the international financial markets feel the effects of the global financial crisis from 2008. Those effects were felt by the Romania financial market, in the form of fall in prices and liquidity on the capital markets and through an increase in the medium term financing interest rates due to the global crisis of liquidity. The significant losses experienced in the global financial market could affect the ability of the Company to obtain new borrowings at terms and conditions similar to those applied to earlier transactions.

The financial position of the Group depends on the future policies regarding the tariff adjustments, and/or on the continuous support from the Romanian Government.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements ("financial statements") have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union ("IFRS EU").

(b) Basis of measurement

The financial statements are prepared on historical cost, except for property, plant and equipment other than construction in progress, which are measured at revaluated amount, while the liabilities related to cash settled share-based payment transactions, are valued at fair value. The share capital is adjusted according to the International Accounting Standard ("IAS") 29 ("Financial Reporting in Hyperinflationary Economies") until 31 December 2003.

(c) Functional and presentation currency

The financial statements are presented in Romanian Lei ("LEI" or "RON"), which is the Group's functional currency. All financial information presented in LEI has been rounded to the nearest thousand.

(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 affect the application of accounting policies and the recognized value of assets, liabilities, income and expenses, assumptions regarding fair value (see Note 4) provisions and contingencies (see Note 23), the recognition of non-refundable funds to be received (see Note 11), the provision for impairment of receivables (see Note 8), the liabilities related to cash settled share-based payment transaction (Note 25) and the related liabilities for defined benefit plans (Note 13).

Actual results may be different from these estimates. Estimates and underlying assumptions are revised on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimates due to significant uncertainties are included in the following notes:

- Note 11 – the estimate of the Group management is that there is a reasonable assurance that the conditions attached to the funds will be fulfilled and the funds will be received;
- Note 13 – assessment of the liabilities for defined benefit plans;
- Note 23 - recognition and measurement of provisions, commitments and contingencies, key assumptions regarding the probability and magnitude of an outflow of resources ;
- Note 25 - valuation of the liabilities related to cash settled share-based payment transaction.

Information regarding the critical professional judgement applied to the accounting policy regarding the service concession agreement is presented in the following paragraphs.

The Company (operator) concluded in 2004 a service concession agreement with ME (grantor) according to which it received 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 service (see Note 3 (c)). As 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 scoped out from IFRIC 12 "Service Concession Arrangements". With no other specific standard under IFRS EU for 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 first to consider requirements in IFRS EU dealing with similar and related issues.

In determining if IFRIC 12 is applicable, the Company considered whether the following features of a public-to-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;
- The contractual agreement would include the same terms if entered into with a private-sector company.

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

3. Accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except for those aspects disclosed in Note 3 (aa) 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 construction in progress, are stated at their revalued amount, less any accumulated depreciation and accumulated impairment losses. Construction in progress is stated at cost, except for the assets acquired before 31 December 2003 which include adjustments due to hyperinflation, less any impairment losses. At 31 December 2012, the buildings and special installations, machinery and equipment, control devices and vehicles were revalued by JPA Audit & Consultanta SRL (see Note 5), modifying the accounting policy for the public patrimony assets of the State included in GEO no 164/2005 approved by Law no. 70/2006 from cost model to revaluation model. The impact of change in accounting policy was recognized as a revaluation surplus.

The Group has applied the provisions of International Accounting Standard (IAS) 29 ("Financial Reporting in Hyperinflationary Economies") up to 31 December 2003 when Romania ceased to be considered a hyperinflationary economy. IAS 29 require that financial statements prepared in the currency of a hyperinflationary economy to be stated in terms of the current measuring unit at the end of the reporting period.

Recognition

Property, plant and equipment is recognised initially at historical cost less accumulated depreciation and accumulated losses.

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 personnel costs;
- other costs directly attributable to bringing the asset to the location and condition necessary for the intended use;
- capitalized borrowing costs;

(All amounts are in thousand LEI, unless stated otherwise)

An allowance for the idle or obsolete tangible assets is recorded in the consolidated financial statements, when these elements are identified.

Subsequent expenditure

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an 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 recognised in the income statement as occurred.

Depreciation

Property, plant and equipment items are depreciated using the straight-line method over their useful lives. The average useful lives (in years) used for property, plant and equipment are as follows:

	Useful life (years)
Buildings and special installations	40 - 60
Machinery and equipment	15 - 40
Control devices	7 - 12
Vehicles	5 - 8
Other fixed assets	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 reassessed and adjusted, if the case, at the end of each reporting period.

(c) Public patrimony assets

As stipulated by Law 213/1998, the electricity transmission gridlines are public patrimony items.

The Government Decision No. 627/2000 establishes in the annex No. 8 the public patrimony fixed assets which are under the Group's administration since 1 August 2000, and which are subject to inventory count and are updated whenever necessary through a Government Decision.

Prior to signing the concession agreement described below in this note, public patrimony assets were treated as assets contributed to the Group by the Romanian state through its representative ME, since the Group was not required to pay any fee for the use of these assets and expected to have right of use of the assets for the majority of their useful lives. The public patrimony reserve was transferred to retained earnings in line with the depreciation of the corresponding fixed assets. Such transfer to retained earnings was not recorded through the income statement. The public patrimony fixed assets financed from subsidies were included in the public patrimony equity account when these assets were put into use.

In November 1998, Law No. 213/1998 was issued, which regulated the status of public patrimony. The law stipulates that the State or local authorities have ownership of the public patrimony and that they can rent or grant use of it. According to the provisions of Law no 213/1998 and Law no 219/1998, ME has signed in the name of State a concession contract in respect of the energy transmission grid (high voltage electric power lines and electric stations) and the land on which they are built. The concession contract No. 1 has been concluded as at 29 June 2004 between ME and the Group for all the public patrimony fixed assets in balance as at 31 December 2003 and is in effect for 49 years.

Because of the change in the nature of relationship with the Romanian state through its representative ME, arising from the signing of the concession contract, the Group derecognized all public patrimony assets at 29 June 2004 with the change recorded directly to the public patrimony reserve within equity. Following the signing of the concession agreement the Group now treats the public patrimony assets to which it has right of use, as assets under operating lease. Payments under the concession agreement (royalty) are recognized as an expense in the income statement.

During 2005 – 2013, seven addendums to the concession contract were signed. As a result, the public patrimony assets obtained after 29 June 2004, using the development funds were derecognized.

Taking into account the Government Decision no. 1009/2012 and Government Decision no. 984/2012 through which was approved the modification of Appendix no. 7 to Government Decision no. 1705/2006 for approving the centralized stocktake of the assets from the public patrimony that were ceased to the Company and following the inventory procedure of the assets from the public patrimony from 2012 and of the revaluation of these goods, on 14.02.2013 was signed with the Ministry of Economy the addendum no. 7 to the Concession Contract no. 1/29.06.2004.

(All amounts are in thousand LEI, unless stated otherwise)

The Government Decision no. 1032 from 11 December 2013, published in the Official Gazette no. 22 from 13 January 2014, approved the amendment and the completion of the Appendix no. 7 to the Government Decision no. 1705/2006, following the 2012 stocktake of the assets from the public patrimony.

The main terms of the concession agreement are as follows:

- The Ministry of Economy has legal title to the leased assets;
- The Group has the right of use of these assets for a period of 49 years from 1 June 2004 until 31 May 2053;
- The annual fee as royalty for use of the assets is set by the ME and represents 1/1000 of the total revenue from electricity transmission services, based on actual quantities transmitted;
- The leased assets will be returned to the Ministry of Economy upon termination or expiration of the agreement; the agreement can be terminated unilaterally by either party;
- The Group has the obligation to use the assets according to the destination specified in the concession agreement and to the operating license.

The amount that the Group paid under the concession agreement for the period 1 January – 31 December 2013 is significantly less than the amount of the depreciation that the Group would have recorded on the comparable public patrimony assets if the concession agreement had not been signed. However, the Group has not recorded any amount related to the possible benefit resulting from the signing of the concession agreement because the Group is unable to determine the amount that a third party would pay for the use of the assets in an objectively determined transaction.

Investments made by the Group regarding the assets from the concession agreement are capitalized and depreciated over the remaining useful life of that asset and increase the value of the public patrimony assets after they have been fully depreciated.

(d) Intangible assets

The intangible assets of the Group are stated at their cost less any accumulated amortization and accumulated impairment losses. The amortization is recognized in the income statement based 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.

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

Subsequent expenditure

Subsequent expenditure is 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 translated to LEI by applying the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at period-end are translated to LEI at the exchange rates prevailing on that date. Exchange gains and losses, realised or unrealised, are included in the income statement for that year. The exchange rates at 31 December 2013 and 31 December 2012 are as follows:

Currency	31 December 2013	31 December 2012
1 EUR	4.4847	4.4287
1 USD	3.2551	3.3575
100 JPY	3.0997	3.8994

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

(f) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for doubtful debts. An allowance is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (over 180 days) are considered indications that the trade receivable might be impaired.

The amount of the allowance 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 through the use of an allowance account, and the amount of the loss is recognised in profit or loss within other operating expenses.

(g) Inventories

Inventories consist of consumables, materials, spare parts that do not meet the definition of PPE, safety stock and other inventories that are to be used during the ordinary activity of the Group, security and intervention stock needed for fast repairs of the failures of the network in order to assure the safe functioning of NES. These materials are recorded as inventories when purchased and then expensed or capitalised, as appropriate, when consumed.

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out method, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion, if any, and selling expenses.

The Group's policy is to write-off 100% for 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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(i) Revaluation reserves

After the recognition as an asset, an item of property, plants and equipment whose fair value can be measured reliably shall be 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. Revaluation shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised and accumulated in equity under the heading of revaluation reserve. However, the increase shall be recognised in profit and loss to the extent that it reverses a revaluation decrease of the same amount asset previously recognised in profit and loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be debited in equity to the element called "Revaluation reserves" if there is any credit balance existing in the revaluation reserve in respect of that asset.

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 1 May 2009, statutory reserves from the revaluation of fixed assets, including land, recorded after 1 January 2004, which are deducted when calculating taxable income through tax depreciation expenses or assets transferred and/or ceased expenses, is taxed simultaneous with the tax depreciation deduction, or when the assets are disposed, as appropriate.

Statutory reserves from the revaluation of fixed assets, including land, recorded after 31 December 2003 plus the portion of the revaluation performed after 1 January 2004 relating to the period before 30 April 2009 will not be taxed when transferred to reserves representing realized revaluation reserve surplus.

Statutory realized reserves are taxable in the future, in case of changing the destination of reserves in any form, in case of liquidation, merger and including using the reserves for covering the Company's losses, except for the transfer of revaluation reserves after 1 May 2009, when the revaluation was performed after 1 January 2004.

(j) Impairment of non-financial assets

The carrying amount of the Group`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 recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. 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 continuing use that are largely independent of the cash inflows of other assets or CGU.

Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) if any, and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) 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 equity. Incremental external costs directly attributable to the issue of new shares and shares' options, are shown as a deduction in equity at net value from tax effects.

(l) Dividends

Dividends are recognized as a liability in the period in which their distribution is approved.

(m) Accounts and other payables

Trade accounts payable and other payables are stated at amortized cost and include invoices for deliveries, contracted work and services.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(o) Recognition and derecognition of the non-derivative financial instruments

Non-derivative financial assets
The Group initially recognises receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised 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 realise 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 recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

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

Other financial liabilities comprise borrowings and trade and other payables.

(p) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a subsidiary, or items recognised directly in equity or in other comprehensive income.

i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payables also include any tax liability arising from declaration of dividends.

ii) Deferred tax

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

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequence that would follow 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 measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

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

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

iii) 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 Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(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 amount of future benefits that employees have earned in return for their service in the current and prior periods; these benefits are measured at the present value of future cash flows. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise. The other long term employee benefits are represented mainly by the jubilee premiums.

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 settlement date, the liability is remeasured at each reporting date and at settlement date based on the fair value of the share appreciation rights. Any changes in the fair value are recognised in profit or loss.

The Group recognises the services received, and a liability to pay for those services, as the employees render their service. Some share appreciation rights vest immediately, and the employees are therefore not required to complete a specified period of service to become entitled to the cash payment. In such cases, the Group recognises at grant date the entire value of the right as an expense.

Short-term employee benefits
Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. The short term employee benefits are represented mainly by salaries.

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

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligations in respect of defined benefit plans are calculated separately for each plan separately estimating the amount of future benefit that employees have earned in return for services rendered in the current and prior periods; these benefits are discounted to present value. Any costs of unrecognized prior service and fair value of plan assets are deducted. The benefits relate to retirement prizes and free electricity after retirement.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities. When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Group recognises all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and all expenses related to defined benefit plans in personnel expenses in profit or loss.

