# Directorate Report on the activity of the National Power Grid Company TRANSELECTRICA SA in 2012

# Consolidated Report

# March 2013

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To the best of our knowledge the financial-accounting statements consolidated on 31 December 2012, elaborated in accordance with applicable accounting standards provide an accurate truthful image of the assets, liabilities, financial position, profit and loss account of the Transelectrica Group and the Directorate Report includes accurate truthful information with respect to its development and performance, as well as the main risks and uncertainties specific to the business.

This Report provides **only the new elements compared to the 2012 Individual Report**, elements resulting from the consolidation of the Company's financial statements with those of its subsidiaries.

Directorate:

| | |
|---|---|
| Stefan GHEORGHE | Constantin VADUVA |
| Executive Director General | Directorate Member |
| Directorate Chairman | Responsible of economic operations |

| | | |
|---|---|---|
| Ioan DIACONU | Ciprian DIACONU | Adrian Constantin RUSU |
| Directorate Member | Directorate Member | Directorate Member |

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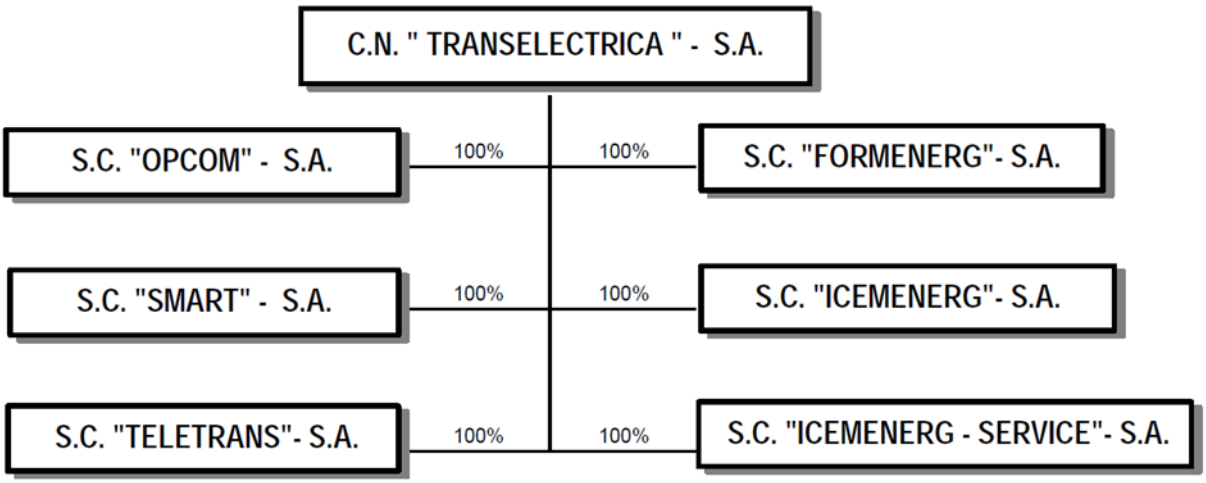
## PRESENTATION

Transelectrica has got six subsidiaries whose single shareholder is.

The group has the following structure:




The consolidated financial statements include only three of the subsidiaries: SMART, TELETRANS and ICEMENERG.

FORMENERG and ICEMENERG-Service have not been consolidated because according to the applicable accounting legislation their activities are considered insignificant for the purpose of the consolidation.

OPCOM complies with the rules of the National Regulatory Authority in the Energy domain (ANRE) and has an independent position on the energy market; consequently Transelectrica has no control on this subsidiary.

### ESTABLISHMENT

***Transelectrica*** was established as Romanian legal person under GD 627/13 July 2000 regarding the reorganisation of the National Electricity Authority CONEL SA, published in Romania's Official Gazette no. 357/31.07.2000. This decision was issued in accordance with GD 138/2000 regarding the restructuring programme of the energy domain, whereby the electricity transmission and dispatch were fully separated from the electricity generation, distribution and supply.

***OPCOM*** was set up and organised as Transelectrica subsidiary under GD 627/2000. OPCOM complies with the rules of ANRE and it has got an independent position on the energy market.

***SMART***, ***TELETRANS*** and ***FORMENERG*** have become Company subsidiary by externalising some of its activities.

***ICEMENERG*** was established as Transelectrica subsidiary under GD 1065/2003.

Later on GD 2294/2004 approved transferring the share package that ICEMENERG held in ICEMENERG-SERVICE to Transelectrica, thus ***ICEMENERG-SERVICE*** becoming a Transelectrica subsidiary in its turn. At present ICEMENERG - SERVICE is directly held by the Company.

According to the document ***Guidelines for the restructuring and privatisation strategy of Transelectrica subsidiaries*** that the Company elaborated and the AGA approved in August 2005, the first stage provided privatisation of these subsidiaries whose activities do not impact the Company's mission of transmission and system operator, namely Icemenerg - Service, Icemenerg, and Formenerg.

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In 2010 was passed GD 925/2010 on the establishment, organisation and operation of the National Energy Research-Development Institute ICEMENERG Bucharest, the Institute being placed under the coordination of the Ministry of Economy, Commerce and Business Environment by reorganising the trading company subsidiary Energy Research and Modernising Institute ICEMENERG SA Bucharest from Transelectrica, which was about to be broken up. To date this document has not been put in application.

The situation of the other two subsidiaries is as follows- Icemenerg-Service is under special administration procedure and several working variants have been examined, the option being to apply a simplified privatisation procedure; Formenerg's concept of restructuring / privatisation relies on enhancing the professional training activities and keeping the stakeholders at the energy system level, therefore the possible change of property structure by capital increase is under study.

In legal and operational terms the managerial teams of Company subsidiaries are independent, and the subsidiaries work with the Company based on commercial relationships defined under contracts.

In terms of administration the Company interests and the State interests are represented by designating their representatives in the AGA, respectively in the subsidiaries' boards of administration according to the Law of trading companies, as well as to the provisions from the subsidiaries' statutes.

Transelectrica is the single shareholder of each one of the six subsidiaries; consequently it holds all voting rights in the AGA.

## MAIN ACTIVITIES

The subsidiaries are Romanian legal persons organised as joint stock companies carrying out activities adjacent to Transelectrica's main business. Three of these subsidiaries, OPCOM, SMART and TELETRANS perform activities closely connected with the Issuer's business.

### *OPCOM*

OPCOM was established under 627/2000 as subsidiary whose only shareholder is the Company.

OPCOM's mission consists in providing an organised framework of commercial transactions in the energy domain. According to GD 627/2000, to the Commercial Code of the wholesale electricity market and to the Licence 407/2001 issued by ANRE for the administration of the wholesale electricity market, the main activities of OPCOM are:

- Administrating the electricity market;
- Uninterrupted balancing of the demand and offer to satisfy the necessary consumption in view of providing the continuous operation of the RPS;
- Determining the merit order of electricity generators without restrictions by classifying them according to power levels, depending on the price in their offers;
- Determining the payment rights and obligations of market participants in accordance with the transactions performed;

### *SMART*

SMART was set up by reorganising Transelectrica as a subsidiary fully held by the Company according to GD 710/2001, being registered in the Commercial Register on 16 October 2001.

SMART mainly provides maintenance services for the transmission & dispatcher system; its activities consist in revisions and repairs to primary and secondary equipment from electric networks, including preventive measurements, incidents remedy into electric installations, while also providing services in the energy domain and micro-production of electric equipment for market participants under the safe operation of the RPS.

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### *TELETRANS*

TELETRANS was established on 4 December 2002, being the provider of specific telecommunication and IT services for the operational and managing governance of the Company; its main business is the provision of specific telecom and IT services to electricity transmission networks.

The competencies of TELETRANS are structured by the following main lines:

- ***Telecommunication*** services - in the main as administrator of the Company's optical fibre backbone almost 5000 km long that covers the entire territory of Romania;
- ***Process IT*** services, mainly in the energy domain;
- ***Managerial IT*** services including consulting, design, implementation, maintenance, technical assistance and training for complex systems, software applications, Oracle databases, communication equipment, structured cabling, Internet / Intranet etc.

### *FORMENERG*

FORMENERG's main business is the initial and continuous professional training in all activity domains of personnel from the energy sector, of the personnel with attributions in the energy domain from all national economy sectors and of other beneficiaries.

FORMENERG began operating on 21 March 2002 as a subsidiary 100% held by the Issuer.

The main revenue source of FORMENERG is represented by the services provided to the Issuer.

### *ICEMENERG*

GD 1065/ 2003 on reorganising the National Company Transelectrica SA and Co. ICEMENERG SA by merger through absorption approved reorganising ICEMENERG, as Company subsidiary fully held by it, which was registered in the Commercial Register on 6 May 2004.

ICEMENERG provides services in the domain of thermal power plants, electric substations and networks and its main business is research-development in physical & natural sciences as well as engineering in the process and equipment domain for electricity and heat generation, transmission, distribution and utilisation; innovation; studies; development strategies; design, urbanism, technological engineering activities and other technical, research and consulting services.

### *ICEMENERG-SERVICE*

GD 2294/ 2004 approved transferring the share stock held by the trading company subsidiary Energy Research and Modernising Institute ICEMENERG SA Bucharest with the trading company subsidiary ICEMENERG-SERVICE SA Bucharest to Transelectrica. Thus ICEMENERG-SERVICE became Company subsidiary fully held by it.

ICEMENERG-SERVICE has as main business the manufacture of instrumentation for electricity distribution and power equipment control. Its purpose is designing, manufacturing, implementing, repairing, modernising and marketing apparatuses for electricity distribution and power equipment control, specific installations, elastomeric-based products and consumer goods in the country and abroad based on its own projects or those of third party natural or legal persons; it also provides related consulting, intermediation, technical assistance services, installation and commissioning, metrological expertise and standardisation, environmental monitoring.

The main revenue source of Transelectrica subsidiaries (OPCOM, SMART and TELETRANS) comes from the contracts they have concluded with the Company.

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## IDENTIFICATION DATA

### *OPCOM*

| | |
|---|---|
| Headquarters | Bucharest 3, Blvd. Hristo Botev no. 16-18 |
| Number in the Commercial Register | J40 / 7542 / 2000 |
| Single (fiscal) registration code | 13278352 |
| Share capital | 3,547,850 Lei divided into 354,785 nominative shares whose nominal value is 10 Lei each |
| Single shareholder | Transelectrica |
| Establishment deed | Governmental Decision 627/2000 |

### *SMART*

| | |
|---|---|
| Headquarters | Bucharest 1, Blvd. Gen. Gh. Magheru no. 33 |
| Number in the Commercial Register | J40 / 8613 / 2001 |
| Single (fiscal) registration code | 14232728 |
| Share capital | 38,528,600 Lei divided into 3,852,860 nominative shares whose nominal value is 10 Lei each |
| Single shareholder | Transelectrica |
| Establishment deed | GD 710/2001 on setting up the trading company subsidiary of Maintenance Services to the Electricity Transmission Grid SMART SA by reorganising certain activities of the National Power Grid Company Transelectrica SA |

### *TELETRANS*

| | |
|---|---|
| Headquarters | Bucharest 3, Blvd. Hristo Botev no. 16-18 |
| Number in the Commercial Register | J40 / 12511 / 2002 |
| Single (fiscal) registration code | 15061510 |
| Share capital | 6,874,430 Lei divided into 687,443 nominative shares whose nominal value is 10 Lei each |
| Single shareholder | Transelectrica |
| Establishment deed | AGA decision of 20.03.2002 |

### *FORMENERG*

| | |
|---|---|
| Headquarters | Bucharest 4, Blvd. Gheorghe Sincai no. 3 |
| Number in the Commercial Register | J40/2265/2002 |
| Single (fiscal) registration code | 14529126 |
| Share capital | 1,948,420 Lei divided into 194.842 nominative shares whose nominal value is 10 Lei each |
| Single shareholder | Transelectrica |
| Establishment deed | Decision 33 of 19.11.2001 made by AGA from Transelectrica |

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***ICEMENERG***

| | |
|---|---|
| Headquarters | Bucharest 3, Blvd. Energeticienilor no. 8 |
| Number in the Commercial Register | J40 / 7306 / 2004 |
| Single (fiscal) registration code | 16397293 |
| Share capital | 1,084,610 Lei divided into 108,461 nominative shares whose nominal value is 10 Lei each |
| Single shareholder | Transelectrica[1] (shareholder on behalf of the State) |
| Establishment deed | GD 1065/2003 on reorganising the National Power Grid Co. Transelectrica S.A. and the trading company Energy Research and Modernising Institute ICEMENERG SA Bucharest by merger through absorption and on setting up trading company subsidiary Energy Research and Modernising Institute ICEMENERG SA Bucharest as subsidiary of the National Power Grid Co. Transelectrica SA |

***ICEMENERG SERVICE***

| | |
|---|---|
| Headquarters | Bucharest, Blvd. Energeticienilor no. 8 |
| Number in the Commercial Register | J40 / 11414 / 2003 |
| Single (fiscal) registration code | 15689117 |
| Share capital | 493,000 Lei divided into 49.300 nominative shares whose nominal value is 10 Lei each |
| Single shareholder | Transelectrica |
| Establishment deed | GD 2294/9.12.2004 approved transferring the share stock held by the trading company subsidiary Energy Research and Modernising Institute ICEMENERG SA Bucharest with the trading company subsidiary ICEMENERG-SERVICE SA Bucharest to the National Power Grid Co. Transelectrica SA |

[1] According to GD 1065/ 2003 the mention is to the Romanian State as single shareholder represented by Transelectrica.