The Group recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, any related actuarial gains and losses and past service cost that had not previously been recognised.

(r) Revenue

Revenue is recognised 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, balancing market and system services computed based on volume of energy transmitted. The tariffs for transmission and system services are regulated by ANRE. The energy transmitted is determined by the meters found within the national energy system. Revenues include also the transactions on the balancing market as described in Note 1.

The Romanian State, through the ANRE, regulates the prices that the Company may charge for services related to transmission of electricity and system operator. The State has a number of roles to fulfil, apart from the shareholder one, and thus may have broader goals and objectives than an investor whose key concern is return on investments.

As mentioned in Note 1, the Company is the administrator of the support scheme for high efficiency cogeneration. The Company is acting as an agent of the Romanian State because it engaged in the collection and distribution of money. The Company is acting as an agent as it does not have exposure to the significant risks and rewards associated with the support scheme.

Other revenue includes mainly revenues from repairs and maintenance performed by Smart SA to third parties and revenues from information technology and telecommunication services performed by Teletrans SA to third parties. Revenue from these services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

Connection fees
IFRIC 18 "Transfers of Assets from Customers" applies to agreements 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 the customer to the network. The Company recognizes the cash received as a credit under "Deferred income" on the consolidated statement of financial position in order to subsequently reverse it under "Other income" on the consolidated income statement 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, the Group capitalizes the borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale that started after 1 January 2009.

Interest income is recognised in the income statement as it accrues, using the effective interest method.

(t) Subsidies

Subsidies are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the subsidy, and are then recognized in profit or loss as other revenue on a systematic basis over the useful life of the asset. The subsidies are related to assets. Non-refundable funds are recognized as assets when there is reasonable assurance that the grants will be received and the conditions attached will be met.

(u) Provisions

A provision is recognized when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event; it is probable (i.e. more likely than not) that an outflow of resources embodying 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 material, 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 IAS 33, earnings per share ("EPS") are calculated by dividing the profit or loss allocated to the shareholders of the Group by the weighted average number of shares outstanding during the period.

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares issued during the period multiplied by a time – weighting factor.

Dilution is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, 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) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

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.

(aa) Implication of new International Financial Reporting Standards (IFRS EU)

a) Changes in accounting policies in 2013

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application 1 January 2013:

IAS 1 Clarification of the requirement for comparative information (Amendment)
The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. Under IAS 34, the minimum items required for interim condensed financial statements do not include a third balance sheet.

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)
IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures.

The amendment is not relevant to the Group's financial statements, since the Group's current policy is to recognise immediately the actuarial gains and losses in other comprehensive income and the Group does not have a plan asset.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair values as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required in interim financial statements for financial instruments; accordingly, the Group has included additional disclosures in this regard.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

IAS 16 Property, plant and equipment
Annual Improvements to IFRSs 2009-2011 Cycle amend IAS 16 to clarify that spare parts, stand-by equipment and servicing equipment are classified as property, plant and equipment when they meet the definition; this includes the requirement for such items to be used over more than one period. Otherwise, they are classified as inventory.

b) *New standards and interpretations effective in periods beginning with 1 January 2014*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning with 1 January 2014 and have not been applied in preparing these consolidated financial statements. None of the new standards are expected to have a material effect on the consolidated financial statements of the Group.

4. Determination of fair value

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets 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 evaluate 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 cost method considering the particularities of property, plant and equipment of the Group, except for assets under construction, which are accounted for under the cost model.

(ii) Liabilities related to cash-settled share-based payments transactions

The liability related to cash-settled share-based payments transactions is valued at fair value. The fair value hierarchy level for liabilities related to cash-settled share-based payments transactions is Level 1 (quoted prices, unadjusted, in active markets for identical assets or liabilities).

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25. MAR 2014

(All amounts are in thousand LEI, unless stated otherwise)

5. Property, plant and equipment

The movements of property, plant and equipment between 1 January 2012 and 31 December 2013 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 as at 1 January 2012	**59,377**	**2,829,787**	**2,916,850**	**411,265**	**54,192**	**190,501**	**498,008**	**6,959,980**
Additions	147	1,072	311	470	848	45	382,853	**385,746**
Revaluation surplus	-	313,369	104,407	1,195	12,041	-	-	**431,012**
Transfers from construction in progress	160	66,908	131,311	16,911	3,174	59,255	(277,719)	-
Decrease of accumulated depreciation	-	(954,044)	(644,030)	(61,204)	(18,890)	-	-	**(1,678,168)**
Disposals	(19)	(12,502)	(30,240)	(5,300)	(2,474)	(3,513)	(4,931)	**(58,979)**
Balance as at 31 December 2012	**59,665**	**2,244,590**	**2,478,609**	**363,337**	**48,891**	**246,288**	**598,211**	**6,039,591**
Balance as at 1 January 2013	**59,665**	**2,244,590**	**2,478,609**	**363,337**	**48,891**	**246,288**	**598,211**	**6,039,591**
Additions	-	-	75	2,454	1,922	45	217,656	**222,152**
Transfers from construction in progress	717	80,557	259,082	53,694	1,480	9,976	(405,506)	-
Disposals	(59)	(5,297)	(14,364)	(287)	(395)	(491)	-	**(20,893)**
Balance as at 31 December 2013	**60,323**	**2,319,850**	**2,723,402**	**419,198**	**51,898**	**255,818**	**410,361**	**6,240,850**
Accumulated depreciation								
Balance as at 1 January 2012	**138**	**1,728,424**	**1,649,073**	**237,096**	**51,855**	**49,506**	**-**	**3,716,092**
Depreciation expense	-	78,519	161,701	33,698	2,950	21,568	-	**298,436**
Impairment losses	-	2,744	466	1	-	-	-	**3,211**
Decrease of accumulated depreciation	-	(954,044)	(644,030)	(61,204)	(18,890)	-	-	**(1,678,168)**
Accumulated depreciation of disposals	-	(11,474)	(31,318)	(3,459)	(2,053)	(2,344)	-	**(50,648)**
Balance as at 31 December 2012	**138**	**844,169**	**1,135,892**	**206,132**	**33,862**	**68,730**	**-**	**2,288,923**
Balance as at 1 January 2013	**138**	**844,169**	**1,135,892**	**206,132**	**33,862**	**68,730**	**-**	**2,288,923**
Depreciation expense	-	82,502	172,073	46,470	3,671	28,635	-	**333,351**
Accumulated depreciation of disposals	-	(3,451)	(632)	(61)	(350)	(485)	-	**(4,979)**
Balance as at 31 December 2013	**138**	**923,220**	**1,307,333**	**252,541**	**37,183**	**96,880**	**-**	**2,617,295**
Carrying value								
Balance as at 1 January 2012	**59,239**	**1,101,363**	**1,267,777**	**174,169**	**2,337**	**140,995**	**498,008**	**3,243,888**
Balance as at 31 December 2012	**59,527**	**1,400,421**	**1,342,717**	**157,205**	**15,029**	**177,558**	**598,211**	**3,750,668**
Balance as at 31 December 2013	**60,185**	**1,396,630**	**1,416,069**	**166,657**	**14,715**	**158,938**	**410,361**	**3,623,555**

The additions of property, plant and equipment include mainly transfers of construction in progress. Construction in progress is represented mainly by retehnologisation works for overhead lines, stations and advances to suppliers of property, plant and equipment.

During 2013, the main transfers from construction in progress to property, plant and equipment are represented by:

- Retehnologisation of the power station 220/110kv Mintia – in amount of 118,136;
- Retehnologisation of the power station 400/100 kV Brasov – in amount of 112,530;
- Connection to the electricity transmission grid of power station 400 kV Stupina and connection of LEA 400kV Isaccea Varna – in amount of 62,795;
- Retehnologisation of the power station 400/220, 110/20kV Lacu Sarat technological part – in amount of 30,955;
- Integrated security system at STE Tulcea Vest – in amount of 5,819;
- Replacement of compensation coil 400MV at power station 220/110kv Mintia – in amount of 5,419;
- On-line monitoring of primary electrical equipment from power station 220/110kV Gradiste for telecontrol and integration in Smart-Grid concept – in amount of 5,418.

During 2013, the additions to construction in progress include mainly the retehnologization of power station 400/110/20 KV Tulcea Vest in amount of 44,909, investments financed through connection fees, including relocation of overhead lines, in a total amount of 35,646, the investment in the integrated security systems in the power stations – stage IV in amount of 27,278, the retehnologization of the power station 220/110kV Barbosi in amount of 17,766 and the retehnologization of power station 400/110kV Brasov in amount of 13,809.

The buildings and special installations, machinery and equipment, control devices and vehicles were revalued at 31 December 2012 by SC JPA Audit & Consultanta SRL, independent valuer, member of Romanian National Union of Authorised Valuers ("ANEVAR"). These items were revalued mainly using the cost based approach. The cost based approach was used due to reasons related to the specialization of assets for which there was insufficient market information or an active market does not exist. As at 31 December 2012, the Group recognised a revaluation surplus in total amount of 431,012, out of which 427,498 as revaluation reserve and 3,514 in the income statement, as this amount compensates a revaluation decrease from the revaluation of same assets that was prior recognised on expense.

Lands were revalued as at 31 December 2011 using market approach. Also, the class "Other fixed assets" was revalued at 31 December 2011.

During 2012, the main transfers from construction in progress to fixed assets were represented by:

- Connection of the station financed by the connection fee paid by OMV Petrom SA in amount of 70,267;
- 400/110 kV Rahman station and connection of SC Alpha Wind SRL, SC Beta Wind SRL, SC CAS Regenerabile SRL and SC Land Power SRL to the electricity transmission grid (1st phase) in amount of 33,673 - investment financed through connection fee;
- 400/110 kV Tariverde station and connection of SC Tomis Team SRL to the electricity transmission grid (third phase) in amount of 24,516 – investment financed through connection fee;
- 2nd phase of project "Integrated security systems in the power stations" in amount of 34,009;
- 1th and 2nd phase of the project "Retehnologisation of 400/220 station, 110/20 kV Lacul Sarat" in amount of 29,665;

Buildings and special installations include mainly transformation stations and high voltage power gridlines. Machinery and equipment include mainly transformers and cells relating to NES of 110 KV, 220 KV, 400 KV and 750 KV.

During 2013, the capitalized borrowing costs related to construction in progress amounts to 6,042 related to BRD-ING loan, interest rate of 4.35% (2012: 2,265 and interest rate of 3.8%).

As at 31 December 2013, the Group acquired PPE on credit from suppliers in amount of 88,169 (31 December 2012: 128,284) (see Note 14).

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6. Intangible assets

The movements in intangible assets from 1 January 2012 to 31 December 2013 are the following:

	Other intangible assets	Licences and software	Intangible assets in progress	Total
Cost				
Balance as at 1 January 2012	3,910	57,615	32,041	93,566
Additions	41	444	8,484	**8,969**
Transfers from intangible assets in progress	-	7,811	(7,811)	-
Disposals	(4)	(539)	-	**(543)**
Balance as at 31 December 2012	3,947	65,331	32,714	101,992
Balance as at 1 January 2013	3,947	65,331	32,714	101,992
Additions	278	48	4,876	**5,202**
Transfers from intangible assets in progress	-	6,876	(6,876)	-
Disposals	(121)	(1,483)	-	**(1,604)**
Balance as at 31 December 2013	4,104	70,772	30,714	105,590
Accumulated amortisation				
Balance as at 1 January 2012	3,908	41,238	-	45,146
Amortisation expense	26	9,431	-	**9,457**
Accumulated amortisation of disposals	4	(569)	-	**(565)**
Balance as at 31 December 2012	3,938	50,100	-	54,038
Balance as at 1 January 2013	3,938	50,100	-	54,038
Amortisation expense	286	8,885	-	**9,171**
Accumulated amortisation of disposals	(120)	(1,482)	-	**(1,602)**
Balance as at 31 December 2013	4,104	57,503	-	61,607
Carrying value				
Balance as at 1 January 2012	2	16,377	32,041	48,420
Balance as at 31 December 2012	9	15,231	32,714	47,954
Balance as at 31 December 2013	-	13,269	30,714	43,983

During 2013, the main transfer from intangible assets in progress was represented by the upgrade of MIS system to Oracle e-Business suite platform in amount of 6,293.

Intangible assets in progress are represented mainly by the software related to electricity exchange and electricity balancing market.