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**MAIN ACTIVITIES**

Company subsidiaries are Romanian legal persons organised as joint stock companies that carry out activities adjacent to the Company's main business, respectively:

- **OPCOM** aims at providing an organised framework to perform the commercial transactions with electricity;
- **SMART** provides mainly maintenance services for the Electricity Transmission Grid making revisions and repairs for the safe operation of the RPS to primary and secondary equipment from electric networks while also providing services in the energy domain, micro-production of electric equipment etc;
- **FORMENERG** provides professional training services to the personnel of the energy sector;
- **TELETRANS** provides mainly telecommunication and IT services for the dispatcher management of the RPS and for the internal needs of Transelectrica;
- **ICEMENERG** provides services in the domain of thermal power plants, electric substations and networks and its business consists in scientific research, technical assistance and service in the fore-mentioned domains;
- **ICEMENERG Service** whose main business is the manufacture of apparatuses for electricity distribution and power equipment control;

The Company is the single shareholder of each one of the six subsidiaries, consequently being the holder of all voting rights in the shareholders' general assembly. The main source of revenue for some of the Company subsidiaries comes from the contracts concluded with the Company.

The main domains of activity of the subsidiaries included in the consolidation consist in specific services provided especially to the mother company but also to third parties as follows:

- **SMART** – provider of services and work for the maintenance of electric power installations, for their refurbishment and modernisation, consulting and design, as well as the manufacture of specific products for electric power installations;

- **TELETRANS** – provider of telecommunication and information technology services to the mother company but also specific service provider on the liberalised communication market of Romania;

- **ICEMENERG** – provider of research and engineering services in the domain of process and equipment for electricity and heat generation, transmission, distribution and utilisation;

The consolidated financial statements refer to the activities of the National Power Grid Co. Transelectrica SA and of its subsidiaries Co. SMART SA, Co. TELETRANS SA and Co. ICEMENERG SA, which together with the Company are called the **Group**.

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## GENERAL EVALUATION

The general result of subsidiary activities on 31.12.2012 has been:

| Indicators [thousand Lei] | TEL | SMART | TELETRANS | ICEMENERG | Consolidation adjustments | TOTAL |
|---|---|---|---|---|---|---|
| Operational revenues | 2,767,687 | 171,343 | 57,988 | 8,191 | (204,183) | 2,801,025 |
| Operational expenses | (2,673,170 | (161,267) | (48,800) | (9,212) | 204,183 | (2,688,265 |
| **Gross operational profit** | **94,516** | **10,076** | **9,189** | **(1,021)** | **-** | **112,760** |
| Financial result | (35,903) | (680) | 158 | 22 | (7,831) | (44,234) |
| Profit before tax | 58,613 | 9,396 | 9,346 | (999) | (7,831) | 68,526 |
| **Net profit** | **41,471** | **7,618** | **7,615** | **(999)** | **(7,831)** | **47,875** |

| Indicators [thousand Lei] | TEL | SMART | TELETRANS | ICEMENERG | Consolidation adjustments | TOTAL |
|---|---|---|---|---|---|---|
| Fixed assets | 3,782,440 | 48,250 | 10,639 | 9,769 | (46,486) | 3,804,612 |
| Floating assets | 1,157,857 | 75,629 | 34,492 | 5,123 | (59,603) | 1,213,496 |
| **TOTAL ASSETS** | **4,940,297** | **123,876** | **45,131** | **14,893** | **(106,089)** | **5,018,108** |
| Equities | 2,413,246 | 58,427 | 29,576 | 12,117 | (46,486) | 2,466,879 |
| Total debts | 2,527,050 | 65,449 | 15,556 | 2,776 | (59,603) | 2,551,229 |
| *- Debts TL* | *1,570,483* | *-* | *(531)* | *1,540* | *-* | *1,571,492* |
| *- Debts TS* | *956,567* | *65,449* | *16,087* | *1,236* | *(59,603)* | *979,737* |
| **TOTAL EQUITIES AND DEBTS** | **4,940,297** | **123,876** | **45,131** | **14,893** | **(106,089)** | **5,018,108** |

Source: Transelectrica

The general results of the activities performed by the group consisting of the Company and the three subsidiaries that are consolidated have been:

| Indicators [thousand Lei] | 2012 | 2011 | '12/'11 [%] |
|---|---|---|---|
| Turnover | **2,719,196** | 3,088,672 | ▼12.0 |
| Total revenues | **2,886,741** | 3,269,979 | ▼11.7 |
| Total expenses | **2,818,214** | 3,094,232 | ▼8.9 |
| **Gross profit** | **68,527** | 175,747 | **▼61.0** |
| **Net profit** | **47,876** | 135,.498 | **▼64.7** |

Source: Transelectrica

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## ACTIVITIES

In 2012 the three subsidiaries included in the consolidation carried out activities in accordance with their main business as follows:

- **SMART** – carried out activities:
  - As provider of services and work for:
    - Maintenance of electric power installations,
    - Refurbishment and modernisation of electric power installations,
  - As provider of consulting and design,
    - To manufacture specific products for the electric power installations,
  - As provider of technical revisions & inspections, current & capital repairs, interventions upon accidental events, expertise to clients in the energy domain and not only, mainly on:
    - Installations and equipment for electricity transmission and distribution of low, medium, high and very high voltage (750 kV inclusive),
    - Protection, automation, instrumentation and control equipment and circuits for transformer and connection electric substations,
    - Transformers & autotransformers of all power and voltage levels (to 500 MVA and 750 kV),
    - Overhead and cable lines (from 110 kV to 750 kV);
  - As provider of:
    - Primary equipment installation (vacuum insulated, with SF6, oil, air),
    - Installation of digital protection, metering and control equipment and systems,
    - Cable laying and connection (of high voltage, secondary circuits, optical fibre),
    - Control and parameter-setting to digital equipment;

- **TELETRANS** – provided the following activities:
  - IT services:
    - Services provided to corporative clients on the Romanian market and requested by Transelectrica: outsourcing type services for IT systems administration, IT networks administration, IT systems and applications, elaborating IT applications specific to clients, design and build-up of LAN, MAN and WAN IT networks, design and implementation of IT systems, building up IT systems and applications using relational databases, ERP systems, making Internet websites, web-based applications, support services, preventive / corrective maintenance for IT equipment and systems; hardware & software maintenance services;
    - IP services provided on the Romanian market to corporative clients, supplier of telecommunication and internet services- broad band internet services, physical supports for such kind of connection;
  - Process IT services:
    - Maintenance of process IT systems / equipment;
    - Management of process IT systems;
    - Elaborating and implementing new applications or developing the existing ones;
    - Implementing and commissioning process IT systems;
    - Integrating the new control systems from refurbished substations into the EMS/SCADA system;

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        - Tele management / tele control of electric substations from the Territorial Power Dispatcher's (DET) / National Power Dispatcher's (DEN);

    - Telecommunication services:

        - For Transelectrica: services under Service Level Agreement (SLA) regime and services under the order system;
        - Dark fibre services, co-location services and services related thereof for governmental bodies and other clients on the liberalised telecommunication market of Romania by rented line services;

- **ICEMENERG** – carried out constant activities in the scientific research domain and in technological engineering for electricity and heat as follows:

    - Research services:

        - Elaborating the best modernisation, refurbishment and maintenance solutions for thermal power equipment;
        - Elaborating methods and equipment for various types of tests of equipment diagnosis;
        - Elaborating databases and IT systems;
        - Research papers and studies in order to substantiate the energy policy at national level;
        - Economic mechanisms and instruments specific to the energy market;
        - Environmental and waste management studies;
        - Elaborating new materials and technologies for sustainable development and energy maintenance;

    - Engineering services in power engineering:

        - Evaluating the technical condition and the performance of electric generators, of primary equipment of electric substations and networks within the RPS and of industrial enterprises, measurements, expertise, diagnoses, tests etc.

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## GOVERNANCE STRUCTURES

In 2011 the following persons provided the executive management of the subsidiaries:

**SMART**:

| | |
|---|---|
| Ionel MALENDA | Director General; |
| Laurentiu ZAINEA | Director, Economic and Commercial Management Division; |
| Ion VIJAN | Director, Technical Management and Maintenance Division; |

**TELETRANS**:

| | |
|---|---|
| Bogdan Gabriel NEIDONI | Deputy Director General with attributions of Director General |
| Bogdan Stefan CHITESCU | Deputy Director General |
| Gabriel SAFTESCU | Director, Process IT Department, with attributions of Deputy Director General |
| Dan BORDEA | Technical Director |
| Eliza PALADE PREDA | Director, Economic Department |
| Catalina ZAVATE | Director, Human Resources Management Department |
| Petre Dan TOIA | Director, Juridical and Administrative Disputes Department |
| Mihail Ovidiu MIHAILA | Director of the Strategy, Programmes, Communication and International Relations Department |
| Mihai BOZGU | Director, Telecommunications Department |
| Mihail BORDEIASU | Deputy Director, Process IT Department |
| Ovidiu CODREANU | Director, IT Department |
| Clara MINDROC | Director, Procurement and Contracts Department |

**ICEMENERG**:

| | |
|---|---|
| Gheorghe OLTEANU | Director General |
| Ecaterina DUSE | Economic Director |
| Angela STANCA | Biomass-based Economy Centre – delegated to centre management |
| Adrian Andrei ADAM | Expertise Centre for Power Materials and Equipment – Director of the centre |
| Ion IONESCU | Energy Efficiency Centre – Director of the centre |
| Gheorghe PAUNA | Renewable Energy Sources Centre |
| Dan ZLATANOVICI | Scientific Secretary |

**ICEMENERG SERVICE**:

| | |
|---|---|
| Bogdan PASCU | Director General |
| Daniela ANDREI | Economic Director |

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**FORMENERG**:

| | |
|---|---|
| Dragos FLORESCU | Director General |
| Marcel NICULESCU | Economic Director |
| Dominic Valentin COSTEA | Director of Professional Training |
| Ioana VOICESCU | Marketing Director |

**OPCOM**:

| | |
|---|---|
| Victor IONESCU | Director General |
| Silvia FEDIUC | Economic Director |
| Luminita LUPULUI | Director, Electricity Settlement Transactions |

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# FINANCIAL REPORT

## FINANCIAL POSITION STATEMENT

The consolidated statement of the financial position is the following

| Indicators [thousand Lei] | 31.12.2012 | 31.12.2011 re-treated | 31.12.2010 re-treated | '12/'11 [%] |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Fixed assets** | | | | |
| Tangible assets | 3,750,668 | 3,243,888 | 3,168,676 | ▲15.6 |
| Intangible assets | 47,954 | 48,420 | 40,547 | ▼1.0 |
| Other investments | 5,989 | 6,177 | 5,729 | ▼3.0 |
| **Total fixed assets** | **3,804,611** | **3,298,485** | **3,214,952** | **▲15.3** |
| **Floating assets** | | | | |
| Stocks | 62,884 | 53,525 | 48,826 | ▲17.5 |
| Commercial liabilities and others | 831,415 | 1,174,250 | 662,375 | ▼29.5 |
| Cash and cash equivalents | 319,198 | 322,496 | 160,403 | ▼1.0 |
| Profit tax to recover | - | 2,799 | 12,832 | n/a |
| **Total floating assets** | **1,213,497** | **1,553,070** | **884,436** | **▼21.9** |
| **TOTAL ASSETS** | **5,018,108** | **4,851,555** | **4,099,388** | **▲3.4** |
| **EQUITIES AND DEBTS** | | | | |
| **Equities** | | | | |
| Share capital | 1,091,526 | 1,091,526 | 1,091,526 | 0.0 |
| Issuance premium | 49,843 | 49,843 | 49,843 | 0.0 |
| Other reserves | 3,194 | 2,864 | 984 | ▲11.5 |
| Legal reserves | 46,683 | 44,608 | 38,587 | ▲4.7 |
| Revaluation reserves | 605,490 | 231,061 | 220,487 | ▲162.0 |
| Result carried forward | 670,144 | 669,341 | 529,587 | ▲0.1 |
| **Total equities** | **2,466,880** | **2,089,243** | **1,931,014** | **▲18.1** |
| **Long term debts** | | | | |
| Revenues deferred in the long run | 547,327 | 370,668 | 313,181 | ▲47.7 |
| Long term debts | 954,627 | 943,493 | 981,608 | ▲1.2 |
| Debts regarding deferred taxes | 38,409 | 16,199 | 13,173 | ▲137.1 |
| Obligations regarding employees' benefits | 31,130 | 24,861 | 28,127 | ▲25.2 |
| **Total long term debts** | **1,571,493** | **1,355,221** | **1,336,089** | **▲16.0** |
| **Current debts** | | | | |
| Commercial debts and others | 748,082 | 1,178,471 | 599,814 | ▼36.5 |
| Other taxes and liabilities to social security | 17,172 | 8,008 | 35,127 | ▲114.4 |
| Short term loans | 209,151 | 216,697 | 185,004 | ▼3.5 |
| Revenues deferred in the short run | 4,481 | 3,915 | 12,340 | ▲14.5 |
| Payable profit tax | 849 | - | - | n/a |
| **Total current debts** | **979,735** | **1,407,091** | **832,285** | **▼30.3** |
| **Total debts** | **2,551,228** | **2,762,312** | **2,168,374** | **▼7.6** |
| **TOTAL EQUITIES AND DEBTS** | **5,018,108** | **4,851,555** | **4,099,388** | **▲3.4** |

Source: Transelectrica

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## PROFIT AND LOSS ACCOUNT

The profit and loss account statement at Group level is the following:

| Indicators [thousand Lei] | 2012 | 2011 re-treated | '12/'11 [%] |
|---|---|---|---|
| **Operational revenues**, of which: | **2,801,026** | **3,152,339** | **▼11.1** |
| - Revenues from transmission services | 1,080,214 | 1,115,186 | ▼3.1 |
| - Revenues from system services | 570,761 | 784,052 | ▼27.2 |
| - Revenues from the balancing market | 1,068,221 | 1,189,434 | ▼10.2 |
| - Other revenues | 81,830 | 63,667 | ▲28.5 |
| | | | |
| **Operational expenses**, of which: | **2,688,265** | **2,942,915** | **▼8.7** |
| - Expenses for system operation | 310,978 | 290,462 | ▲7.1 |
| - Expenses with the balancing market | 1,068,221 | 1,189,434 | ▼10.2 |
| - Expenses with technological system services | 522,876 | 681,120 | ▼23.2 |
| - Amortisement | 307,892 | 290,957 | ▲5.8 |
| - Personnel expenses | 239,295 | 223,852 | ▲6.9 |
| - Repairs and maintenance | 14,361 | 29,272 | ▼50.9 |
| - Other operational expenses | 169,178 | 180,547 | ▼6.3 |
| - Expenses with materials and consumables | 55,464 | 57,271 | ▼3.2 |
| | | | |
| **Operational profit** | **112,761** | **209,424** | **▼46.2** |
| | | | |
| Financial revenues | 85,715 | 117,640 | ▼27.1 |
| Financial expenses | 129,949 | 151,317 | ▼14.1 |
| **Financial result** | **-44,234** | **-33,677** | **▲31.3** |
| | | | |
| **GROSS PROFIT** | **68,527** | **175,747** | **▼61.0** |
| Profit tax | 20,651 | 40,249 | ▼48.7 |
| **NET PROFIT** | **47,876** | **135,498** | **▼64.9** |
| **Basic result and diluted per share [Lei / share]** | **0.65** | **1.85** | **▼64.9** |

Source: Transelectrica

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## TREASURY FLOWS

The treasury flows statement at Group level is the following:

| Indicators [thousand Lei] | 2012 | 2011 | '12/'11 [%] |
|---|---|---|---|
| **Treasury flows from operational activities** | | | |
| Profit of the year | 47,876 | 135,498 | ▼64.7 |
| | | | |
| **Adjustments for:** | | | |
| Expense with the profit tax | 20,651 | 40,249 | ▼48.7 |
| Expense with amortisement | 307,892 | 290,957 | ▲5.8 |
| Expenses with value losses | 34,183 | 13,674 | **▲150.0** |
| Revenues from reversing the value losses regarding commercial liabilities | -953 | -4,960 | ▼80.8 |
| Value adjustments of tangible assets | -336 | 1,287 | n/a |
| Net gain/loss from sale of tangible assets | 3,303 | -1,652 | n/a |
| Net financial result | 42,132 | 37,888 | ▲11.2 |
| | **454,748** | **512,941** | **▼11.3** |
| | | | |
| **Changes into:** | | | |
| Commercial liabilities and others | 327,096 | -519,808 | n/a |
| Stocks | -9,359 | -4,699 | ▲99.2 |
| Commercial debts and others | -425,997 | 598,523 | n/a |
| Other taxes and liabilities for social security | 9,904 | -27,120 | n/a |
| Deferred revenues | 177,224 | 56,165 | ▲215.5 |
| **Treasury flows from operational activities** | **533,616** | **616,002** | **▼13.4** |
| | | | |
| Interest rates paid | -35,568 | -35,015 | ▲1.6 |
| Profit tax paid | -13,845 | -31,625 | ▼56.2 |
| **Net cash from operational activities** | **484,203** | **549,362** | **▼11.9** |
| | | | |
| **Treasury flows used in investments** | | | |
| Procurement of tangible and intangible assets | -396,321 | -372,859 | ▲6.3 |
| Proceeds from sale of tangible assets | 1,099 | 6,172 | ▼82.2 |
| Interest rates cashed | 6,481 | 10,405 | ▼37.7 |
| Dividends cashed | - | 6,922 | n/a |
| **Net cash used in investments** | **-388,741** | **-349,360** | **▲11.3** |
| | | | |
| **Treasury flows used in financing activities** | | | |
| Drawings from long term loans | 189,808 | 123,451 | ▲53.8 |
| Reimbursements of long term loans | -185,766 | -164,524 | ▲12.9 |
| Reimbursements of short term loans | -11,572 | - | n/a |
| Drawings from short term loans | - | 11,572 | n/a |
| Dividends paid | -87,511 | -12,942 | ▲576.2 |
| **Net cash used in financing activities** | **-95,041** | **-42,443** | **▲123.9** |
| | | | |
| **Net increase of cash and cash equivalents** | **421** | **157,559** | **▲99.7** |
| | | | |
| **Cash and cash equivalents on 1 January** | **308,287** | **150,728** | **▲104.5** |
| | | | |
| **Cash and cash equivalents on 31 December** | **308,708** | **308,287** | **▲0.1** |

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# CN Transelectrica SA
# Company managed in a dualist system

Consolidated Financial Statements
as at and for the year ended
**31 December 2012**

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

*(free translation)*

**CN Transelectrica SA**
Consolidated Statement of Financial Position as at 31 December 2012
*(All amounts are in thousand LEI, unless stated otherwise)*

| | Note | 31 December 2012 | 31 December 2011 Restated* | 1 January 2011 Restated* |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | **5** | 3,750,668 | 3,243,888 | 3,168,676 |
| Intangible assets | **6** | 47,954 | 48,420 | 40,547 |
| Other investments | | 5,989 | 6,177 | 5,729 |
| **Total non-current assets** | | **3,804,611** | **3,298,485** | **3,214,952** |
| **Current assets** | | | | |
| Inventories | **7** | 62,884 | 53,525 | 48,826 |
| Trade and other receivables | **8** | 831,415 | 1,174,250 | 662,375 |
| Cash and cash equivalents | **9** | 319,198 | 322,496 | 160,403 |
| Income tax receivable | | - | 2,799 | 12,832 |
| **Total current assets** | | **1,213,497** | **1,553,070** | **884,436** |
| **Total assets** | | **5,018,108** | **4,851,555** | **4,099,388** |
| **Shareholders' equity and liabilities** | | | | |
| **Shareholders' equity** | | | | |
| Share capital | | 1,091,526 | 1,091,526 | 1,091,526 |
| Share premium | | 49,843 | 49,843 | 49,843 |
| Legal reserves | | 46,683 | 44,608 | 38,587 |
| Other reserves | | 3,194 | 2,864 | 984 |
| Revaluation reserves | | 605,490 | 231,061 | 220,487 |
| Retained earnings | | 670,144 | 590,123 | 460,844 |
| **Total shareholders' equity** | **10** | **2,466,880** | **2,063,364** | **1,903,573** |
| **Non-current liabilities** | | | | |
| Long term deferred income | **11** | 547,327 | 370,668 | 313,181 |
| Borrowings | **12** | 954,627 | 943,493 | 981,608 |
| Deferred tax liability | **15** | 38,409 | 16,199 | 13,173 |
| Employee benefits obligations | **13** | 31,130 | 24,861 | 28,127 |
| **Total non-current liabilities** | | **1,571,493** | **1,355,221** | **1,336,089** |
| **Current payables** | | | | |
| Trade and other liabilities | **14** | 748,082 | 1,178,471 | 599,814 |
| Other tax and social security liabilities | **17** | 17,172 | 8,008 | 35,127 |
| Borrowings | **12** | 209,151 | 216,697 | 185,004 |
| Short term deferred income | **11** | 4,481 | 3,915 | 12,340 |
| Income tax payables | | 849 | - | - |
| **Total current liabilities** | | **979,735** | **1,407,091** | **832,285** |
| **Total liabilities** | | **2,551,228** | **2,762,312** | **2,168,374** |
| **Total shareholder's equity and liabilities** | | **5,018,108** | **4,851,555** | **4,099,388** |

***** *see Note 2 (e)*

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

The above translation of the consolidated IFRS financial statements of CN Transelectrica SA is provided as a free translation from Romanian which is the official and binding version.