(All amounts are in thousand LEI, unless stated otherwise)

7. Inventories

As at 31 December 2013 and 31 December 2012 inventories are as follows:

	31 December 2013	31 December 2012
Spare parts	26,034	39,381
Consumables and other materials	14,051	12,828
Auxiliary materials	4,859	6,233
Other inventories	1,669	4,442
Total	**46,613**	**62,884**

8. Trade and other receivables

As at 31 December 2013 and 31 December 2012 trade and other receivables are as follows:

	31 December 2013	31 December 2012
Trade receivables	855,238	794,000
Other receivables	96,377	97,617
Non-refundable funds to be received	9,051	65,083
VAT to be recovered	34,647	-
Allowance for doubtful receivables	(86,803)	(76,736)
Allowance for other doubtful receivables	(52,557)	(48,549)
Total	**855,953**	**831,415**

Trade receivables

As at 31 December 2013, the trade receivables have increased as compared with 31 December 2012 mainly due to the increase in transmission service tariff and system services tariff (see Note 18).

As at 31 December 2013 and 31 December 2012 trade receivables are as follows:

	31 December 2013	31 December 2012
Clients – energy market	843,749	786,308
Other clients	11,489	7,692
Total	**855,238**	**794,000**

The most important clients from the energy market are: Electrica Furnizare SA, SC Complexul Energetic Oltenia SA, Ciga Energy SA, Electrica SA, EON Energie Romania, Enel Energie SA and Enel Energie Muntenia SA. As at 31 December 2013, these clients represent 48% from the total gross receivables from the energy market (46% as at 31 December 2012).

As at 31 December 2013, the Company has one customer with trade receivables exceeding 10% from the total gross trade receivables: Electrica Furnizare SA (receivable of 100,493 as at 31 December 2013 and 86,115 as at 31 December 2012). The value of the total transactions concluded with Electrica SA in 2013 is in the amount of 465,583, including transactions related to the contribution for high-efficiency cogeneration.

As at 31 December 2013, clients from the energy market include the amount of 108,265 representing receivables from the high efficiency cogeneration (99,209 as at 31 December 2012).

Other receivables

As at 31 December 2013, other receivables in amount of 96,377 include late payment penalties with a value of 27,601 and a prepayment made to the National Agency for Fiscal Administration ("ANAF") in amount of 44,443 (please see the below paragraph).

The biggest amounts for late payments were recorded for SC Eco Energy SRL (8,910), SC Petprod SRL (6,117), SC Total Electric Oltenia SA (3,289), SC Arcelormittal Galati SA (2,397), SN Nuclearelectrica SA (2,267) and SC Also Energ SRL (2,121), amounts that were also provided for and included in the allowances for doubtful other receivables.

Litigation with the National Agency for Fiscal Administration ("ANAF")

ANAF issued a tax report on 20 September 2011 on VAT reimbursement for the period September 2005 – November 2006. ANAF has identified a total number of 123 unused invoices as missing, these being documents with special regime, for which VAT collected of 16,303 plus 27,196 as penalties were estimated. The total value of these obligations amounts to 43,499. The value of these obligations was retained from the VAT paid by the Company in November 2011. Subsequently, the Company has noted that the amounts paid as current VAT were considered as being the payment for the obligations mentioned above.

Thus, the Company was forced to pay additional penalties of 944 related to the VAT that should have been paid in November 2011, in order to avoid accumulating additional debts towards the State Budget. In total, in 2011 the Company has paid the amount of 44,443.

The Company made use of all legal means to contest the decision issued by ANAF, so an appeal was filed at ANAF against the decision and a request was submitted in order to suspend the execution of the decision until the administrative appeal filed against ANAF is finalized. The request to suspend the execution of the tax report was rejected.

The Company believes that the tax base has not been determined reasonably by ANAF, considering the fact that the Company's activity on electricity market is regulated, this being determined proportionally based on the number and value of the invoices issued by the Company during the period under verification. The Company considered it was entitled to bring an action in court, as the Company believes that ANAF has not taken into account all data and documents relevant for the estimate, as provided by the Fiscal Procedure Code applicable at that time. Thus, the Company has sued ANAF to the Bucharest Court of Appeal in August 2012 for the recovery of the amount and has requested the admission of the writing proof and accounting expertise proof. At 31 December 2012, the Company has registered a provision of 22,222 for the paid amount of 44,443 based on the estimates regarding the chances of recovery.

On 18 September 2013, was prepared the accounting expertise report which was submitted to the court at the hearing from 20 September 2013. At the hearing from 18 October 2013, the parties made several objections to the accounting expertise report which were approved by the court and were communicated to the designated expert at the hearing on 15 November 2013. At the hearing on 7 March 2014, the expert presented the response to the objections made by Company. Compared to the revenues estimated by ANAF, based on which ANAF estimated a VAT collected in amount of 16,303, the accounting expertise judicial report found the existence of undue revenue amounted to 551, the amount to which VAT and penalties should have been applied. The hearing was postponed for the acknowledgement of the content of the response with the objections to the expertise report. The next hearing was set on 4 April 2014.

Non-refundable funds to be received

As at 31 December 2013, the non-refundable funds to be received in amount of 9,051 represent funds to be received for the third reimbursement request referring to the contract for the retehnologization of the 220/110kv Mintia station (see Note 11).

VAT to be recovered

Starting with 1 September 2013, according to article 160, paragraph 2 from the Fiscal Code reverse taxation is applied to sales of electricity towards energy traders or suppliers. VAT is collected now only from the final customers, the rest of the participants apply reverse taxation.

As the transactions regarding the administration of the Balancing Market are assimilated to energy sales, starting with September 2013 the invoices issued by the Company to energy traders or suppliers for the Balancing Market transactions are issued without VAT (reverse taxation is applied).

Thus, as the Company no longer collects VAT from the energy suppliers and traders for the Balancing Market transactions, at 31 December 2013 it is in a position in which it has VAT to be recovered of 34,639 (at 31 December 2012 it recorded payable VAT of 9,189).

(All amounts are in thousand LEI, unless stated otherwise)

Allowance for doubtful receivables and other doubtful receivables

The Group's policy is to book a provision of 100% for clients in litigation and bankrupted clients and of 100% for the trade receivables and other receivables due for more than 180 days. The Group also performs an individual analysis for uncollected trade receivables and other receivables.

As at 31 December 2013, the biggest amounts for allowances for doubtful receivables were recorded for SC Petprod SRL (27,048), SC Eco Energy SRL (24,736), SC Total Electric Oltenia SA (14,185), Arcelormittal Galati (8,507), Also Energ (7,177) and Complexul Energetic Hunedoara (5,821). The Company is in litigation with these clients, being enlisted to the statement of affairs for the clients that are in insolvency.

At 31 December 2013 and 31 December 2012, the allowance for other doubtful debts included also the provision for ANAF in amount of 22,222.

The Group's exposure to credit and market risk and value adjustments related to trade receivables are presented in Note 26.

9. Cash and cash equivalents

As at 31 December 2013 and 31 December 2012 cash and cash equivalents are as follows:

	31 December 2013	31 December 2012
Current bank accounts and deposits with original maturities of less than 90 days	571,894	227,273
Cash from high efficiency cogeneration	63,047	91,756
Petty cash	100	113
Other cash equivalents	122	56
Total	**635,163**	**319,198**

As at 31 December 2013 and 31 December 2012, deposits with original maturities of less than 90 days are in amount of 322,374 and 41,498 respectively.

Starting with 1 April 2011, CN Transelectrica SA, as the administrator of the high efficiency cogeneration scheme (Note 1), manages a special bank account opened for the collection of the high efficiency cogeneration contribution and for the payment of the high efficiency cogeneration bonus. As at 31 December 2013, the cash generated from the administration of this scheme is of 63,047 (31 December 2012: 91,756).

As at 31 December 2013, the cash from connection fees amounts to 99,783 (31 December 2012:120,701).

For the purpose of the consolidated cash flow statement, cash and cash equivalents as at 31 December 2013 and 31 December 2012 are as follows:

	31 December 2013	31 December 2012
Cash and cash equivalents	635,163	319,198
Short term loans (credit line) (see Note 12)	(4,838)	(10,490)
Total	**630,325**	**308,708**

As presented in Note 12, as at 31 December 2013 the short term loans include also the credit line from ING Bank N.V. Bucharest Branch contracted by the Group through its subsidiary, Smart. The amount is repayable on demand. As at 31 December 2013 the amount outstanding of this credit line is of 4,838 (10,490 as at 31 December 2012).

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10. Shareholder's equity

Share capital

On 1 April 2013, was published the Government Emergency Ordinance no. 18, which states that at the date it becomes effective, the shares held by the State in the Company pass from the Ministry of Economy ("ME") to the Ministry of Public Finance ("MPF"). This modification in the shareholders' structure took into account the need to comply with the principles regarding the separation of the quality of shareholder at the companies that provide electricity generation and supply activities, on one hand and of shareholder at the companies that provide electricity transmission services on the other hand. This is stipulated by the mandatory legislation of the European Union through Directive 2009/72/EC of the European Parliament and European Council from 13 July 2009 regarding the common rules for the internal electricity market and which revoke Directive 2003/54/EC, and at the national level is stipulated by the Electricity and natural gas law no 123/2012.

The transfer of shares from the Ministry of Economy to Ministry of Public Finance was registered at Central Depository on 18 April 2013.

As at 31 December 2013 and 31 December 2012, the authorised issued and fully paid up share capital of the Company consists of 73,303,142 ordinary shares with a nominal value of 10 lei/share and is in compliance with the one registered at Trade Register.

As at 31 December 2013 and 31 December 2012, the shareholder's structure is as follows:

Shareholders	31 December 2013		31 December 2012	
	Number of shares	% from share capital	Number of shares	% from share capital
Romanian State through MPF	43,020,309	58.69%	-	-
Romanian State through ME	-	-	43,020,309	58.69%
Fondul Proprietatea	9,895,212	13.50%	9,895,212	13.50%
Private investors (legal entities and individuals)	20,387,621	27.81 %	20,387,621	27.81 %
Total	**73,303,142**	**100%**	**73,303,142**	**100%**

On 14 February 2014, was published the Government Emergency Ordinance no. 6 which stipulates that starting the date it becomes effective, the shares held by the State in the Company pass from the administration of the Ministry of Public Finance to the administration of the Government, through the General Secretariat of the Government, in consultation with the Prime Minister Office. This modification in the shareholders structure took into account the need for the acceleration of the measures needed in order to avoid the infringement procedures against Romania by the European Commission in respect with complying with the principles of separating the quality as shareholder of the companies involved in the generation and supply activities, on one hand, and the quality as shareholder of the transmission system operator, on the other hand, this being imposed by the mandatory legislation of the European Union (see Note 27).

The Extraordinary General Meeting of Shareholders that took place on 30 September 2013 approved the increase of the Company's share capital with contribution in kind and cash contributions, in a total maximum amount of 5,529 from the value of 733,031 to the maximum value of 738,561 by issuing a maximum number of 552,942 new shares, nominative, dematerialized, at a price of 10 lei/share, equal to the nominal value (without share premium) from which:

- 324,512 new shares in the amount of 3,245 is contributed in kind by the Romanian State, represented by the General Secretariat of the Government, shares that have been determined in accordance with art. 240 par. (3) and (4) of Law 297/2004 regarding the capital market, with subsequent amendments, after obtaining the ownership certificates for land;
- maximum 228,430 new shares in the amount of 2,284 is cash contribution of other shareholders. These can be subscribed by existing shareholders at the time of registration. To maintain the same percentages in the share capital it is given the preference rights to the shareholders that were registered on 17 October 2013 in the register of Transelectrica' shareholders, according to art. 130 par. (3) of Regulation no. 1/2006 of the former National Securities Commission, the current Financial Supervisory Authority.

Thus, for each share held, shareholders will be able to subscribe a total of 0.0075431 new shares. The minimum value of a subscription is one share. The shares unsubscribed until the end of the subscription period will be cancelled.

The shares subscribed within the above mentioned share capital increase, after their integral payment and registration of the share capital increase, will have the same characteristics as the existing ones, offering the shareholders the same rights and obligations. Subsequent to the registration of the share capital increase to the Central Depository, the subscribed shares will be traded on the regulated market of Bucharest Stock Exchange. At the date of these financial statements, the prospectus for the share capital increase is in progress to be finalized.

(All amounts are in thousand LEI, unless stated otherwise)

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

As at 31 December 2013 and 31 December 2012, the share capital in amount of 1,091,526 includes the effect of restatements relating to prior periods, required by the application of IAS 29 "Financial Reporting in Hyperinflationary Economies", as described in Note 2 (b). The reconciliation of share capital is as follows:

Share capital (nominal value)	733,031
Restatement difference in accordance with IAS 29	358,495
Restated share capital balance	**1,091,526**

The shareholders are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

The amount of dividends distributed in 2013 from the 2012 profit was of 29,614, according to the General Shareholders Meeting no. 3 from 29 April 2013. The amount of unpaid dividends as at 31 December 2013 and as at 31 December 2012 is 2,438 and 2,457 respectively. In 2013, the dividend per share was of RON 0.404/share (RON 1.1 / share in 2012).

Share premium

All new shares issued within the capital increase by initial primary public offer from 2006 were subscribed and fully paid against the issue price. The share premium amounting to 49,843, being the difference between the issue price and the nominal value, was recorded in the Company's reserve account.

Legal reserves

Legal reserves in the amount of 57,895 as at 31 December 2013 and 46,683 as at 31 December 2012, respectively, represent legal reserves according to the statutory legislation and cannot be distributed. The Company transfers to this reserve at least 5% of their annual accounting profits until the cumulative balance reaches 20% of their paid up share capital. Legal reserves include the effect of restatements relating to prior periods, required by the application IAS 29 "Financial Reporting in Hyperinflationary Economies".

The reconciliation of legal reserves as at 31 December 2013 is as follows:

Legal reserves (statutory amount)	57,703
Restatement difference in accordance with IAS 29	192
Restated legal reserves balance	**57,895**

Revaluation reserves

The revaluation reserve is in amount of 555,327 as at 31 December 2013 and 605,490 respectively as at 31 December 2012. The last revaluation of the buildings and special installations, machinery and equipment, control devices and vehicles was performed at 31 December 2012 by SC JPA Audit & Consultanta SRL, independent valuer, member of ANEVAR.

Other reserves

As at 31 December 2013, other reserves are in amount of 3,207 (31 December 2012: 3,194), and represent the revalued amount of land for which the title deeds were obtained. As described in Note 23, land for which the title deeds are obtained is first recognized at fair value in other reserves and followed by an increase in share capital after it is recorded at the Trade Register Office.

Retained earnings

Retained earnings represent the cumulative result of the Group. Earnings are distributed based on the separate financial statements prepared in accordance with the Order of the Minister of Public Finance no. 1286/2012 for the approval of accounting regulations conforming to International Financial Reporting Standards, applicable to companies whose securities are traded on a regulated market and related amendments.

(All amounts are in thousand LEI, unless stated otherwise)

11. Deferred income

Deferred income include mainly the special fund for development of the energy system received from ME, connection fees, other subsidies for investments, non-refundable funds to be received or collected from ME, in its capacity as Intermediate Body for Energy and acting on behalf of the Management Authority for the Sectorial Operational Programme "Increase of economic competitiveness" and the income from the allocation of interconnection capacity.

The movement of short term deferred income for 2013 and 2012 is as follows:

	31 December 2013	31 December 2012
Opening balance	4,481	3,915
Cash in advance related to interconnection capacity	10,132	19,481
Connection fee transferred from long term deferred income	20,709	-
Non-refundable funds transferred from long term deferred income	6,196	-
Other subsidies transferred from long term deferred income	5,048	-
Revenues from using the interconnection capacity	(7,070)	(18,915)
Release of other deferred income	(4,024)	-
Total	**35,472**	**4,481**

The movement of long term deferred income for 2013 and 2012 is as follows:

	31 December 2013	31 December 2012
Opening balance	547,327	370,668
Connection fees invoiced	75,372	135,394
Connection fees cancelled	(54,153)	-
Connection fee transferred to short term deferred income	(20,709)	-
Non-refundable funds	53,915	65,755
Non-refundable funds to be repaid	(2,406)	-
Non-refundable funds transferred to short term deferred income	(6,196)	-
Other subsidies transferred to short term deferred income	(5,048)	-
Derecognition of non-refundable funds	(15,184)	-
Release of deferred income	(29,179)	(24,490)
Total	**543,739**	**547,327**

During 2013, the Group has submitted new reimbursement requests for receiving non-reimbursable financing through the contracts concluded in 2012 for financing the following investments:

- Retehnologization of power station 220/110kv Mintia in amount of 23,555;
- retehnologization of power station 400/110 kV Brasov, in amount of 22,042;
- retehnologization of power station 400/220, 110/20kV Lacu Sarat, in amount of 9,428.

During 2013, the Group has collected non-refundable funds from the Management Authority for the Operational Sectorial Programme "Increase of economic competitiveness" in amount of 109,906 for retehnologization of the power stations 400/110kV Brasov, 220/110 kV Mintia and 400/220/110/20 kV Lacu Sarat- technological part. From the total amount collected in 2013, the amount of 54,930 relates to the reimbursement requests submitted during 2013. Also, in 2013 there were made corrections to reimbursement requests made in the previous periods.

During 2013, the investment projects related to retehnologization of the power stations 400/110kV Brasov, 220/110 kV Mintia and 400/220/110/20 kV Lacu Sarat- technological part were put in function. As at 31 December 2013, the only ongoing investment project financed through non-refundable funds is the retehnologization of 400/110/20 KV Tulcea Vest.

The conditions attached to these non-reimbursable funds are represented by assuring the implementation of the investment objectives and accomplishment of the output and performance indicators. As at 31 December 2013, the output and performance indicators related to the three investments put in function during 2013 were accomplished.

(All amounts are in thousand LEI, unless stated otherwise)

During 2013, the main investments financed through connection fee that were put in function was the connection to the electricity transmission grid of power station 400 kV Stupina and connection of LEA 400kV Isaccea Varna in amount of 62,795.

During 2013, following the issuance of Government Emergency Ordinance no. 57/2013 regarding the system for promoting energy production from renewable energy sources which stipulates the reduction of the number of green certificates granted to energy producers, a total number of 6 users requested the cancellation of the connection contracts. Thus, in 2013 the Company has cancelled invoices referring to connection fees in amount of 54,153.

The derecognition of structural funds in amount of 15,184 represents the value of funds received from the Management Authority for the Operational Sectorial Programme "Increase of economic competitiveness" to finance the investments put in function referring to items belonging to the public domain of the State.

12. Borrowings

Long term loans

As at 31 December 2013 and 31 December 2012, long term loans are as follows:

Description	**31 December 2013**	**31 December 2012**
EBRD 906 (a)	-	17,282
EIB 20.864 (b)	65,368	96,827
NIB PIL No 02/18 (c)	25,727	32,433
IBRD 7181 (d)	183,530	216,185
NIB PIL No 03/5 (e)	51,574	61,116
NIB PIL No 02/37 (f)	27,609	32,717
KfW 10431 (g)	38,985	48,236
BCR – World Trade Centre 398 (h)	-	5,000
KfW 11300 (i)	52,420	65,896
JBIC (j)	24,374	40,883
Raiffeisen Austria (k)	3,586	7,083
EBRD 33354 (l)	15,670	23,307
Alpha Bank (m)	7,400	14,800
BRD (n)	19,800	26,400
EIB 25709 (o)	129,558	138,602
EIB 25710 (o)	135,787	132,861
BRD-ING (p)	188,356	186,005
Unsecured bonds (q)	200,000	-
Less: Current amount of the long term loans	**(218,681)**	**(191,006)**
Total long term loans, net of current amount	**951,063**	**954,627**

Long term loans are detailed as follows:

(a) Loan from EBRD No. 906

The purpose of the loan was to finance the Rehabilitation of Transmission – Dispatch System. As at 31 December 2013, the loan was entirely reimbursed. The loan beared six months LIBOR plus 1% interest rate. Repayment was scheduled over 10 years from 2004 to 2013, the instalments being paid on the 25 May and 25 November of each year.

(b) Loan from EIB No. 20.864

The total amount outstanding as at 31 December 2013 under the loan agreement, which was concluded in year 2000, is EUR 14,575,708. The loan bears a variable interest rate, being the interest rate applicable at the date of the disbursement notice.

Repayment is scheduled over 10 years in 20 instalments from 2006 to 2015 to be paid on the 5 June and 5 December of each year. The purpose of the loan is to finance the Rehabilitation of Transmission – Dispatch System.

The loan agreement includes certain financial covenants: (i) a Debt Service Cover Ratio of not less than 1.3; (ii) a ratio of Long Term Debt to Equity of not more than 2.3; (iii) a ratio of Current Assets to Current Liabilities, of not less than 1.2, and (iv) a ratio of Total Operating Revenues to total Operating Expenses less Depreciation Expense of not less than 1.3. The financial covenants are to be calculated every semester on a twelve month basis for the twelve month period ending on the last day of the previous semester.

(c) Loan from NIB PIL No. 02/18

The loan from NIB was granted in 2003. The total amount outstanding as at 31 December 2013 is USD 7,903,579. The purpose of loan is to finance the rehabilitation of Switching Station 400/210 kV Slatina. The loan bears a variable interest rate of six months LIBOR plus 0.9% margin. Repayment is scheduled over 10 years in 20 instalments from 2008 to 2018.

(d) Loan from IBRD No. 7181

The loan from IBRD was granted in 2003 for the objective “Electricity Market”. The total amount outstanding as at 31 December 2013 is EUR 40,923,527. The loan bears a variable interest rate which, being the cost of qualified loans granted by IBRD on the financial market. The interest rate for the last instalment is of 0.48%. The repayment is performed biannually, starting 15 July 2008, the last instalment being scheduled on 15 January 2020.

The loan agreement includes certain financial covenants: (i) a Debt Service Cover Ratio of not less than 1.3; (ii) a ratio of Current Assets to Current Liabilities, of not less than 1.2.

(e) Loan from NIB PIL No. 03/5

The loan from NIB was granted at 12 November 2004 for the rehabilitation of 400/220/110 kV Gutinas Station. The amount outstanding as at 31 December 2013 is EUR 11,500,000. The interest rate is six months EURIBOR plus 0.85%. Repayment is performed biannually, in equal instalments starting 15 March 2009, the last instalment being scheduled on 15 September 2018.

(f) Loan from NIB PIL No. 02/37

The loan was granted by NIB on 25 February 2004 for the rehabilitation of Rosiori Station. The amount outstanding as at 31 December 2013 is EUR 6,156,164. Interest rate is six months EURIBOR plus 0.90%, repayment is performed biannually in equal instalments starting 15 September 2008, the last instalment being scheduled on 15 September 2018.

(g) Loan from KfW No. 10431

The loan has been granted by KfW on 12 August 2004 for the objective of the rehabilitation of 400/220/110 kV Sibiu Sud Station. The amount outstanding as at 31 December 2013 is EUR 8,692,909. The interest rate is six months EURIBOR plus 0.60%, the repayment being performed biannually, in equal instalments starting with 31 January 2008, the last instalment being scheduled on 31 July 2017.

(h) Loan from BCR No. 398

The loan was granted by BCR on 7 October 2004 for financing the project “Retehnologization of Bucuresti Sud and Sibiu Sud station”. As at 31 December 2013, the loan was entirely reimbursed. Interest rate is six months ROBOR plus 0.5%, the repayment is performed biannually, in equal instalments starting with 15 April 2007, the last instalment being scheduled on 13 October 2013.

(i) Loan from KfW No. 11300

The loan has been granted by KfW on 12 August 2004 for the rehabilitation and modernization of Bucuresti Sud Station. The amount outstanding as 31 December 2013 is EUR 11,688,531. The interest rate is six months EURIBOR plus 0.60%, the repayment being performed biannually, in equal instalments starting with 31 January 2008, the last instalment being scheduled on 31 July 2017.

(j) Loan from JBIC

The loan has been granted by JBIC on 25 June 2004 for the rehabilitation of Brazi Station. The amount outstanding as at 31 December 2013 is JPY 786,333,000. The interest rate is 3.10%, the repayment being performed biannually, in equal instalments starting with 15 March 2007, the last instalment being scheduled on 15 September 2016.

(k) Loan from Raiffeisen Zentralbank Osterreich AG

The loan was granted by Raiffeisen Austria on 14 March 2006 for the rehabilitation of 11 stations. The amount outstanding as at 31 December 2013 is EUR 799,649. The interest rate is six months EURIBOR plus 0.50%, the repayment being performed biannually, in 12 equal instalments starting with 10 May 2009, the last instalment being scheduled on November 2014. In 2008, the loan was reduced from EUR 5,458,646 to EUR 4,797,895.

(l) Loan from EBRD No. 33354

The loan has two components: A Loan granted by EBRD in an amount not to exceed EUR 18,200,000 and B Loan in an amount not to exceed EUR 5,000,000. The loan has been reduced to EUR 14,723,211 (A loan EUR 11,550,105 + B loan EUR 3,173,106). The amount outstanding as at 31 December 2013 is EUR 3,262,562 for A loan and EUR 231,681 for B loan. The interest rate is six months EURIBOR plus 3.00% for A Loan and six months EURIBOR plus 2.75% for B Loan. The repayment is performed biannually, for A Loan in 18 equal instalments between 2007 and 2016 year, respectively for the B Loan in 14 equal instalments between 2007 and 2014 year.