| | Note | 2012 | 2011 Restated* |
|---|---|---|---|
| **Revenues** | | | |
| Transmission revenues | | 1,080,214 | 1,115,186 |
| Ancillary services revenues | | 570,761 | 784,052 |
| Balancing market revenues | | 1,068,221 | 1,189,434 |
| Other revenues | | 81,830 | 63,667 |
| **Total revenues** | **18** | **2,801,026** | **3,152,339** |
| **Operating expenses** | | | |
| System operating expenses | **19** | (310,978) | (290,462) |
| Balancing market expenses | **19** | (1,068,221) | (1,189,434) |
| Technological ancillary services expenses | | (522,876) | (681,120) |
| Depreciation and amortization | | (307,892) | (290,957) |
| Personnel expenses | | (239,295) | (223,852) |
| Repairs and maintenance expenses | | (14,361) | (29,272) |
| Other operating expenses | **20** | (169,178) | (180,547) |
| Consumables | | (55,464) | (57,271) |
| **Total operating expenses** | | **(2,688,265)** | **(2,942,915)** |
| **Operating profit** | | **112,761** | **209,424** |
| Finance income | | 85,715 | 117,640 |
| Finance cost | | (129,949) | (151,317) |
| **Net finance result** | **21** | **(44,234)** | **(33,677)** |
| **Profit before income tax** | | **68,527** | **175,747** |
| Income tax expense | **15** | (20,651) | (40,249) |
| **Profit for the year** | | **47,876** | **135,498** |
| **Basic and diluted earnings per share (lei/share)** | **16** | **0.65** | **1.85** |

***** See note 2 (e).

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

| | Note | 2012 | 2011 Restated* |
|---|---|---|---|
| **Profit for the year** | | **47,876** | **135,498** |
| **Other comprehensive income** | | | |
| Deferred tax liability on revaluation reserve | **15** | (21,739) | (4,350) |
| Cancellation of used revaluation reserve | | - | 6,407 |
| Revaluation of property, plant and equipment | **10** | 427,498 | 27,189 |
| Actuarial gains | | 4,336 | - |
| **Other comprehensive income for the year** | | **410,095** | **29,246** |
| **Total comprehensive income for the year** | | **457,971** | **164,744** |

***** See note 2 (e).

The consolidated financial statements on pages 1 to 49 were authorized for issue by the management on 25 March 2013 and were signed on its behalf by:

Directorate,

Head of Directorate,
Chief Executive Officer
Ştefan GHEORGHE

Member of the Directorate,
Responsible for the economic department
Constantin VÃDUVA

Deputy General Manager
Corneliu Ene

Chief Financial Officer
Maria Ionescu

IFRS Manager
Veronica Crisu

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

**CN Transelectrica SA**
Consolidated Statement of Changes in Equity for the year ended 31 December 2012
*(All amounts are in thousand LEI, unless stated otherwise)*

| | Note | Share capital | Share premium | Legal reserve | Revaluation reserve | Other reserves | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2011** | | **1,091,526** | **49,843** | **38,587** | **274,134** | **984** | **547,975** | **2,003,049** |
| Impact of change in accounting policy | **2(e)** | - | - | - | (53,647) | - | (18,388) | **(72,035)** |
| **Restated balance as at 1 January 2011 (see Note 2e)** | | **1,091,526** | **49,843** | **38,587** | **220,487** | **984** | **529,587** | **1,931,014** |
| **Comprehensive income for the year** | | | | | | | | |
| Profit for the year | | - | - | - | - | - | 135,498 | **135,498** |
| **Other comprehensive income** | | | | | | | | |
| Revaluation of property, plant and equipment | | - | - | - | 27,189 | - | - | **27,189** |
| Cancellation of used revaluation reserve | **2 (e)** | - | - | - | 6,407 | - | - | **6,407** |
| Deferred tax liability on revaluation reserve | | - | - | - | (4,350) | - | - | **(4,350)** |
| **Total other comprehensive income for the year** | | - | - | - | **29,246** | - | - | **29,246** |
| **Total comprehensive income for the year** | | - | - | - | **29,246** | - | **135,498** | **164,744** |
| Increase in legal reserve | | - | - | 6,021 | - | - | (6,021) | - |
| Transfer of revaluation reserve to retained earnings | | - | - | - | (18,672) | - | 18,672 | - |
| Other elements | | - | - | - | - | - | 108 | **108** |
| **Total other elements** | | - | - | **6,021** | **(18,672)** | - | **12,759** | **108** |
| **Transaction with owners, recorded directly in equity** | | | | | | | | |
| **Contributions by and distributions to owners** | | | | | | | | |
| Dividends distributed | | - | - | - | - | - | (8,503) | **(8,503)** |
| Land for which title deeds were obtained | | - | - | - | - | 1,880 | - | **1,880** |
| **Total transactions with owners** | | - | - | - | - | **1,880** | **(8,503)** | **(6,623)** |
| **Balance as at 31 December 2011** | | **1,091,526** | **49,843** | **44,608** | **231,061** | **2,864** | **669,341** | **2,089,243** |
| **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** |
| Defined benefit plan actuarial gains (income) | | - | - | - | - | - | 4,336 | **4,336** |
| Deferred tax liability on revaluation reserve | | - | - | - | (21,739) | - | - | **(21,739)** |
| **Total other comprehensive income** | | - | - | - | **405,759** | - | **4,336** | **410,095** |
| **Total comprehensive income for the year** | | - | - | - | **405,759** | - | **52,212** | **457,971** |
| Increase in legal reserve | | - | - | 2,075 | - | - | (2,075) | - |
| Transfer of revaluation reserve to retained | | - | - | - | (31,330) | - | 31,330 | - |
| **Total other elements** | | - | - | **2,075** | **(31,330)** | - | **29,255** | - |
| **Contributions by and distributions to owner** | | | | | | | | |
| Dividends | | - | - | - | - | - | (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** |

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

The above translation of the consolidated IFRS financial statements of CN Transelectrica SA is provided as a free translation from Romanian which is the official and binding version.

**CN Transelectrica SA**
Consolidated Statement of Cash flows for the year ended 31 December 2012
*(All amounts are in thousand LEI, unless stated otherwise)*

| | 2012 | 2011 Restated* |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit for the year | 47,876 | 135,498 |
| | | |
| **Adjustments for:** | | |
| Income tax expense | 20,651 | 40,249 |
| Depreciation and amortization | 307,892 | 290,957 |
| Impairment loss on trade receivables and other receivables | 34,183 | 13,674 |
| Reversal of impairment loss on trade receivables and other receivables | (953) | (4,960) |
| Net gain/(loss) from disposal of property, plant and equipment | 3,303 | (1,652) |
| Impairment of property, plant and equipment | (336) | 1,287 |
| Net finance result | 42,132 | 37,888 |
| | **454,748** | **512,941** |
| **Changes in:** | | |
| Trade and other receivables | 327,096 | (519,808) |
| Inventories | (9,359) | (4,699) |
| Trade and other liabilities | (425,997) | 598,523 |
| Other tax and social security liabilities | 9,904 | (27,120) |
| Deferred income | 177,224 | 56,165 |
| **Cash generated from operating activities** | **533,616** | **616,002** |
| | | |
| Interest paid | (35,568) | (35,015) |
| Income tax paid | (13,845) | (31,625) |
| | | |
| **Net cash from operating activities** | **484,203** | **549,362** |
| | | |
| **Cash flows used in investing activities** | | |
| Purchase of property, plant and equipment | (396,321) | (372,859) |
| Proceeds from sale of property, plant and equipment | 1,099 | 6,172 |
| Interest received | 6,481 | 10,405 |
| Dividends received | - | 6,922 |
| **Net cash used in investing activities** | **(388,741)** | **(349,360)** |
| | | |
| **Cash flows used in financing activities** | | |
| Proceeds from long term borrowings | 189,808 | 123,451 |
| Repayments of long term borrowings | (185,766) | (164,524) |
| Repayments of short term borrowings | (11,572) | - |
| Withdrawals of short term borrowings | - | 11,572 |
| Dividends paid | (87,511) | (12,942) |
| **Net cash used in financing activities** | **(95,041)** | **(42,443)** |
| | | |
| **Net increase in cash and cash equivalents** | **421** | **157,559** |
| | | |
| **Cash and cash equivalents as at 1 January (see Note 9)** | **308,287** | **150,728** |
| | | |
| **Cash and cash equivalents at the end of the period (see Note 9)** | **308,708** | **308,287** |

***** See note 2 (e).

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

The above translation of the consolidated IFRS financial statements of CN Transelectrica SA is provided as a free translation from Romanian which is the official and binding version.

## 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, being responsible for issuing green certificates on the energy market to the energy producers from regenerative energy source and settling the obligations derived from green certificate trade, 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 headquarter is in No. 2 – 4, Olteni Street, sector 3, Bucharest.

The Group's consolidated financial statements 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 No. 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 Shareholders dated 18 July 2012, the Company adopted the dualist management system replacing the unitary management system. 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"). Transelectrica 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, as at 31 December 2012, the shareholders of the Company are: the Romanian State through the Ministry of Economy ("ME") 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, S.I.F. Oltenia which holds 4,653,602 shares representing 6.348% of the share capital and other shareholders which hold 15,734,019 shares, representing 21.464% of the share capital.

*The Mission of the Group*

The Mission of the Group refers to the secure and stable functioning of NES by observing quality standards, developing the infrastructure of the national electricity market and guaranteeing the regulated access of third parties to the electricity transmission network, ensuring transparency, non-discrimination and fairness for all participants in 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 34 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 Working 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 20 December 2012, the Company's rating from Ba1 negative perspective to Ba2 negative 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 through orders the tariffs for electricity transmission and ancillary services. Consequently, the decisions made by ANRE can have significant effects on the Group's activity.

The operating activity of the Company has been performed according to set-up licence No. 161/2000 regarding 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;

*Tariffs for energy transmission and ancillary services*

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

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 increases according to the annual increase of the consumer price index and reduces as efficiency increases, such revenue being the basis of the regulated income. The carrying value of property, plant and equipment is linked to this, so any significant change in the tariff mechanism could impact these carrying values. Based on current tariff levels no indications of impairment were identified.

*Regulated assets base ("RAB")*

The transmission tariffs are set, among others, based on the regulated asset base. The regulated asset base includes the net book value of the tangible and intangible assets which correspond to the private patrimony of the Company, considered by ANRE, and used solely for providing the regulated 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.

The regulated asset base for the second period does not include the working capital. The assets resulted from additional investments approved by ANRE compared to the initial investment program, approved at the beginning of the regulated period, would be included in the regulated assets base in the following regulated period.

According to ANRE Order no. 52 from 19 December 2012, 2013 is a year of transition from the second to the third regulated period. The beginning of the third regulated period is postponed with one year. The third regulated period is the period during 2014-2018.

The regulated asset base in 2013 for the electricity transmission activity is of 8.52% (2012: 7.5%). As at 31 December 2011 and 2012 the value of the regulated assets base is around Lei 2.9 billion.

*Local and international stock exchange indexes*

Starting 6 March 2007, CN Transelectrica SA shares are part of BET index managed by the Bucharest Stock Exchange, with a share of 4.09%, at a stock exchange capitalization amounting to 930,217 as at 31 December 2012. 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 services mainly consist 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 provides 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 the one hand, the participants introducing electricity into the ETG (electricity producers and suppliers including importers) and, on the other hand, the companies taking over the electricity from the grid (electricity suppliers, the producers/suppliers that export it, as well as eligible consumers).

*Ancillary services*

Ancillary services are provided by the Company through UNO-DEN in order to assure the safety level of operating the NES, and also of the quality of the electricity transmitted, according to legislation in force.

Transelectrica provides these services under two regulated tariffs applied to the same base (electricity delivered to consumers):

- tariff for technological ancillary services
- tariff for functional ancillary services

*Technological ancillary 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 ancillary 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 ancillary services* consist in planning and operationally managing the NES, as well as in other activities carried out by CN Transelectrica SA for the purpose of balancing in real time the output and the consumption, in order to fulfil the energy consumption and to maintain the safety level of functioning in 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.