The loan agreement includes certain financial covenants: (i)) a Debt Service Cover Ratio of not less than 1.5, (ii) a ratio of Long Term Debt to Equity of not more than 2, (iii) a ratio of Current Assets to Current Liabilities, of not less than 1.2.

(m) Loan from Alpha Bank

The loan was granted by Alpha Bank in July 2009 for the rehabilitation of Gutinas, Bucuresti Sud, Isalnita, Gura Ialomisei and Gadalin stations. The amount outstanding as at 31 December 2013 is RON 7,400,000.The loan bears a variable interest rate of six months ROBOR plus 2% margin. Repayment is scheduled over 5 years in 10 instalments from 2010 to 2014.

(n) Loan from BRD – Groupe Societe Generale SA

The loan was granted by BRD – Groupe Societe Generale SA in February 2010 for the Rehabilitation of Gura Ialomitei, Lacu Sarat, Isalnita and Gutinas stations and to support other investments from the 2009 – 2010 investments programs The amount outstanding as at 31 December 2013 is RON 19,800,000. The loan bears a variable interest rate of six months ROBOR plus 1.25% margin. Repayment is scheduled over 5 years in 10 instalments from 2012 to 2016.

(o) Loan from EIB No. 25709 and EIB No. 25710

The loans were granted by EIB in August 2010 for financing the modernization and rehabilitation of the National Electricity Grid. Each loan is in amount of EUR 32,500,000. Loan no. 25709 is not guaranteed, while 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 from 2012 to 2025 for EIB 25709 (on 10 March and 10 September of each year) and from 2013 to 2026 for EIB 25710 (on 11 April and 11 October of each year). The interest rates are 3.596% for EIB 25709 and 3.856% and 2.847% for EIB 25710.

During 2013, the Company has withdrawn the last portion of loan BEI 25710 in amount of EUR 2,500,000 EUR.

The amount outstanding as at 31 December 2013 for EIB 25709 is EUR 28,888,889. The amount outstanding as at 31 December 2013 for EIB 25710 is EUR 30,277,778.

The loan agreement no. 25709 includes certain financial covenants for the second regulatory period: (i) a ratio of EBITDA to interest payments for long term loans of not less than 4.2; (ii) a ratio of Debt to Equity of not more than 0.95. The financial covenants will be revised for the third regulatory period.

The loan agreement no. 25710 is guaranteed by CitiBank Europe PLC, Dublin – Romania branch. The contract bears a guarantee commission of 0.57% per annum, computed at the value of EUR 37,375,000. The guarantee contract concluded on 26 January 2011 includes certain covenants as follows: (i) a ratio of Consolidated EBITDA to Consolidated net financial expenses of not less than 4.2; (ii) a ratio of Total Debt to Equity of not more than 0.95.

(All amounts are in thousand LEI, unless stated otherwise)

(p) Loan from ING Bank N.V., Amsterdam – Bucharest branch and BRD – Groupe Societe Generale SA

The loan granted by the consortium made up of ING Bank N.V., Amsterdam (Bucharest branch) and BRD – Groupe Societe Generale SA in amount of EUR 42,000,000 is meant to finance the following investments: refurbishment of 400/200/110/20kv Lacu Sarat station, refurbishment of 220/110kv Mintia station, integrated security systems in stations and replacement of autotransformers and transformers in power stations. The repayment period is of 7 years with a grace period of 24 months, with instalments payables every semester. The loan bears a variable rate of EURIBOR 6 month plus a margin of 3.95%. The loan is guaranteed 100% through assignment of receivables. The amount outstanding as at 31 December 2013 is EUR 42,000,000.

The loan agreement includes certain financial covenants: (i) a ratio of EBITDA to financial expenses of not less than 4.2; (ii) a ratio of Total net debts to EBITDA of not more than 3.5.

q) Bonds issue

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

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

During the entire period in which the bonds are not redeemed in full, CN Transelectrica SA undertakes to comply with certain financial indicators: (i) Interest Cover Ratio to be at least equal with 4.2; (ii) Net Debt/Equity Ratio to be equal or less than 0.95. As at 31 December 2013, the financial indicators are met.

The long term portion of loans is repayable as follows:

	31 December 2013	31 December 2012
Between 1 and 2 years	160,555	186,299
Between 2 and 5 years	602,652	483,551
Over 5 years	187,856	284,777
Total	951,063	954,627

The Group has not undertaken any measures in order to cover the risks relating to its obligations expressed in foreign currency or those risks associated with interest rate.

All the long term loans, except for loans from JBIC, EIB 25709 and EIB 25710, bear a variable interest rate and consequently, the book value of the long term loans is an approximation of its fair value.

As at 31 December 2013, the long term loans guaranteed by the Romanian Government through Ministry of Public Finance are: IBRD 7181, EBRD 906, EIB 20864, NIB PIL No 03/5, NIB PIL No 02/18, NIB PIL No 02/37 and JBIC.

The loan Raiffeisen Zentralbank is guaranteed in proportion of 85% by Coface.

The loan EBRD 33354 is guaranteed by Transelectrica with assignment of receivables from transmission contracts concluded with SC FDFEE Electrica Transilvania Nord SA, while the loan BCR 398 is guaranteed with the promissory notes issued by the Company in the favour of the Romanian Commercial Bank, equalling the loan instalments payable.

The loan Alpha Bank is guaranteed by assignment of receivables from SN Nuclearelectrica SA and a real movable security over all accounts opened at Alpha Bank.

The loan BRD – Groupe Societe Generale is guaranteed by assignment of receivables from SC CEZ Vanzare SA and a real movable security over all accounts opened at BRD – Groupe Societe Generale.

(All amounts are in thousand LEI, unless stated otherwise)

The loan from ING and BRD is guaranteed by assignment of receivables from SC EON Energie Romania SA, SC Enel Distributie Muntenia SA, SC Alpiq Romindustries SRL, SC Electromagnetica SA, SC Repower Furnizare Romania SRL and through the real guarantee over the accounts opened at ING and one account opened at BRD SMCC.

The guarantee contract concluded with CitiBank Europe PLC is guaranteed by assignment of receivables from SC Enel Muntenia SA.

At 31 December 2013, the pre-tax working ratio, calculated as total operating revenues to total operating expenses, excluding depreciation and other non-monetary expenses, is not met. This ratio relates to EIB loan agreement 20864 and was determined based on the interim consolidated financial statements as at and for the six month period ended 30 June 2013 and 30 June 2012 and the consolidated IFRS EU financial statements as at 31 December 2012.

As at 31 December 2013, the financial ratios not met are:

Indicator	The value of the ratio according to contract provisions	Loan	Realised value
Pre-tax working ratio	Minim 1.3	EIB 20864	1.28

As at 31 December 2012, the financial ratios not met are:

Indicator	The value of the ratio according to contract provisions	Loan	Realised value
Pre-tax working ratio	Minim 1.3	EIB 20864 EBRD 906	1.16 1.18*
Current liquidity ratio	Minim 1.2	EIB 20864	1.16

** There is no reclassification risk for EBRD 906 loan as short term loan as the outstanding balance of this loan as at 31 December 2012 is classified as short term loan, being fully repaid during 2013.*

According to the stipulations of the loan agreements, if covenants are breached and the matter is not remedied to the satisfaction of the credit institutions within a reasonable period of time from the written notification by the credit institutions, the credit institutions may require the acceleration of maturity of the loans drawn and not reimbursed.

Thus, as at 31 December 2013, the Company reclassified the long term portion of loan EIB 20864 in amount of 32,684 from long term borrowings to short term borrowings.

As at 31 December 2012, the management of the Company believes that the breach of covenants do not require the reclassification of long term liabilities in amount of 64,551 to current liabilities due to the following reasons:

- the value of the covenants Pre-tax working ratio and Current liquidity ratio are negative impacted by the balancing market, and the value of the covenant Current liquidity ratio is also negative impacted by the support scheme for promoting the high efficiency cogeneration, activities that do not generate profit to the Company and which were not part of the Company's responsibilities at the date when the loan agreements were concluded;
- the covenant breach is not substantial;
- the Company has the capacity and intends to make all loan repayments in accordance with the loan agreements;
- the contractual clauses stipulate that the credit institutions have to grant the Group a reasonable period of time so that it could take the necessary actions in order to comply with the financial covenants;
- the loans, except for EBRD 33354, are guaranteed by the Romanian State. For all these loans, the Group settled its obligations towards the State regarding the risk commissions.

No early reimbursement notification has been received by the Company so far, neither for breach of covenants nor for breach of any other contractual issues in the loan agreements. Therefore, the Company considers it is appropriate to classify the respective loans as long-term borrowings in the consolidated financial statements as at 31 December 2012.

(All amounts are in thousand LEI, unless stated otherwise)

Short term loans

As at 31 December 2013 and 31 December 2012 the short term loans are as follows:

	31 December 2013	31 December 2012
Current portion of the long term loans	218,681	191,006
Short term loans (credit lines)	4,838	10,490
Interest on long term and short term loans	7,398	7,655
Interest related to bonds	305	-
Total short term borrowings	231,222	209,151

As at 31 December 2013, the Group has three credit lines, two contracted by Transelectrica, one from BRD Group Societe Generale SA for the administration of the high efficiency cogeneration scheme, with the maximum value of 150,000 and another from ING Bank N.V. Amsterdam Bucharest Branch for financing the working capital with the maximum value of 35,000 and one revolving credit line through Smart subsidiary, contracted from ING Bank N.V. Amsterdam Bucharest Branch with a maximum value of 19,000.

As at 31 December 2013, the balance of both credit lines contracted by Transelectrica is nill, and the balance of the credit line contracted through Smart subsidiary with ING Bank N.V. Amsterdam Bucharest Branch is of 4,838 (31 December 2012: 10,490).

13. Employee benefits obligations

According to Government Decisions No. 1041/2003 and No. 1461/2003, the Group provides benefits in kind in the form of free electricity to the employees who retired from the Predecessor Entity.

Also, according to the collective labour agreement, the Group provides long term benefits to both employees - depending on length of service and seniority within the Grup - and to former employees after retirement. The benefits awarded to key management personnel are included in Note 25 ii), under the caption "*Compensation to key management personnel*".

The long term benefits provided by the Group include the following:

• retirement prizes ranging from 0.9 to 4.5 gross monthly base salaries depending on the number of years of seniority within the Group on the date of retirement;
• jubilee premiums between 0.9 and 4.5 gross monthly base salaries depending on the number of years of seniority within the Group;
• free electricity paid after retirement of 1,800 kWh / year paid according to the collective labour agreement.

The actuarial computations reffering to the post employment benefits and other long term benefits were determined by Mr. Silviu Matei - authorized actuary with authorization no. 1342/12.04.2007, leased on the contract no. C50/11.02.2014.

As at 31 December 2013 and 31 December 2012 the employee benefits obligations are follows:

	31 December 2013	31 December 2012
Jubilee premiums	15,069	12,012
Retirement prizes	8,146	8,284
Free energy provided to current and retired employees	10,900	10,735
Maternity premiums	30	99
Total	34,145	31,130

At 31 December 2013 and 31 December 2012, the Group has a present obligation regarding long term employee benefits, amounting to 34,145 and 31,130 respectively. The estimation of these liabilities was made taking into account the following:

- electricity price at 31 December 2013 and the price expected for future periods. The price projection for the following years is calculated as a forecast based on previous observed data for energy price;
- base salary at 31 December 2013 and base salaries for future periods estimated by the actuary (an annual increase of 1%);

(All amounts are in thousand LEI, unless stated otherwise)

- number of employees at 31 December 2013 and estimated annual number of Group employees based on projected rates of departure from the Group and statistical data on population mortality provided by INS for 2006-2008;
- discount rate estimated by the actuary of 5.4% for the next 5 years and 3.68% for the following years (source: Bloomberg).

14. Trade and other liabilities

As at 31 December 2013 and 31 December 2012 trade and other liabilities are as follows:

	31 December 2013	31 December 2012
Energy suppliers	562,013	503,262
Suppliers of fixed assets	88,169	128,284
Suppliers of other services	30,813	49,198
Liabilities towards employees	14,834	8,409
Other liabilities	27,190	58,929
Total	**723,019**	**748,082**

The most important energy suppliers are: SC Hidroelectrica SA, SC Complexul Energetic Oltenia SA, SC Electrocentrale Bucuresti SA and SC Complexul Energetic Hunedoara SA. Both as at 31 December 2013 and 31 December 2012 these suppliers represent 78% from the total energy suppliers.

The increase of the outstanding balance of energy suppliers as at 31 December 2013 was determined mainly by the increase of the cogeneration bonus due to energy producers in cogeneration in amount of 160,088 at 31 December 2013 (143,662 as at 31 December 2012) following the increase of the bonus approved by ANRE for 2013.