This bonus paid to producers will be funded through a contribution collected by CN Transelectrica SA from the electricity suppliers delivering electricity. The contribution is defined by ANRE as a sum paid for each kilowatt hour ("KWh") of electricity consumed by all electricity consumers and Romanian electricity exporters.

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 and to send them to the contributor payers; 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.

This activity does not impact the income statement of the Company, CN Transelectrica SA collecting the contribution for high efficiency cogeneration from the suppliers of the electric energy consumers, in order to pay the bonus to the producers of electric and thermal energy in high efficiency cogeneration.

*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 analysis of the compliance with the loan agreements covenants and the valuation of the significant uncertainties, including uncertainties associated with the Group's ability to continue as a going concern for a reasonable period of time, represent the permanent concern of the Group's management. As mentioned in Note 12, as at 31 December 2012, the Company did not meet certain financial indicators referring to loans EIB 20864 and EBRD 906. As at 31 December 2012, the long term portion of the loan EIB 20864 is of 64,551 and nil for loan EBRD 906. EIB may request by written notification the acceleration of repayment of this loan after a period of time during which the Group has the opportunity to remedy the matter. Loan EIB 20864 is guaranteed by the Romanian State. Please see in Note 12 the management's reasons for not reclassifying the long term liabilities as current liabilities for the loans mentioned earlier.

The financial statements do not include any adjustments related to the recoverability and classification of asset carrying amounts or related to the classification of liabilities that might result in case the Group is unable to continue as a going concern, because is applicable the going concern principle.

The management considers that the going concern assumption used in the preparation of the accompanying consolidated financial statements is appropriate, given the strategic importance and the natural monopoly position of the Group within the National Energy System ("NES").

Management believes that the Group will continue as a going concern in the foreseeable future.

The financial position of the Group depends on the future policies regarding the tariff adjustments, and/or on the continuous sustainability 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 have been prepared on the historical cost basis, except for the property, plant and equipment items which are measured at revalued amounts, except for construction in progress which is measured at historical cost.

### (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 the consolidated financial statements in conformity with IFRS EU requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses (assumptions on determination of provisions on risk and charges (see Note 23), recognition of non-refundable funds to be received (see Note 11) and on allowance for doubtful debts (see Note 8)).

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 management of the Company estimates that there is a reasonable assurance that will fulfil the conditions attached to the funds and the funds will be received;
- Note 12 – managements' arguments regarding not classifying the balances of long term loans as current liabilities;
- Note 13 – assessment of the obligations for defined benefit plans;
- Note 23 - commitments and contingencies;

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).

### (e) Changes in accounting policies

*Transfer of revaluation reserve to retained earnings*

In 2012, the Group changed its accounting policy in respect of the transfers from the revaluation reserve to retained earnings as the revaluation is realized through depreciation of the property, plant and equipments that were revalued and when the related revalued property, plant and equipment was derecognized. The transfer is made net of the related deferred tax. The Group changed its accounting policy to disclose the realized revaluation reserve in line with the depreciation of the revalued property, plant and equipments. Previously, the Group transferred the revaluation surplus to retained earnings when the related property, plant and equipment was derecognized. The change in accounting policy was applied retrospectively.

The following table summarises the adjustments made to the consolidated statement of financial position following the implementation of the new accounting policy:

| | Revaluation reserves | Retained earnings |
|---|---|---|
| **Balance as at 1 January 2011, as previously reported** | **274,134** | **547,975** |
| Impact of the change in accounting policy | (53,647) | 53,647 |
| **Restated balance at 1 January 2011** | **220,487** | **601,622** |
| | | |
| **Balance as at 31 December 2011, as previously reported** | **294,028** | **674,309** |
| Impact of the change in accounting policy at 1 January 2011 | (53,647) | 53,647 |
| Impact of the change in accounting policy during 2011 | (9,320) | 9,320 |
| **Restated balance at 31 December 2011** | **231,061** | **737,276** |

The effect on the consolidated income statement was as follows:

| | 2011 |
|---|---|
| Increase of other operating expenses | 6,407 |
| **Decrease in net profit** | **(6,407)** |

*Connection fees*

In 2012, the Group changed its accounting policy in respect of the connection fees collected from customers, when these amounts of cash must be used only to construct or acquire an item of property, plant and equipment and the Group must then use the item of property, plant or equipment to connect the customer to the network. The Group has applied the provisions of IFRIC 18 “Transfer of Assets from Customers” starting with 1 January 2008. The Group recognizes the cash received as a credit under “Deferred income” on the consolidated statement of financial position in order to subsequently record it under “Other revenues” on the consolidated income statement on a systematic basis over the useful life of the asset as this new accounting policy provides reliable and more relevant information about the effects of transaction on the financial position and the financial performance of the Group.

The new accounting policy reflects better the economic substance of transactions and better reflects the matching of costs with revenue. The change in accounting policy was applied retrospectively.

According to the previous accounting policy, the Group recognised the revenue as a whole when the service was provided at the fair value of the acquired/built asset, meaning at the moment when the customer is connecting to the network.

The following table summarizes the adjustments made to the consolidated statement of financial position following the implementation of the new accounting policy:

| | Long and short-term deferred income | Deferred tax liability/(asset) | Retained earnings |
|---|---|---|---|
| **Balance as at 1 January 2011, as previously reported** | **239,766** | **26,894** | **547,975** |
| Impact of the change in accounting policy | 85,755 | (13,721) | (72,034) |
| **Restated balances at 1 January 2011** | **325,521** | **13,173** | **475,941** |
| | | | |
| **Balance as at 31 December 2011, as previously reported** | **293,708** | **29,139** | **674,309** |
| Impact of the change in accounting policy at 1 January 2011 | 85,755 | (13,721) | (72,034) |
| Impact of the change in accounting policy during 2011 | (4,880) | 781 | 4,099 |
| **Restated balance at 31 December 2011** | **374,583** | **16,199** | **606,374** |

The effect on the consolidated income statement was as follows:

| | 2011 |
|---|---|
| Increase of other income | **4,880** |
| Cancellation of the reversal of the related deferred tax asset | (781) |
| **Increase in profit for the year** | **4,099** |

The two changes in accounting policies have an insignificant impact on basic and diluted earnings per share (see Note 16).

## 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 the change in accounting policies as explained in note 2 (e).

Certain comparative amounts have been reclassified in the consolidated statement of financial position to be in accordance with the present year (see Note 6). Also, certain comparative amounts have been reclassified in the consolidated profit and loss account, in order to be comparable with current year presentation: the expenses with employees' participation to profit in amount of 4,400 and the variation of employee benefits provision in amount of (2,664) were reclassified from "Other operating expenses" to "Personnel expenses".

### (a) Basis of consolidation

#### *(i) Business combinations*

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in profit or loss. Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

***(ii) Acquisitions of non-controlling interests***

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

***(iii) Subsidiaries***

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated interim financial statements from the date that control commences until the date that control ceases.

***(iv) 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.

***(v) 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 interim 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.

*Recognition*

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

The cost includes direct acquisition expenses. 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 use desired state;
- capitalized borrowing costs;

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

*Subsequent maintenance expenses*

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 an expense as occurred.

*Depreciation*

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

| | **Average useful life (years)** |
|---|---|
| Buildings and special installations | 38 |
| Machinery and equipment | 18 |
| Control devices | 10 |
| Vehicles | 7 |
| Other fixed assets | 10 |

The average useful life for other special equipment is approximately 30 years. 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, 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 June 29th, 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.

The main terms of the concession agreement are as follows:

- ME 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 charge under the form of royalty for use of the assets is determined by the Government and represents 1/1000 of the total revenue from electricity transmission services, based on quantities transmitted;
- The leased assets will be returned to ME 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 year 1 January – 31 December 2012 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 ensuing 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.

**(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 2011 and 31 December 2010 are as follows:

| Currency | 31 December 2012 | 31 December 2011 |
|---|---|---|
| 1 EUR | 4.4287 | 4.3197 |
| 1 USD | 3.3575 | 3.3393 |
| 100 JPY | 3.8994 | 4.3178 |

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 270 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, 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.

The Group transfers the revaluation reserve to retained earnings as the revaluation is realized through depreciation of the property, plant and equipments that were revalued and when the related revalued property, plant and equipment is disposed off.

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, 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.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An 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 or amortisation, if no impairment loss ad been recognised.

### (k) Share capital

The Group recognizes the changes in share capital in accordance with the legislation in force and only after their approval in the General Extraordinary Shareholders Meeting and their authorisation by the Trade Registry Office.

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 business combination, 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 weather 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.

**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.

**Defined benefit plans**
A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount factor used is of 6% for the first 5 years and 3.5% for the following years. The benefits are represented by the retirement prizes based on the employment period within the Company at the retirement date and the free energy provided 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 ancillary services computed based on volume of energy transmitted. The tariffs for transmission and ancillary 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 market and network administration services. 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 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 fiscal 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)

*New standards, amendments and interpretations approved by the European Union*
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

*New IFRS pronouncements not yet effective as at 31 December 2012*

- IAS 19 (2011) Employee Benefits (Effective for annual periods beginning on or after 1 January 2013)

The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognised in profit or loss to be calculated based on rate used to discount the defined benefit obligation. 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 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements (Effective for annual periods beginning on or after 1 January 2013)

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). The Group does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Group's control over its investees.

## 4. Determination of fair value

A number of Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods:

i) Property plant and equipment

The fair value of items of property, plant and equipment is mainly based on cost approach, taken into consideration the specialized nature of the assets, except for construction in progress which are accounted under cost model. Under the cost approach the gross replacement cost was established using the indirect method.

ii) Trade and other receivables

The fair values of trade and other receivables are estimated at the present value of future cash flows, discounted at the market rate of interest at the measurement date. Short-term receivables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial. Fair value is determined at initial recognition and, for disclosure purposes, at each reporting date.

## 5. Property, plant and equipment

The movements of property, plant and equipment between 1 January 2011 and 31 December 2012 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 2011** | **73,062** | **2,810,516** | **2,721,857** | **360,494** | **54,097** | **120,059** | **487,701** | **6,627,786** |
| Additions | 769 | 2,433 | 2,507 | 857 | - | 85 | 329,360 | **336,011** |
| Revaluation surplus | (15,600) | (8,694) | 52,915 | (1,276) | (156) | - | - | **27,189** |
| Transfers from construction in progress | 1,580 | 32,430 | 158,265 | 53,304 | 2,409 | 71,065 | (319,053) | **-** |
| Disposals | (434) | (6,898) | (18,694) | (2,114) | (2,158) | (708) | - | **(31,006)** |
| **Balance as at 31 December 2011** | **59,377** | **2,829,787** | **2,916,850** | **411,265** | **54,192** | **190,501** | **498,008** | **6,959,980** |
| **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** |
| **Accumulated depreciation** | | | | | | | | |
| **Balance as at 1 January 2011** | **-** | **1,656,263** | **1,513,386** | **204,878** | **49,763** | **34,820** | **-** | **3,459,110** |
| Depreciation expense | - | 77,145 | 152,708 | 33,975 | 3,296 | 15,320 | - | **282,444** |
| Impairment losses | 138 | 930 | 63 | 102 | 54 | - | - | **1,287** |
| Accumulated depreciation of disposals | - | (5,914) | (17,084) | (1,859) | (1,258) | (634) | - | **(26,749)** |
| **Balance as at 31 December 2011** | **138** | **1,728,424** | **1,649,073** | **237,096** | **51,855** | **49,506** | **-** | **3,716,092** |
| **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** |
| **Carrying value** | | | | | | | | |
| **Balance as at 1 January 2011** | **73,062** | **1,154,253** | **1,208,471** | **155,616** | **4,334** | **85,239** | **487,701** | **3,168,676** |
| **Balance as at 31 December 2011** | **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** |

As at 31 December 2012 the buildings and special installations, machinery and equipment, control devices and vehicles were revalued 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 approach. Under the cost approach the gross replacement cost was established using the indirect method. The cost 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. The results of the revaluation were approved by the management through Note no. 8857/18.03.2013. 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. The revaluation surplus refers mainly to the public patrimony assets of the State, included in GEO no. 164/2005 approved by Law no. 70/2006, assets that were previously stated at inflated cost.

Lands were revalued by market approach as at 31 December 2011. Also, the group Other fixed assets was revalued at 31 December 2011.

The additions of property, plant and equipment include also transfers of construction in progress. Construction in progress is represented mainly by modernization and retehnologisation works for overhead lines, stations and advances to suppliers of fixed assets. During 2012, the main transfers from construction in progress to fixed assets were represented by:

- Connection station financed by the connection fee paid by OMV Petrom SA 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) of 33,673;
- 400/110 kV Tariverde station and connection of SC Tomis Team SRL to the electricity transmission grid (third phase) of 24,516;
- 2nd phase of project "Integrated security systems in the power stations" of 34,009;
- 1th and 2nd phase of the project "Retehnologisation of 400/220 station, 110/20 kV Lacul Sarat" of 29,665;

During 2012 the additions in construction in progress include mainly investments financed through connection fees in a total amount of 122,188, the data voice infrastructure in amount of 88,638 and retehnologization of the Brasov power station in amount of 44,427.

During 2011, the main transfers from construction in progress to fixed assets were represented by:

- Retehnologisation of the power station 400/220, 110/20kV Lacu Sarat – 77,521;
- Replacement of 200 MWA transformers in the power stations – 43,630;
- Integrated security system in power stations (second phase) – 35,913;
- Planning and equipping a centre for providing services for business continuity and disaster recovery – 29,617;
- Integrated security system in power stations (third phase) – 24,731;
- Retehnologisation of power station 110 kV Brazi Vest – 16,744.

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. The capitalized borrowing costs related to construction in progress amounted to 2,265 related to BRD-ING loan (interest rate is 3.8%).

## 6. Intangible assets

The movements in intangible assets from 1 January 2011 to 31 December 2012 are the following:

| | Other intangible assets | Licences and software | Intangible assets in progress | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **Balance as at 1 January 2011** | **3,935** | **45,046** | **28,486** | **77,467** |
| Additions | 45 | 196 | 16,225 | **16,466** |
| Transfers from intangible assets in progress | - | 12,670 | (12,670) | **-** |
| Disposals | (70) | (297) | - | **(367)** |
| **Balance as at 31 December 2011** | **3,910** | **57,615** | **32,041** | **93,566** |
| **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** |
| **Accumulated amortisation** | | | | |
| **Balance as at 1 January 2011** | **3,905** | **33,015** | **-** | **36,920** |
| Amortisation expense | 38 | 8,475 | - | **8,513** |
| Accumulated amortisation of disposals | (35) | (252) | - | **(287)** |
| **Balance as at 31 December 2011** | **3,908** | **41,238** | **-** | **45,146** |
| **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** |
| **Carrying value** | | | | |
| **Balance as at 1 January 2011** | **30** | **12,031** | **28,486** | **40,547** |
| **Balance as at 31 December 2011** | **2** | **16,377** | **32,041** | **48,420** |
| **Balance as at 31 December 2012** | **9** | **15,231** | **32,714** | **47,954** |

*Change in classification*

During 2012, the Company modified in the consolidated statement of financial position, the classification of some items of "Property, plant and equipment" in "Intangible assets" in order to reflect more adequate the classification of these assets. The comparative amounts from the consolidated statement of financial position were reclassified to ensure the consistent presentation, which resulted in the reclassification of the amount of 14,194 from property, plant and equipment to intangible assets, at 1 January 2011, and of the amount of 6,940 from intangible assets to property, plant and equipment as at 31 December 2011.

## 7. Inventories

As at 31 December 2012 and 31 December 2011 inventories are as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Spare parts | 39,381 | 35,079 |
| Consumables and other materials | 12,828 | 10,535 |
| Auxiliary materials | 6,233 | 6,103 |
| Other inventories | 4,442 | 1,808 |
| **Total** | **62,884** | **53,525** |

## 8. Trade and other receivables

As at 31 December 2012 and 31 December 2011 trade and other receivables are as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Trade receivables | 794,000 | 1,194,482 |
| Other receivables | 97,617 | 69,973 |
| Non-refundable funds to be received | 65,083 | - |
| VAT to be recovered | - | 739 |
| Allowance for doubtful receivables | (76,736) | (50,744) |
| Allowance for other doubtful receivables | (48,549) | (40,200) |
| **Total** | **831,415** | **1,174,250** |

The Group's policy is to book a provision of 100% for clients in litigation and bankrupted clients, 75% from the trade receivables and other receivables due for more than 270 days and less than 365 days, and of 100% from the trade receivables and other receivables due for more that 365 days. As at 31 December 2012, the highest amounts for allowances for doubtful trade receivables were recorded for Petprod SRL (16,539), Eco Energy SRL (15,826) and Total Electric Oltenia SA (10,897), Arcelormittal Galati (6,110), Also Energ (5,056) and Complexul Energetic Hunedoara (4,970).

As at 31 December 2012, other receivables in amount of 97,617 include late payment penalties with a value of 22,867 and a prepayment made to tax authority in amount of 44,443 (see the next paragraph related to the litigation with the National Agency for Fiscal Administration). The biggest amounts for the late payments were recorded for Eco Energy (8,910), Total Electric Oltenia (3,289), Arcelormittal Galati (2,341), Also Energ (2,121) and Petprod SRL (1,931), amounts that were also provided for and included in the allowances for doubtful other receivables.

As at 31 December 2012 the non-refundable funds to be received in amount of 65,083 relate to three contracts concluded by the Company in 2012 with ME, in its capacity as Intermediate Body for Energy and acting on behalf of the Management Authority for the Sectoral Operational Programme "Increase of economic competitiveness". Through each contract, the Company is granted a maximum established non-reimbursable amount for the implementation of a named investment project. The investments financed through these contracts are: upgrade of the Brasov 400/110kv station, upgrade of the Lacu Sarat 400/220/110/20kv station and upgrade of the Mintia 220/110 KV station (see Note 11).

*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 an output VAT 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, the Company has paid the amount of 44,443 in November 2011.

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

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 amount of 44,443 paid based on the estimated chances of winning the trial, taking into consideration the fact that on 17 December 2012 the court admitted the correction of a clerical error and the involvement of an expert for the accounting expertise.

As at 31 December 2012 trade receivables are as follows:

| | **31 December 2012** | **31 December 2011** |
|---|---|---|
| Clients – energy market | 786,308 | 1,183,400 |
| Other clients | 7,692 | 11,082 |
| **Total** | **794,000** | **1,194,482** |

The largest clients from the energy market are: Electrica Furnizare SA, Complex Energetic Oltenia, CIGA Energy SA, Electrica SA and Societatea Nationala "Nuclearelectrica" SA. As at 31 December 2012 and 31 December 2011, these clients represent 40% from the total gross receivables from the energy market.

As at 31 December 2012, the Company has one customer with trade receivables exceeding 10% from the total gross trade receivables: Electrica Furnizare SA (receivable of 86,115 as at 31 December 2012 and 82,889 as at 31 December 2011).

The Group's exposure to credit and market risks, and impairment losses related to trade receivables are disclosed in Note 26.

## 9. Cash and cash equivalents

As at 31 December 2012 and 31 December 2011 cash and cash equivalents are as follows:

| | **31 December 2012** | **31 December 2011** |
|---|---|---|
| Current bank accounts and deposits with original maturities of less than 90 days | 227,273 | 243,524 |
| Cash from high efficiency cogeneration | 91,756 | 78,787 |
| Petty cash | 113 | 108 |
| Other cash equivalents | 56 | 77 |
| **Total** | **319,198** | **322,496** |

As at 31 December 2012 and 31 December 2011, deposits with original maturities of less than 90 days are in amount of 41,498 and 126,079 respectively (out of which deposits for high efficiency cogeneration in amount of 45,500).

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 2012, the cash generated from the administration of this scheme is of 91,756.

For the purpose of the consolidated cash flow statement, cash and cash equivalents as at 31 December 2012 and 31 December 2011 are as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Cash and cash equivalents | 319,198 | 322,496 |
| Short term loans (credit line) (see Note 12) | (10,490) | (14,209) |
| **Total** | **308,708** | **308,287** |

As presented in Note 12, as at 31 December 2012 short term loans include also the credit line from ING Bank N.V. Bucharest Branch contracted by Group through its subsidiary. The amount is repayable on demand. As at 31 December 2012 the amount outstanding of this credit line is in amount of 10,490 (14,209 as at 31 December 2011).

## 10. Shareholder's equity

*Share capital*

As at 31 December 2012 and 31 December 2011, 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.

As at 31 December 2012, the shareholding structure is as follows:

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| **Shareholders** | **Number of shares** | **% from share capital** | **Number of shares** | **% from share capital** |
| Romanian State through ME | 43,020,309 | 58.69% | 54,015,781 | 73.69% |
| Fondul Proprietatea | 9,895,212 | 13.50% | 9,895,212 | 13.50% |
| Private investors (legal entities and individuals) | 20,387,621 | 27.81 % | 9,392,149 | 12.81% |
| **Total** | **73,303,142** | **100%** | **73,303,142** | **100%** |

In March 2012, ME sold through a Secondary Public Offering a total of 10,995,472 shares issued by the Company, representing 15% of its share capital. As at 31 December 2012 SIF Oltenia, part of private investors, held 6.35% of Company, representing 4.653.602 shares.

On 21 March 2013, was published an emergency ordinance project which states that at the date will become effective, the shares held by the State in the Company will pass from the Ministry of Economy to the Ministry of Public Finance ("MFP") (see Note 27).

As at 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 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 | 385,495 |
| Restated share capital balance | **1,091,526** |

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

The value of dividends approved for distribution in 2012 from 2011 profit was 80,633, according to the General Shareholders Meeting No 4, from 26 April 2012. The value of unpaid dividends as at 31 December 2012 and as at 31 December 2011 is 2,457 and 1,504 respectively.

*Share premium*

All shares issued within the capital increase by initial primary public offer from 2006 were subscribed and wholly paid against the issue price. The share premium amounting to 49,843, namely 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 46,683 as at 31 December 2012 and 44,608 as at 31 December 2011, 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 2012 is as follows:

| | |
|---|---|
| Legal reserves (statutory amount) | 46,491 |
| Restatement difference in accordance with IAS 29 | 192 |
| Restated legal reserves balance | **46,683** |

*Revaluation reserves*

The revaluation reserve is in amount of 605,490 as at 31 December 2012 and 231,061 respectively as at 31 December 2011. At 31 December 2012, buildings and special installations, machinery and equipment, control devices and vehicles were revalued by SC JPA Audit & Consultanta SRL, independent valuer, member of ANEVAR. As at 31 December 2012 the Company recorded a deferred tax liability in correspondence with recognized revaluation surplus after revaluation above mentioned (see Note 15).

*Other reserves*

As at 31 December 2012, other reserves are in amount of 3,194 and as at 31 December 2011 in amount of 2,864, representing the revalued amount 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 Romanian Trade Register Office.

*Retained earnings*

Retained earnings represent the accumulated results of the Group. The retained earnings are distributable based on the non-consolidated financial statements prepared in accordance with IFRS EU.

## 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 Sectoral Operational Programme "Increase of economic competitiveness" and the income from the allocation of interconnection capacity.

The movement of short term deferred income for 2012 and 2011 is as follows:

| | **31 December 2012** | **31 December 2011 Restated*** |
|---|---|---|
| Opening balance | 3.915 | 12.340 |
| Cash in advance related to interconnection capacity | 19.481 | 12.896 |
| Revenues from using the interconnection capacity | (18.915) | (21.321) |
| **Total** | **4.481** | **3.915** |

* see Note 2 (e).