The decrease of other liabilities was determined mainly by the decrease in the liabilities resulting from the administration of the high efficiency cogeneration scheme (see Note 1), representing the net value between the invoices issued and those received for this scheme and amounting to 6,999 at 31 December 2013 (41,278 as at 31 December 2012).

The provision in amount of 4,624 for the fine received from the European Commission ("EC") on OPCOM investigation (see Note 23) is included in other liabilities.

15. Income tax

The income tax expense for 2013 and 2012 consists of the following:

	2013	2012
Current tax expense	49,647	20,181
(Income)/Expense with deferred tax	(7,348)	470
Total	**42,299**	**20,651**

The current and deferred tax of the Group for 2013 and 2012 is determined at a statutory rate of 16% (16% for 2012).

Semnat pentru identificare
25. MAR. 2014
Initialled for identification

(All amounts are in thousand LEI, unless stated otherwise)

Reconciliation of the effective tax rate:

	2013	2012
Profit before income tax	**248,731**	**68,527**
Income tax at statutory rate of 16%	39,797	10,964
Effect of non-deductible expenses	7,656	15,287
Effect of non-taxable income	(5,134)	(7,615)
Other effects	(20)	2,015
Income tax	42,299	20,651

Deferred tax consists of the following:

	Assets		Liabilities		Net	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Property, plant and equipment	-	-	38,313	43,407	38,313	43,407
Deferred income	(1,617)	(1,736)	-	-	(1,617)	(1,736)
Employee benefits	(4,417)	(3,262)	-	-	(4,417)	(3,262)
Interconnection estimate	(678)	-	-	-	(678)	-
Provisions	(540)	-	-	-	(540)	-
Net tax (assets) / liabilities	(7,252)	(4,998)	38,313	43,407	31,061	38,409

Movement in deferred tax balances during 2012 and 2013 are as follows:

Elements	Balance 1 January 2012	Recognised in profit or loss	Tax recognised directly in OCI	Balance 31 December 2012	Recognised in profit or loss	Tax recognised directly in OCI	Balance 31 Dec 2013
Property, plant and equipment	21,913	(245)	21,739	**43,407**	(5,094)	-	**38,313**
Deferred income	(1,736)	-	-	**(1,736)**	119	-	**(1,617)**
Employee benefits	(3,978)	715	-	**(3,262)**	(1,155)	-	**(4,417)**
Interconnection estimate	-	-	-	-	(678)	-	**(678)**
Provisions	-	-	-	-	(540)	-	**(540)**
Net tax (assets)/liabilities	16,199	470	21,739	38,409	(7,348)	-	31,061

(All amounts are in thousand LEI, unless stated otherwise)

	31 December 2013		31 December 2012	
	Cumulative temporary differences	**Deferred tax (asset) / liability**	**Cumulative temporary differences**	**Deferred tax (asset) / liability**
Property, plant and equipment	239,454	38,313	271,294	43,407
Deferred income	(10,103)	(1,617)	(10,850)	(1,736)
Employee benefits	(27,609)	(4,417)	(20,395)	(3,262)
ITC estimate	(4,240)	(678)	-	-
Provisions	(3,370)	(540)	-	-
Total	**194,132**	**31,061**	**240,049**	**38,409**

16. Earnings per share

As at 31 December 2013 and 31 December 2012, the earnings per share were as follows:

	2013	**2012**
Consolidated net profit for the period	**206,432**	**47,876**
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)	**2.82**	**0.65**

17. Other tax and social security liabilities

As at 31 December 2013 and 31 December 2012 the other tax and social security liabilities are as follows:

	31 December 2013	**31 December 2012**
Contribution to social security funds	7,087	5,653
VAT payable	-	9,189
Tax on salaries	2,453	1,951
Other tax payable	624	379
Total	**10,164**	**17,172**

18. Revenues

The operating revenues include revenues from electricity transmission service and system services, allocation of the interconnection capacity, balancing market administration and other revenues.

Revenues from electricity transmission and system services are determined based on the electricity delivered to consumers and using the tariffs approved through ANRE Orders.

The tariffs approved by ANRE and valid for 2013 and 2012 are as follows:

	Average tariff for transmission services	**Tariff for system services**
Order No. 19/2011– for the period 01.04.2011 -31.12.2012	18.77	10.21
Order No. 52/2012– for the period 01.01.2013 -06.08.2013	21.16	10.91
Order No. 58/2013– for the period 07.08.2013 -31.12.2013	21.16	13.42

(All amounts are in thousand LEI, unless stated otherwise)

The average tariff for electricity transmission has two components: the injection component (TG) and the extraction component (TL).

According to ANRE Order no. 54/19.07.2013, starting with 1 August 2013, the extraction component of the transmission tariff and the tariff for system services are no longer applied to exports and the injection component of the transmission tariff is no longer applied to imports.

During 2013 and 2012, the quantity of electricity at which the tariffs for services on the energy market were applied is as follows:

	2013	2012
Quantity of electricity (MWh)	51,846,188	53,928,586

Revenues from the balancing market are derived from the transactions conducted on this market as described in Note 1.

The revenues for 2013 and 2012 are as follows:

	2013	2012
Revenues from electricity transmission	1,127,572	1,024,866
Revenues from the allocation of the interconnection capacity	23,460	50,196
Revenues from reactive energy	5,003	3,910
Inter TSO Compensation (ITC) revenues	448	1,242
Total revenues from electricity transmission	**1,156,483**	**1,080,214**
Revenues from functional system services	59,105	57,707
Revenues from technological system services	565,278	506,999
Revenues from unplanned exchanges on DAM	4,935	6,055
Total revenues from system services	**629,318**	**570,761**
Balancing market	631,847	1,068,221
Other revenues	77,152	81,830
Total revenues	**2,494,800**	**2,801,026**

Revenues from electricity transmission

In 2013 the revenues from electricity transmission increased by 102,076 compared to 2012, determined by the adjustment of the average transmission tariff from 18.77 RON/MWh in 2012 to 21.16 RON/MWh in 2013.

Revenues from the allocation of interconnection capacity

In 2013 the revenues from the allocation of the interconnection capacity decreased compared to 2012, according to the level of usage of the available interconnection capacity by traders of electricity, due to lower exports of electricity to the neighbouring markets and to the implementation of the coordinated auction procedures with neighbouring countries, according to the EU regulations.

Revenues from system services

In 2013 the revenues from system services increased by 59,677 compared to 2012 as the tariffs increased at 1 January 2013 and subsequently on 7 August 2013.

Starting with 1 January 2013, according to ANRE Order no. 52/2012, the tariff for system services (technological and functional) increased from 10.21 RON/MWh la 10.91 RON/MWh. Subsequently, starting with 7 August 2013, according to

(All amounts are in thousand LEI, unless stated otherwise)

ANRE Order no. 58/2013, the tariff for system services (technological and functional) increased from 10.91 RON/MWh la 13.42 RON/MWh.

Revenues from the balancing market

In 2013 the revenues from the balancing market decreased by 436,374 as compared to 2012 determined by behaviour of the participants on this market (notifications/achievements). Balancing market is an activity with zero profit to the Company.

19. System operating expenses and Balancing Market expenses

During 2013 and 2012 the system operating and balancing market expenses are as follows:

	2013	2012
Expenses with own technological consumption	221,584	252,390
Congestion costs	3,051	6,193
Electricity consumption in TES stations	19,887	17,348
Expenses with functional system services	14,048	21,587
ITC expenses (Inter TSO Compensation)	8,712	13,460
Total operating expenses	**267,282**	**310,978**
Expenses with technological system services	574,488	522,876
Balancing market expenses	631,847	1,068,221
Total	**1,473,617**	**1,902,075**

Expenses with own technological consumption

These are expenses regarding the purchase of electricity needed to cover its own technological consumption. The decrease of these expenses in 2013 compared to 2012 was driven by the lower purchase prices of electricity needed to cover the own technological consumption (CPT), acquired from the free electricity market, i.e. Centralized Market for Bilateral Contracts (PCCB), day ahead market (DAM) and the balancing market (BM), compared to 2012 when the Company acquired energy for own consumption also from the regulated market at higher prices. In 2013, ANRE has not issued any decisions to acquire electricity for own consumption from the regulated market.

The average purchase price of electricity to ensure CPT is recognized by ANRE for a tariff period, without exceeding the weighted average price calculated by taking into account 80% of the actual average price set on PCCB and 20% of the actual average price set on DAM for that tariff period.

Congestion costs

Congestions (network restrictions) are requests for electricity transmission above the technical capacity of the network, requiring corrective actions by the transmission system operator and occur in situations where, in the real time operation, power flows between two nodes or two system areas lead to failure of complying with safety parameters in the functioning of the electricity system.

These expenses decreased in 2013 compared to 2012 due to an efficient management of congestions in the Electricity Transmission Grid (ETG).

Expenses with functional system services

The expenses with the functional system services represent the uncontracted international exchanges of electricity with neighbouring countries and unplanned exchanges on the Day Ahead Market (DAM).

In 2013 these expenses have decreased as compared to 2012 with 7,539, determined by lower unplanned exchanges than the agreed schedule, in terms of export, that were generated by the wind farms. In 2012, the wind farms generated energy at full capacity, as there were no rules to reduce their presence on the market, these being not yet registered on the Balancing Market due to the lack of regulations. Through ANRE Order no. 33/30 August 2012, starting with November 2012, this issue was solved.

(All amounts are in thousand LEI, unless stated otherwise)

ITC (Inter TSO Compensation) expenses

The monthly receivable/payable obligations for each TSO are established under the settlement/compensation mechanism following the use of ETG for the transit of electricity between the transmission system operators (TSOs) from 35 countries that adhered to the mechanism implemented by ENTSO-E.

Expenses with the technological system services

During 2013, the expenses with technological system services has increased as compared with 2012 with 51,612.

According to Government Decision no. 138/08.04.2013 regarding adopting some measures for the safety supply of electricity, the Company has the obligation to purchase technological system services during the period 15 April 2013 – 1 July 2015 from SC Complexul Energetic Hunedoara, of at least 400 MW and from SC Complexul Energetic Oltenia of at least 600 MW. Acquiring these technological system services, under the above mentioned conditions, have determined the increase in the level of expenses, without coverage in the related revenues for system services.

CN Transelectrica SA has requested ANRE to adjust the tariffs for technological system services to avoid recording a loss from these services which are regulated as a non-profit activity. Thus, ANRE has issued Order no. 58/02.08.2013 through which the tariff for technological system services increased from 9.77 lei/MWh to 12.28 lei/MWh starting with August 2013. This tariff correction covers partially the additional expenses with technological system services. As at 31 December 2013, the Company recorded a loss from this activity in amount of 9,210.

Balancing Market Expenses

Balancing market expenses result from transactions performed on this market as described in the Note 1, being entirely matched by the balancing market revenues.

20. Other operating expenses

	2013	2012
Other third party services	34,145	58,251
Postage and telecommunications	3,640	7,920
Rent	13,062	12,886
Impairment of trade receivables	13,760	33,230
Other	54,055	56,891
	118,662	**169,178**

In accordance with Ordinance no 5/23 January 2013 approving some special taxation rules for activities with a monopoly character in the electricity and natural gas sectors, the Company has to pay an extra tax for its monopol activity of electricity transmission starting with 1 February 2013. The Company has to pay 0.1 lei/MWh for each MWh extracted from the transmission grid and 0.85 lei/MWh for each MWh extracted from the transmission grid and delivered to the final customer or to the export. The Company's expense with the monopol tax for 2013 is of 8,078 and is presented in Other. In other expenses are also included the expenses with taxes, fees to organisations and travel expenses.

21. Net finance result

	2013	2012
Interest income	6,588	6,270
Foreign exchange gains	68,528	77,442
Other financial income	840	2,003
Finance income	**75,956**	**85,715**
Interest expense	(27,262)	(32,268)
Foreign exchange losses	(70,479)	(97,681)
Total financial expenses	**(97,741)**	**(129,949)**
Net financial result	**(21,785)**	**(44,234)**

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The net financial result of the Company at 31 December 2013 was influenced by the exchange rate fluctuations of the national currency against the major currencies in which the Company has concluded external borrowings for investments (euro, dollar, yen) and decrease of the interest rates EURIBOR, LIBOR, ROBOR.

22. Fiscal environment

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.

23. Commitments and contingencies

(i) Commitments

As at 31 December 2013 and 31 December 2012, the Group had commitments given amounting to 106,119 and 196,310 respectively, mainly representing ongoing contracts related to the investment program for the modernization and refurbishment of the transmission grid.

(ii) Land used by the Group

According to Law No. 99/1999, in case the Group obtains the title deeds for lands after the privatisation, the land will be considered as contribution in kind of the State. These plots of lands are firstly recognised in other reserves. In this respect, the Group 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 from 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".