The movement of long term deferred income for 2012 and 2011 is as follows:

| | 31 December 2012 | 31 December 2011 Restated* |
|---|---|---|
| Opening balance | 370.668 | 313.181 |
| Subsidies received | 135.394 | 77.430 |
| Non-refundable funds to be collected | 65.755 | - |
| Release of deferred income | (24.490) | (19.943) |
| **Total** | **547.327** | **370.668** |

* See Note 2 (e).

As of the date of these consolidated financial statements, the Group has collected non-refundable funds from the Management Authority for the Operational Sectoral Programme "Increase of economic competitiveness" in amount of 25,930. Conditions attached to these non reimbursable funds are: assure the implementation of the investment objectives and accomplishment of output and performance indicators.

## 12. Borrowings

*Long term loans*

As at 31 December 2012 and 31 December 2011, long term loans are as follows:

| Description | 31 December 2012 | 31 December 2011 |
|---|---|---|
| EBRD 906 (a) | 17,282 | 34,378 |
| EIB 20.864 (b) | 96,827 | 125,925 |
| KfW 9787 (c) | - | 1,459 |
| West L.B. (d) | - | 6,005 |
| NIB PIL No 02/18 (e) | 32,433 | 38,122 |
| IBRD 7181 (f) | 216,185 | 241,167 |
| NIB PIL No 03/5 (g) | 61,116 | 69,547 |
| NIB PIL No 02/37 (h) | 32,717 | 37,320 |
| KfW 10431 (i) | 48,236 | 56,546 |
| BCR – World Trade Centre 398 (j) | 5,000 | 10,000 |
| Calyon (k) | - | 4,770 |
| KfW 11300 (l) | 65,896 | 78,057 |
| JBIC (m) | 40,883 | 56,588 |
| Raiffeisen Austria (n) | 7,083 | 10,363 |
| EBRD 33354 (o) | 23,307 | 30,371 |
| Alpha Bank (p) | 14,800 | 22,200 |
| BRD (q) | 26,400 | 33,000 |
| EIB 25709 (r) | 138,602 | 140,390 |
| EIB 25710 (r) | 132,861 | 129,591 |
| BRD-ING (s) | 186,005 | - |
| **Less: Current amount of the long term loans** | **(191,006)** | **(182,216)** |
| **Total long term loans, net of current amounts** | **954,627** | **943,493** |

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 2012, the total amount outstanding is USD 5,147,200. The loan bears six months LIBOR plus 1% interest rate. Repayment is scheduled over 10 years from 2004 to 2013, the instalments being paid on the 25 May and 25 November of each year.

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, (iv) a ratio of Total Operating Revenues to total Operating Expenses of not less than 1.3 and (v) maintain during the 30 day period preceding each interest payment date, in a Debt Service Account, a minimum balance equal to 100% of the amount of principal, interest and other amounts scheduled to become due and payable to the bank at the next interest payment date.

*(b) Loan from EIB No. 20.864*

The total amount outstanding as at 31 December 2012 under the loan agreement, which was concluded in year 2000, is EUR 21,863,562. 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 preceding semester.

*(c) Loan from KfW No. 9787*

The loan from KfW was granted on 18 September 2001. The total amount outstanding as at 31 December 2012 is EUR 0. The purpose of the loan is to finance the Rehabilitation of the 400/110 kV Constanta Nord Switching Station. The loan bears a variable interest rate of six months EURIBOR plus 0.725% margin. Repayment is scheduled over 9 years in 17 instalments from 2004 to 2012.

*(d) Loan from West LB*

The loan from West LB was granted on 5 February 2002. The total amount outstanding as at 31 December 2012 is EUR 0. The purpose of the loan is to finance the Rehabilitation of 400/110 kV Oradea Sud Station. The loan bears a variable interest rate, which is the interest rate of six months EURIBOR plus 0.5%. Repayment is scheduled over 9 years in 17 instalments from 2004 to 2012 to be paid on 30 of June and 30 of December of each year.

*(e) Loan from NIB PIL No. 02/18*

The loan from NIB was granted in 2003. The total amount outstanding as at 31 December 2012 is USD 9,659,930. 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.

*(f) 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 2012 is EUR 48,814,647. The loan bears a variable interest rate which, being the cost of qualified loans granted by IBRD on the financial market. 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.

*(g) 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 2012 is EUR 13,800,000. 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.

*(h) 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 2011 is EUR 7,387,397. 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.

*(i) 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 2012 is EUR 10,891,609. 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 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" in amount of RON 10,000,000. 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. The outstanding balance as at 31 December 2012 is of 5.000.000 RON.

*(k) Loan from Calyon*

The loan was granted by Calyon on 12 March 2003 for financing of the rehabilitation of Switching Station 400/220 kV Slatina. The amount outstanding as at 31 December 2012 is USD 0. Interest rate is six months LIBOR plus 0.7%, the non-utilization commission being 0.3%. Repayment is performed biannually in 14 equal instalments, starting with 30 June 2006 until 30 December 2012.

*(l) 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 2012 is EUR 14,879,211. 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.

*(m) 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 2012 is JPY 1,048,449,000. 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.

*(n) 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 2012 is EUR 1,599,298. 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.

*(o) 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 2011 is EUR 4,567,587 for A loan and EUR 695,042 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.

*(p) 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 2012 is RON 14,800,000.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.

*(q) 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 2012 is RON 26,400,000. 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.

*(r) 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% for EIB 25710. The amount outstanding as at 31 December 2012 for EIB 25709 is EUR 31,296,296. The amount outstanding as at 31 December 2012 for EIB 25710 is EUR 30,000,000.

The loan agreement no. 25709 includes certain financial covenants for the second regulatory period that ends as at 31 December 2012 : (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 second 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.

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

In July 2012 the Company concluded a loan agreement for EUR 42,000,000 with consortium ING Bank N.V., Amsterdam (Bucharest branch) and BRD – Groupe Societe Generale SA. The project has financed 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 2012 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.

Starting with 2012, as the Company prepares also separate financial statements in accordance with IFRS EU, the financial covenants related to loans EIB 20864 and IBRD 7181 are computed based on the consolidated financial statements in accordance with IFRS EU, for loans EBRD 906 and EIB 25710 based on the separate financial statements in accordance with IFRS EU, while for loans EBRD 33354, EIB 25709 and BRD – ING are computed based on both financial statements.
Long term loans are repayable as follows:

| | **31 December 2012** | **31 December 2011** |
|---|---|---|
| Between 1 and 2 years | 186,299 | 188,567 |
| Between 2 and 5 years | 483,551 | 441,911 |
| Over 5 years | 284,777 | 313,015 |
| **Total** | **954,627** | **943,493** |

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 2012, 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 loans 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 with the 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 with the Bank.

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

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.

At 31 December 2012, the pre-tax ratio and the current liquidity ratio are not met. These ratios relates to EIB loan agreement 20864 and to EBRD loan agreement 906. The ratios related to the EIB loan agreement 20864 were determined based on the interim consolidated financial statements as at and for the six month period ended 30 June 2012 and 30 June 2011 and the consolidated IFRS EU financial statements as at 31 December 2011, while the ratios for loan agreement 906 were determined based on these consolidated IFRS EU financial statements as at 31 December 2012.

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<br>EBRD 906 | 1.16<br>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 to be fully repaid during 2013.*

As at 31 December 2011, 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 | EBRD 906 | 1.19 |
| Current liquidity ratio | Minim 1.2 | EBRD 906<br>IBRD 7181<br>EBRD 33354 | 1.10<br>1.10<br>1.10 |
| Debt service covering ratio | Minim 1.3<br>Minim 1.5 | EBRD 906<br>EBRD 33354 | 1.13<br>1.13 |

**The financial ratios were computed based on the 2011 IFRS EU financial statements as at and for the year ended 31 December 2011*

As at 31 December 2012, the current liquidity ratio determined based on the separate financial statements is 1.21, this being the lower limit at which this ratio is met, the minimum value of the ratio according to IBRD 7181 and EBRD 33354 loan agreements is 1.2.

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.

The management of the Group believes that the long term liabilities in amount of 64,551 as at 31 December 2012, respectively 250,786 as at 31 December 2011 should not be classified as 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 Group and which were not part of the Group'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 Group so far, neither for breach of covenants nor for breach of any other contractual issues in the loan agreements. Therefore, the Group considers it is appropriate to classify the respective loans as long-term borrowings in the consolidated financial statements as at 31 December 2012, respectively as at 31 December 2011.

*Short term loans*

As at 31 December 2012 and 31 December 2011 the short term loans are as follows:

| | **31 December 2012** | **31 December 2011** |
|---|---|---|
| Current portion of the long term loans | 191,006 | 182,216 |
| Short term loans (credit lines) | 10,490 | 25,781 |
| Interest on long term and short term loans | 7,655 | 8,700 |
| **Total short term borrowings** | **209,151** | **216,697** |

As at 31 December 2012, the Group has two revolving credit lines, one contracted by Transelectrica from BRD Group Societe Generale SA for the administration of the high efficiency cogeneration scheme, with the maximum value of 150,000 and one revolving credit line through Smart subsidiary, contracted from ING Bank N.V. Bucharest Branch with a maximum value of 16,000.

As at 31 December 2012, the balance of credit line contracted by Transelectrica is 0, and the balance of the credit line contracted through Smart subsidiary with ING Bank N.V. Bucharest Branch is of 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 benefits to both employees - depending on length of service and seniority in the company - and former employees at retirement.

The benefits provided by the Group include the following:

• retirement awards ranging from 1 to 5 gross monthly base salary depending on the number of years of service in the Group on the date of retirement;
• jubilee premiums between 1 and 5 gross monthly base salary depending on the number of years experience within the Group;
• Free electricity paid after retirement of 1,800 kWh / year paid according to the collective labour agreement

Employee benefits obligations were determined by Mr. Silviu Matei - authorized actuary with authorization no. 1342/12.04.2007, under service contract no. 32/12.02.2013.

As at 31 December 2012 and 31 December 2011 the employee benefits obligations are follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Jubilee premiums | 12,012 | 11,019 |
| Retirement prizes | 8,284 | 8,158 |
| Free energy provided after retirement | 10,735 | 5,678 |
| Maternity premiums | 99 | 6 |
| **Total** | **31,130** | **24,861** |

At 31 December 2012 and 31 December 2011, the Group has a present obligation of employee benefits, as described in Note 3 q, amounting to 31,130 and 24,861 respectively. Estimation of these liabilities was made taking into account the following:

- interest rate published by the National Bank of Romania ("NBR") at December 31, 2012 and interest rates expected for future periods;
- 31 December 2012 inflation rate published by the National Statistics Institute ("INS") and the inflation rate for future periods;
- Electricity price at 31 December 2012 and the price expected for future periods;
- base salary at 31 December 2012 and estimated the actuarial base salaries for future periods (an annual increase of 3%);
- Number of employees at 31 December 2012 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 in 2008;
- actuary estimated discount rate of 6% for the next 5 years and 3.5% for subsequent

## 14. Trade and other liabilities

As at 31 December 2012 and 31 December 2011 trade and other liabilities are as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Energy suppliers | 503.262 | 888.637 |
| Suppliers of other activities | 49.198 | 74.044 |
| Suppliers of fixed assets | 128.284 | 139.194 |
| Liabilities towards employees | 8.409 | 10.600 |
| Other liabilities | 58.929 | 65.996 |
| **Total** | **748.082** | **1.178.471** |

As at 31 December 2012, the liability towards the energy suppliers includes the unpaid cogeneration bonus in the amount of 143,662 (140,349 at 31 December 2011).

The most important energy suppliers are: SC Hidroelectrica SA, SC Complex Energetic Oltenia SA, SC Electrocentrale Bucuresti SA, SC Complex Energetic Hunedoara SA and SC Complex Energetic Galati SA. As at 31 December 2012 and 31 December 2011, these suppliers represent 77% and 70% from the total energy suppliers.