(iii) Litigation in process

As of the date of these consolidated financial statements, the Group was involved in a number of 245 litigations in progress. In 167 of them the Group acts as a plaintiff or a challenging party, while in 78 of them the Group is a defendant. The management analyses the status of the litigation in progress regularly and after consultation with its legal representatives considers the appropriateness of providing for or disclosing the amounts involved in the financial statements.

Taking into account the existing information, the management of the Group considers that there are no significant litigations in progress in which the Group is defendant, except for the litigation mentioned below with SC Conaid Company SRL.

Eolica Dobrogea SRL sued the Company in order to force the Company to conclude a connection agreement. On the hearing from 12 April 2013, the Court rejected Eolica's request regarding the illegality of the suspensive conditions stipulated by article 5.1 (e) from the connection contract. At the previous hearing on 8 February 2013, the Court cancelled the letter no. 37650/16 December 2011, admitting the fulfilment of the suspensive conditions stipulated in the connection contract, within the contractual terms and obliged the Company to execute the connection contract. Against the sentence from 8 February 2013, both the Company and Eolica Dobrogea SRL have made an appeal. The first hearing of the appeal was set on 15 May 2014. No amount is claimed by Eolica Dobrogea SRL.

On 4 June 2013, CN Transelectrica SA has received from the European Commission („EC") a communication and the related file on 10 June 2013, regarding the objections of the General Directorate for Competition to the commercial practice of its subsidiary, OPCOM SA, to request to the participants from the spot electricity market to be registered for VAT purposes in Romania. The communicate regarding the objections presents the preliminary opinion of the European Commission, stating that this practice represents a violation of the antitrust norms of the European Union („EU"), respectively of article 102 from the Treaty regarding the Functioning of the European Union („TFUE") and of article 54 from the Agreement regarding the European Economic Area.

On 5 March 2014, the European Commission has communicated that it applied a fine of EUR 1,031,000 on OPCOM S.A. for abusing its dominant position on the Romanian market by facilitating electricity spot trading, in breach of EU antitrust rules. The Commission also holds OPCOM's parent company, CN Transelectrica SA liable for the infringement. The Commission imposed a fine of EUR 1,031,000 on the Company and OPCOM, which are jointly and severally liable for the payment of the fine. The Company has recorded a provision for the entire amount of the fine in amount of 4,624. The amount provisioned is included in caption named "Other liabilities" in Note 14.

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In 2013, Conaid Company SRL sued CN Transelectrica SA for the unjustified denial to sign an addendum to the connection contract or a new connection contract, this asking compensation for the expenses incurred until that moment of RON 17,420 thousand and unrealized profits for the period 2013-2033 in amount of EUR 722,756 thousand. Until now, the Company did not conclude an addendum to the connection contract as the suspensive conditions included in the contract were not met by Conaid Company SRL. A new connection contract should have been signed until 11 March 2014 when the related connection authorization for connection expired. At the date of these financial statements, the amounts claimed by Conaid Company SRL were considered as contingent liabilities as it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation cannot be estimated reliably.

Smart subsidiary is involved in one litigation with its supplier Terra Group SRL. Terra Group SRL requested in court the insolvency of Smart following some unpaid debts. At the hearing on 13 February 2014, the Court of Appeal admitted that Smart would have to pay in 30 days from receiving the court decision the amount of 2,807 representing the value of merchandise delivered and unpaid and the amount of 77 representing penalties for delayed payments. Smart is entitled to request cancelation of decision within 10 days from receiving the communication.

The Group is involved in significant claims, as plaintiff, mainly for recovering of receivables (ex: Eco Energy SRL, Petprod, Total Electric Oltenia and Arcelormittal Galati). The Group recorded a provision for customers and other receivables in litigation and bankruptcy clients. The Company is also acting as plaintiff in a dispute with ANAF as disclosed in Note 8.

The management of the Group believes that there are no cases in which an outflow of resources will be required to settle the ongoing disputes. In addition, there are no other ongoing disputes either by nature or by their value for which it is necessary to make the presentation of contingent assets or liabilities for the Group's activity.

(iv) Guarantees

In accordance with the license no. 161/2000 regarding electricity transmission and system services, the Company has to maintain a financial guarantee in amount of 1% of the turnover generated by activities authorized by this license. This protects the Company from risks arising from these activities and covers any potential liabilities that may be incurred according to the license contractual clauses. In order to comply with this obligation, the Company concluded a guarantee agreement with BCR-WTC, the value of the guarantee letter being 27,271 as of 31 December 2013.

(v) Statutory revaluation reserves

As at 31 December 2013, the statutory revaluation reserves are in amount of 669,257 (31 December 2012: 729,716).

Starting with 1 May 2009, statutory reserves from the revaluation of property, plant and equipment, including land, recorded after 1 January 2004, which are deducted when calculating taxable income through tax depreciation expenses or assets transferred and/or ceased expenses, is taxed simultaneous with the tax depreciation deduction, when the assets are disposed, as appropriate.

Realized reserves are taxable in the future, in case of changing the destination of reserves in any form, in case of liquidation, merger and including using the reserves for covering the Company's losses, except for the transfer of revaluation reserves mentioned in the above paragraph.

(vi) Tariff for energy transmission and system services

Starting with 2005, the tariff for energy transmission is set based on the revenue cap methodology. Using this methodology, ANRE sets initial target revenue that is increased according to the annual increase of the consumer price index and is reduced as efficiency increases, such revenue being the basis of the regulated revenue. Any significant change in the tariff mechanism could impact the recoverability of the carrying amount of property, plant and equipment. Considering the a[illegible]el of tariffs, there are no indications of impairment of PPE.

According to ANRE Order no. 52 from 19 December 2012, 2013 is a year of transition from the second to the third regulated period in respect of the tariff for energy transmission service. As per ANRE Order no. 52/ 2012, the corrections determined by the difference between the forecasted, estimated and actual values of fixed assets put into function/disposed of/from the regulated assets base for 2013 will be applied to the regulated revenue of the years from the third regulated period, together with the annual corrections.

According to ANRE Order no. 53 from 19 July 2013 for approving the methodology for determining the tariffs for energy transmission service, the third regulated period is the period during July 2014-June 2019. As per ANRE Order no. 53/2013, the revenues related to the transmission activity for the first year from the third regulated period are adjusted by 50% of the cost efficiencies recorded by the Group during the second regulated period regarding the controllable operation and maintenances costs, adjusted proportionally with the decrease of more than 3% of energy consumption. Also, the revenues of the first year from the third regulated period are adjusted for not achieving the approved level of investments during the first and the second regulated periods.

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The tariffs for energy transmission service and technological system services are adjusted annually with the total impact of the corrections between forecasted data and estimated data (actual data for 8 months and estimated data for the last 4 months of the year) of the previous year and estimated data and actual data of the year before the previous year.

24. Group structure

The main Group companies and the percentage of ownership exercised by the Company are as follows:

Entity	Country of Origin	31 December 2013 % of total shares	31 December 2012 % of total shares
SMART SA	Romania	100	100
TELETRANS SA	Romania	100	100
ICEMENERG SA	Romania	100	100

SC SMART SA

SC SMART SA, with registered offices in no. 33 Magheru Boulevard, sector 1, Bucharest has as main activities the provision of maintenance services for the transmission – dispatcher system, It was set up by Romanian Government Decision no. 710/ 19 July 2001 on 1 November 2001. The share capital as of 31 December 2013 was in amount of 38,529, subscribed and fully paid.

SC TELETRANS SA

SC TELETRANS SA, with registered offices in no. 16 - 18 Hristo-Botev Boulevard, sector 3, Bucharest has as main activities telephony, telegraphy and transmission of data. It was set up as per Shareholders Meeting no. 3/2002. The share capital as of 31 December 2013 was in amount of 6,874 subscribed and fully paid.

SC ICEMENERG SA

SC "Filiala Institutul de Cercetări şi Modernizări Energetice" – ICEMENERG SA, with registered offices in no. 8 Electricienilor Boulevard, sector 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. It was set up as per Government Decision no. 1065/ 4 September 2003. The share capital as of 31 December 2013 subscribed and fully paid by the Company was in amount of 1,083 subscribed and fully paid.

25. Related party transactions

i) Transactions with other state – owned companies

The Group's transactions regarding the electricity transmission service and other activities performed as market and system operator are carried out based on contractual relations and are generally, with other companies owned by the Romanian State (e.g. Hidroelectrica SA, Complex Energetic Oltenia SA, Electrica Furnizare SA, Complex Energetic Hunedoara SA, Electrica SA, SNTGN Romgaz SA, Nuclearelectrica SA etc).

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The transactions with other state owned companies in 2013 and 2012 are detailed below:

	2013	2012
Sales	991,132	1,180,563
Purchases	1,353,116	1,574,208

The balances with other state owned companies as at 31 December 2013 and 31 December 2012 are detailed below:

	31 December 2013	31 December 2012
Trade receivables	354,672	359,222
Trade payables	502,438	448,582

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

During 2013, the Company collected the amount of 109,906 (see Note 11) referring to the non-reimbursable financing contracts concluded with ME, as Energy Intermediary Body in the name and for the Management Authority for the Sectorial Operational Programme "Increase of Economic Competitiveness". As at 31 December 2013, the non-reimbursable funds to be received amount to 9,051 (as at 31 December 2012: 65,083) (Note 8).

ii) Compensation to key management personnel of the Group

Wages paid to management staff consist primarily of base salary, benefits upon termination of employment and post-employment and the variable component for the members of the Supervisory Board. These are detailed as follows:

	2013	2012
Short-term employee benefits	7,305	7,984
Other long-term benefits	42	8
Variable component for the members of the Supervisory Board	1,576	-
Total	**8,923**	**7,992**

In 2013 it was approved the mandate of 4 years for the members of the Supervisory Board and the Directorate. The General Meeting of Shareholders on 6 November 2013 approved the mandate of the members of the Supervisory Board and their variable remuneration level starting with the working day following the date of approval of the administration plan of CNTEE Transelectrica SA for the period 2013-2017 prepared by the Supervisory Board, respectively from 01.10.2013.

According to Annex 1 to the approved mandate contract, the members of the Supervisory Board receive a remuneration consisting of a fixed monthly remuneration and a variable component, as follows:

1. A fixed monthly gross remuneration of 4,000 lei/ month for the President of the Supervisory Board and 3,900 lei/ month for members of the Supervisory Board;
2. The annual variable remuneration for the cumulative fulfilment of the performance indicators "the average period of interruption", "EBITDA" and "Total investments" assumed in the administration plan - amounting to 12 fixed remunerations, due within 15 days after the date of approval by GSM of the separate audited financial statements. For the period between the starting date of the mandates of the members of the Supervisory Board and end of 2013, the annual variable component of the remuneration related to the performance indicators "the average period of interruption", "EBITDA" and "Total investments" will be given by fulfilling the indicator "net profit" assumed through the approved revenues and expenses budget for 2013;
3. Each member of the Supervisory Board will receive an annual package of 90,000 options on virtual shares of Transelectrica ("OAVT"). OAVT does not confer the quality of shareholder and cannot be converted into Transelectrica shares. November 2013 is the first month in which OAVT were given to the members of the Supervisory Board. The value of each OAVT that is given to each member of the Supervisory Board is equal to the weighted average trading price of Transelectrica's shares on regular and deal BSE markets, in October of the same year. One third from the OAVTs granted on 15 November 2013 will be redeemed on 15 November 2014, 2015 or 2016, the second third on 15 November 2015 or 2016, and the last third on 15 November 2016. The same mechanism is in place for the packages that will be granted during the next years. When the mandate ends, the members of the Supervisory Board shall have the right to redeem all OAVTs not exercised until that date at the weighted average trading price of Transelectrica's shares from the

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previous month in which the mandate is ended. The value of OAVT is determined as the sum of the average price of OAVT from the previous month in which the shares are redeemed and the value of the dividend/share paid during the period from the grant date and until the OAVT are redeemed less the value of OAVT at grand date.

4. For each year of mandate, in case the performance indicator EBITDA, assumed through the administration plan is exceeded, contingent upon the fulfilment of the indicator "Total investments" as per the administration plan, the members of the Supervisory Board shall be entitled to receive a collective bonus of 0.9 % of the amount that exceeds the performance indicator EBITDA as per administration plan.

Thus, on 31 December 2013, the Company recorded a provision in amount of 1,576 for the annual variable component of the remuneration for fulfilling the indicator "net profit " as per the revenues and expenses budget approved for 2013 and for the fair value of the virtual shares of the Company as at 31 December 2013.

As at the date of these financial statements, the variable remuneration for the members of the Directorate has not been approved by the Supervisory Board, and as well the date from which this remuneration is given, being subject to approval of the management plan, at 31 December 2013, the Company did not record a similar provision for the remuneration of the Directorate.

26. Financial instruments

a) *Financial risk management*

The Group's is exposed it 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 programme focuses on the unpredictability of financial markets and seeks to minimize potential 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 revenue 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 top level 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 Company's operating cash flows are impacted mainly by the changes in interest rates, due to the foreign 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 the Group to significant cash flow risk.

At the reporting date, the financial liabilities with fixed and variables interest rates are as follows:

	31 December 2013	31 December 2012
Fixed rate instruments		
Financial liabilities	489,719	312,346
Variable rate instruments		
Financial liabilities	680,026	833,286

Sensitivity analysis of interest rate

An increase of 100 basis points in interest rates for the borrowings with variable interest rates at the reporting 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 rates, remain constant.

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	Loss 2013	Loss 2012
RON	(272)	(462)
EUR	(6,271)	(7,374)
USD	(257)	(497)
Total	**(6,800)**	**(8,333)**

A decrease of 100 basis points in interest rates for the borrowings with variable interest rates at the reporting 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 rates, remain constant.

	Profit 2013	Profit 2012
RON	272	462
EUR	6,271	7,374
USD	257	497
Total	**6,800**	**8,333**

The Group did noy conclude any hedging contracts regarding the debts in foreign currencies or the exposure to the interest rate risk.

Foreign exchange risk

The Company may be exposed to the changes in the foreign exchange rates due to its 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 of the Group. 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	JPY
31 December 2013					
Monetary assets					
Cash and cash equivalents	635,163	613,428	21,474	246	15
Gross balance sheet exposure	**635,163**	**613,428**	**21,474**	**246**	**15**
Monetary liabilities					
Suppliers of fixed assets	(88,169)	(73,729)	(14,440)	-	-
Borrowings	(1,182,285)	(232,343)	(899,550)	(25,797)	(24,595)
Gross balance sheet exposure	**(1,270,454)**	**(306,072)**	**(913,990)**	**(25,797)**	**(24,595)**
Net balance sheet exposure	**(635,291)**	**307,356**	**(892,516)**	**(25,551)**	**(24,580)**

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31 December 2012					
Monetary assets					
Cash and cash equivalents	319,198	276,811	42,333	24	30
Gross balance sheet exposure	**319,198**	**276,811**	**42,333**	**24**	**30**
Monetary liabilities					
Suppliers of fixed assets	(128,284)	(115,070)	(13,214)	-	-
Borrowings	(1,163,778)	(56,704)	(1,015,971)	(49,848)	(41,255)
Gross balance sheet exposure	**(1,292,062)**	**(171,774)**	**(1,029,185)**	**(49,848)**	**(41,255)**
Net balance sheet exposure	**(972,864)**	**105,037**	**(986,852)**	**(49,824)**	**(41,225)**

Trade receivables and other receivables, suppliers and other liabilities, except for PPE suppliers are denominated only in RON.

The following significant exchange rates were used:

	Average rate		Reporting date spot rate	
	2013	**2012**	**31 December 2013**	**31 December 2012**
RON/ EURO	4.4186	4.4560	4.4847	4.4287
RON/ USD	3.3279	3.4682	3.2551	3.3575
RON/ 100 JPY	3.4154	4.3544	3.0997	3.8994

Sensitivity analysis of exchange rates

A 10 percent strengthening of the RON against the following currencies at 31 December 2013 and 31 December 2012 would have increased the gross profit for the period by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit 2013	**Profit 2012**
EUR	89,252	98,721
USD	2,555	4,983
JPY	2,458	4,122
Total	**94,265**	**107,826**

A 10 percent weakening of the RON against the following currencies at 31 December 2013 and 31 December 2012 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

	Loss 2013	**Loss 2012**
EUR	(89,252)	(98,721)
USD	(2,555)	(4,983)
JPY	(2,458)	(4,122)
Total	**(94,265)**	**(107,826)**

(All amounts are in thousand LEI, unless stated otherwise)

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 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: the restructure of the energy market, privatization of subsidiaries belonging to SC Electrica SA, the liberalization of the energy market and improvement of the activity of the market operator. Internal factors of success in the treatment of counterparty risk include the diversification of customer portfolio and diversifying the number of services provided.

Financial assets, which potentially subject the Group to credit risk, consist principally of trade receivables and cash and cash equivalents. The carrying amount of accounts receivable, net of impairment adjustment, represents the maximum amount exposed to credit risk. As at 31 December 2013 the Group has significant concentration of credit risk: about 13% of the Group's trade receivables are due from SC Electrica Furnizare SA (see Note 8).

The credit risk related to these receivables is limited, as these amounts are primarily due by state-owned companies.

Cash is placed in financial institutions, which are considered to have minimal risk of default. The deposits are held at the Romanian Commercial Bank, BRD – Groupe Societe Generale, Alpha Bank, Raiffeisen Bank and CITI Bank.

The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	31 December 2013	**31 December 2012**
Financial assets		
Net trade receivables	768,435	717,264
Cash and cash equivalents	635,163	319,198
Other net receivables	43,820	49,068
Non reimbursable funds	9,051	65,083
	1,456,469	**1,150,613**

The ageing of trade receivables at the reporting date was:

	Gross 31 December 2013	Impairment 31 December 2013	Gross 31 December 2012	Impairment 31 December 2012
Neither past due nor impaired	686,348	627	683,533	-
Past due 1 – 30 days	78,059	90	19,046	-
Past due 31 – 90 days	4,379	761	8,292	-
Past due 90 – 180 days	1,533	406	2,057	54
Past due 180 –270 days	1,994	1,994	4,420	3,337
Past due 270 –365 days	976	976	13,225	9,918
More than one year	81,949	81,949	63,427	63,427
Total	**855,238**	**86,803**	**794,000**	**76,736**

The ageing of other receivables at the reporting date was:

	Gross value 31 December 2013	Provision 31 December 2013	Gross value 31 December 2012	Provision 31 December 2012
Neither past due nor impaired	23,532	3,333	24,213	-
Past due 1 – 30 days	-	-	2,474	2,474
Past due 31 – 90 days	1,125	1,116	965	545
Past due 90 – 180 days	17	15	2,093	954
Past due 180 –270 days	3	3	848	224

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Past due 270 –365 days	957	957	1,802	1,352
More than one year	70,743	47,133	65,222	43,000
Total	**96,377**	**52,557**	**97,617**	**48,549**

The Company recorded a provision for trade and other receivables in litigation and for bankrupted clients. The biggest amounts recorded during 2013 were for Petprod SA (8,580) and for Regia Autonoma pentru Activitati Nucleare (2,707) (see Note 8).

The movement in the allowance for doubtful debts in respect of trade receivables during the year is as follows:

	31 December 2013	31 December 2012
Balance at 1 January	76,737	50,774
Impairment loss recognized	14,070	26,543
Amounts written off	(4,004)	(580)
Balance at year end	**86,803**	**76,737**

The movement in the allowance for doubtful debts in respect of other receivables during the year is as follows:

	31 December 2013	31 December 2012
Balance at 1 January	48,549	40,200
Impairment loss recognized	7,446	8,387
Amounts written off	(3,438)	(38)
Balance at year end	52,557	48,549

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 another financial asset transfer.

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

	31 December 2013	31 December 2012
Assets		
Monetary assets in RON	1,459,361	1,091,544
Monetary assets in foreign currency	21,735	42,387
	1,481,096	**1,133,931**
Liabilities		
Monetary liabilities in RON	(751,063)	(808,387)
Monetary liabilities in foreign currency	(1,005,206)	(1,120,645)
	(1,756,269)	**(1,929,032)**
Net monetary position in RON	**708,298**	**283,157**
Net monetary position in foreign currency	**(983,471)**	**(1,078,258)**

The Group's policy on liquidity is to maintain sufficient liquid resources to meet the obligations as they fall due.

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The followings are the contractual maturities of financial liabilities, including interest payments:

	Carrying amount	Contractual amount	12 months or less	1 – 2 years	2 – 5 years	> 5 years
31 December 2013						
Financial liabilities						
Trade and other liabilities	(723,019)	(723,019)	(723,019)	-	-	-
Other tax and social security liabilities	(10,164)	(10,164)	(10,164)	-	-	-
Borrowings	(1,182,285)	(1,331,872)	(257,776)	(190,806)	(673,657)	(209,633)
Total	**(1,915,468)**	**(2,065,055)**	**(990,959)**	**(190,806)**	**(673,657)**	**(209,633)**
31 December 2012						
Financial liabilities						
Trade and other liabilities	(747,581)	(747,581)	(747,581)	-	-	-
Other tax and social security liabilities	(17,172)	(17,172)	(17,172)	-	-	-
Borrowings	(1,163,778)	(1,263,339)	(216,697)	(208,092)	(526,147)	(312,403)
Total	**(1,928,531)**	**(2,028,092)**	**(981,450)**	**(208,092)**	**(526,147)**	**(312,403)**

As mentioned in Note 12, as at 31 December 2013, the Company did not meet a financial indicator referring to loan EIB 20864. As at 31 December 2013, the long term portion of the loan EIB 20864 is of 32,684 (31 December 2012: 64,551). Therefore, at 31 December 2013 the Company reclassified the amount of 32,684 from the long term liabilities to current liabilities. Please see in Note 12 the management's reasons for not reclassifying the long term liabilities as current liabilities as at 31 December 2012.

Fair value of financial instruments

The fair value is the amount at which the financial instrument can be exchanged in a current transaction 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 at 31 December 2013, management believes that the fair values of cash and cash equivalents, trade receivables and other receivables, trade payables, loans and other short term liabilities approximates their carrying value. The carrying amount of the loan is the amortised cost.

	Carrying amount	Fair Value	Level
31 December 2013			
Current financial assets			
Net trade receivables	768,435	768,435	
Cash and cash equivalents	635,163	635,163	
Non-refundable funds to be received	9,051	9,051	
Other net receivables	43,820	43,820	
	1,456,469	**1,456,469**	

	Carrying amount	Fair Value	Level
31 December 2013			
Non-current financial liabilities			
Borrowings, except for bonds	751,063	751,963	Level 2
Bonds	200,000	200,000	Level 1
	951,063	**951,063**	

(All amounts are in thousand LEI, unless stated otherwise)

Current financial liabilities			
Trade payables and suppliers of fixed assets	680,995	680,995	
Borrowings	231,222	231,222	Level 2
Liabilities towards employees and other liabilities, less the liabilities related to cash settled share-based payment transactions	40,448	40,448	
Liabilities related to cash settled share-based payment transactions	1,576	1,576	Level 1
	954,241	**954,241**	

Personnel risk and the salary scheme

As at 31 December 2013, the average age of the Group's personnel is quite high. It is likely that in the nearest future, the Group will face a lack of personnel due to natural causes.

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

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 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.

27. Subsequent events

Admission of bonds at trading on the Bucharest Stock Exchange

In the meeting from 14 January 2014, the Council of the Bucharest Stock Exchange gave its consent with regard to trading the corporate bonds of the Company on the Bucharest Stock Exchange, starting with 16 January 2014, within the sector Securities – third category Corporate bonds under the symbol TEL 18.

Ownership structure

On February 2014 it was published the Government Emergency Ordinance no. 6 which stipulates that starting the date it is effective, the shares held by the State in the Company pass from the administration of the Ministry of Public Finance to the administration of the Government, through the General Secretariat of the Government, in consultation with the Prime Minister Office. This modification in the shareholders structure took into account the need for the acceleration of the measures needed in order to avoid the infringement procedures against Romania by the European Commission in respect with complying with the principles of separating the quality as shareholder of the companies involved in the generation and supply activities, on one hand, and the quality as shareholder of the transmission system operator, on the other hand, this being imposed by the mandatory legislation of the European Union.

Also, this ordinance authorizes the General Secretariat of the Government, in consultation with the Prime Minister Office, to initiate and approve, as appropriate, all necessary steps to transfer the shares held by the Company in the "Electricity Market Operator" SA - SC OPCOM and Formenerg SA in the State's ownership being managed by the Energy Department, in compliance with legal provisions. As at 31 December 2013, the value of the Company's investment at historical cost in OPCOM amounts to 3,548 and in Formenerg 1,948. As at 31 December 2013, the net assets and the profit of OPCOM amounts of 13,963, respectively 1,401, and the net assets and profit of Formenerg amounts of 16,057, respectively 82.

Modification of the Company's rating by Moody's Investors Service

The financial rating agency Moody's Investor Service has modified on 4 February 2014, the Company's rating from Ba2 negative perspective to Ba2 stable perspective, following the improvement of liquidity and the diversification of the funding sources.