Other liabilities in amount of 58.929 are represented by liabilities resulting from the administration of the high efficiency cogeneration scheme.

## 15. Income tax

The income tax expense consists of the following:

| | 2012 | 2011 Restated * |
|---|---|---|
| Current tax expense | 20,181 | 41,573 |
| Deferred tax | 470 | (2,105) |
| Changes in accounting policy (See Note 2e) | - | 781 |
| **Total** | **20,651** | **40,249** |

*See Note 2e

The current and deferred tax of the Group for 2012 is determined at a statutory rate of 16% (16% for 2011).

**Reconciliation of the effective tax rate:**

| | 2012 | 2011 Restated* |
|---|---|---|
| **Profit before income tax** | **68,527** | **175,747** |
| Income tax at statutory rate of 16% | 10,964 | 28,120 |
| Effect of non-deductible expenses | 15,287 | 12,399 |
| Effect of non-taxable income | (7,615) | (1,618) |
| Other effects | 2,015 | 1,348 |
| **Income tax** | **20,651** | **40,249** |

Deferred tax consists of the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 31 Dec 2012 | 31 Dec 2011* | 31 Dec 2012 | 31 Dec 2011* | 31 Dec 2012 | 31 Dec 2011* |
| Property, plant and equipment | - | (3,966) | 43,407 | 25,879 | 43,407 | 21,913 |
| Deferred income | (1,736) | (1,736) | - | - | (1,736) | (1,736) |
| Employee benefits | (3,262) | (3,978) | - | - | (3,262) | (3,978) |
| **Net tax (assets)/liabilities** | **(4,998)** | **(9,680)** | **43,407** | **25,879** | **38,409** | **16,199** |

Movement in deferred tax balances during 2011 and 2012 are as follows:

| Elements | Balance 1 January 2011 | Recognised in profit or loss | Tax recognised directly in OCI | Balance 31 December 2011 | Recognised in profit or loss | Tax recognised directly in OCI | Balance 31 Dec 2012 |
|---|---|---|---|---|---|---|---|
| Property, plant and equipment | 19,521 | (1,958) | 4,350 | 21,913 | (245) | 21,739 | 43,407 |
| Deferred income | (1,848) | 112 | - | (1,736) | - | - | (1,736) |
| Employee benefits | (4,500) | 522 | - | (3,978) | 715 | - | (3,262) |
| **Net tax (assets)/liabilities** | **13,173** | **(1,324)** | **4,350** | **16,199** | **470** | **21,739** | **38,409** |

| | 31 December 2012 | | 31 December 2011 restated* | | 31 December 2010 restated* | |
|---|---|---|---|---|---|---|
| | **Cumulative temporary differences** | **Deferred tax (asset) / liability** | **Cumulative temporary differences** | **Deferred tax (asset) / liability** | **Cumulative temporary differences** | **Deferred tax (asset) / liability** |
| Property, plant and equipment | 271,294 | 43,407 | 136,958 | 21,913 | 122,006 | 19,521 |
| Deferred income | (10,850) | (1,736) | (10,852) | (1,736) | (11,545) | (1,848) |
| Employee benefits | (20,395) | (3,262) | (24,861) | (3,978) | (28,127) | (4,500) |
| **Total** | **240,049** | **38,409** | **101,245** | **16,199** | **82,334** | **13,173** |

* See Note 2 (e).

## 16. Earnings per share

As at 31 December 2012 and 31 December 2011, the earnings per share were as follows:

| | 2012 | 2011 Restated* |
|---|---|---|
| **Consolidated net profit** | **47,876** | **135,498** |
| Number of ordinary shares at the beginning and at the end of the period | 73,303,142 | 73,303,142 |
| **Basic and diluted earnings per share (lei/share)** | **0.65** | **1.85** |

* See Note 2 (e).

## 17. Other tax and social security liabilities

As at 31 December 2012 and 31 December 2011 the other tax and social security liabilities are as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Contribution to social security fund | 5,653 | 5,813 |
| VAT payable | 9,189 | - |
| Tax on salaries | 1,951 | 1,803 |
| Other tax payable | 379 | 392 |
| **Total** | **17,172** | **8,008** |

## 18. Revenues

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

Revenues from electricity transmission and ancillary services have been computed using the tariffs approved through ANRE Orders no. 45 from 23 December 2010 and no. 19 from 25 March 2011.

The tariffs approved by the ANRE for 2012 and 2011 are as follows:

| | Average tariff for transmission services | Average tariff for system services |
|---|---|---|
| Order No. 45/2010 –for 01.01.2011-31.03.2011 | 18.77 | 20.75 |
| Order No. 19/2011– for 01.04.2011 -31.12.2012 | 18.77 | 10.21 |

The average tariff for electricity transmission has two components: the injection component (TG) and the extraction component (TL). During 2012 and 2011, the quantity of electricity delivered to consumers is as follows:

| | 2012 | 2011 |
|---|---|---|
| Quantity of electricity delivered to consumers (MWh) | 53,928,586 | 56,056,203 |

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

The revenues for 2012 and 2011 are as follows:

| | 2012 | 2011 Restated* |
|---|---|---|
| Revenues from electricity transmission | 1,024,866 | 1,055,875 |
| Revenues from the allocation of the interconnection capacity | 50,196 | 54,128 |
| Revenues from reactive energy | 3,910 | 4,915 |
| Inter TSO Compensation (ITC) revenues | 1,242 | 268 |
| **Total Revenues from electricity transmission** | **1,080,214** | **1,115,186** |
| | | |
| Revenues from functional ancillary services | 57,707 | 59,977 |
| Revenues from technological ancillary services | 506,999 | 719,253 |
| Revenues from unplanned exchanges on DAM | 6,055 | 4,822 |
| **Total revenues from ancillary services** | **570,761** | **784,052** |
| Balancing market | 1,068,221 | 1,189,434 |
| Other revenues | 81,830 | 63,667 |
| **Total revenues** | **2,801,026** | **3,152,339** |

***** *see Note 2 (e)*

*Revenues from electricity transmission*

During 2012 the revenues from the electricity transmission have decreased by 34,972 as compared to 2011 as the electricity consumption decreased by more than 2 TWh, while the transmission tariff was equal with the one from 2011.

*Revenues from ancillary services*

During 2012 the revenues from ancillary decreased by 213,293 as compared to 2011 as the electricity consumption decreased, the tariff for ancillary services was equal with the one from 2011 and due to cogeneration reserve (technological ancillary service).

During the first semester of 2011, the revenues from technological ancillary services included the high efficient cogeneration reserve, while starting with 1 April 2011 by applying the provisions of the Government Decision No. 1215/2009 regarding the bonus support scheme for promoting high-efficiency cogeneration based on the demand for thermal energy, this ancillary reserve was not anymore included in the ancillary services. The Company, as administrator of this scheme, collects on a monthly basis the contribution for high efficiency cogeneration from the suppliers of the electric energy consumers in a separate bank account from the core activity and pays the producers of electricity and thermal energy of high efficient cogeneration, beneficiaries of the support plan.

*Revenues from balancing market*

During 2012 the revenues from balancing market decreased by 121,213 as compared to 2011determined by the level of transactions made by the participants on this market (non-profit activity of the company).

## 19. System operating expenses and Balancing Market expenses

During 2012 and 2011 the system operating and balancing market expenses are as follows:

| | 2012 | 2011 |
|---|---|---|
| Expenses with its own technological consumption | 252,390 | 251,538 |
| Congestion costs | 6,193 | 687 |
| Electricity consumption in TES stations | 17,348 | 15,394 |
| Expenses with functional ancillary services | 21,587 | 12,733 |
| ITC expenses | 13,460 | 10,110 |
| **Total operating expenses** | **310,978** | **290,462** |
| | | |
| Expenses with technological ancillary services | 522,876 | 681,120 |
| Balancing market expenses | 1,068,221 | 1,189,434 |
| | | |
| **Total** | **1,902,075** | **2,161,016** |

*Expenses with its own technological consumption*
These are represented by the expenses incurred to maintain under voltage the electricity transmission facilities and the electricity transmission through the interconnected transmission network.

*Congestion costs*
The increase of these expenses in 2012 compared to 2011 with the amount of 5,506 were determined by the withdrawal from exploitation by Ukraine of OHL 400 kV Rosiori-Mukacevo, which was not scheduled and required to dispatch the load to ensure the stability of NES.

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

In 2012 these expenses increased compared to 2011 with 8,856, determined by the increase of energy produced by the wind farms. This has led to higher unplanned exchanges than the agreed schedule, in terms of export, due to the inability to balance the production-consumption balance + foreign exchanges. The wind farms generated energy at full capacity, as there were no rules to reduce their present 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.

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

*Expenses with the technological ancillary services*
In 2012, the technological ancillary services decreased as compared to 2011 by 158,244. The value of ancillary services was lower in 2012 as compared to 2011 due to the provisions of the GD no.1215/2009 (see Note 18).

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

## 20. Other operating expenses

| | 2012 | 2011 |
|---|---|---|
| Other third party services | 58,213 | 77,794 |
| Expenses with VAT and others accessories paid to ANAF (see Note 8) | - | 22,221 |
| Postage and telecommunications | 7,920 | 7,708 |
| Rent | 12,886 | 11,546 |
| Impairment of trade receivables | 33,230 | 8,714 |
| Compensations | 38 | 4,413 |
| Others | 56,891 | 48,151 |
| | **169,178** | **180,547** |

## 21. Net finance result

| | 2012 | 2011 |
|---|---|---|
| Interest income | 6,270 | 10,705 |
| Foreign exchange gains | 77,442 | 104,695 |
| Other financial income | 2,003 | 2,240 |
| **Finance income** | **85,715** | **117,640** |
| Foreign exchange losses | (97,681) | (118,282) |
| Interest expense | (32,268) | (33,035) |
| **Total financial expenses** | **(129,949)** | **(151,317)** |
| **Net financial result** | **(44,234)** | **(33,677)** |

## 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 2012 and 31 December 2011, the Group had commitments given amounting to 467,432 and 304,392 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 of deeds of 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 253 litigations in progress. In 182 of them the Group acts as a plaintiff or a challenging party, while in 103 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 consolidated financial statements.

Based on the information available, the management considers that there are no significant litigations in progress in which the Group is defendant, except the litigation mentioned below with Eolica Dobrogea SRL.

At the Bucharest Court of Appeal were registered two files, no. 10870/2/2011 and 1049/2/2012, having the same object, in which Eolica Dobrogea SRL, through its administrator Corneliu Dica, has sued the Company, together with ANRE. In file no. 10870/2/2011, Eolica Dobrogea SRL also sued Mr. Horia Hahaianu, as an individual, in his quality as General Manager of the Company at that moment and Mr. Corneliu Ene, as an individual, in his quality as Deputy General Manager of the Company.

The two files had as object the following:

- The cancelation of a notice issued by the Company on 16 December 2011, through which was rejected the request of Eolica Dobrogea SRL to conclude the minute to attest the accomplishment of the suspensive conditions according to the provisions of the contract no. C 63/18.02.2011, for connection to NES of the 600 MW Wind Power Plant located in Cogealac, Constanta county, through the extension of the 400 kv TariVerde Power Station;
- The ascertainment of the fulfilment, in the contractual time, of the suspensive conditions stipulated in the above mentioned connection contract and, in addition, forcing the Company to execute the above mentioned contract and to start the works according to the contract;
- Jointly forcing the Company (and Mr. Horia Hahaianu and Mr. Cornel Ene in file no. 10870/2/2011) for repairing the damage caused to Eolica Dobrogea SRL, by refusing to conclude the minute for the fulfilment of the suspensive conditions and to continue the execution of the connection contract, the estimated initial damage being estimated at EUR 118 million/year;

On 16 March 2012, the Bucharest Court of Appeal has decided that the two files mentioned above to be connected in one file. On 11 May 2012, Eolica Dobrogea has submitted to the Court the request to withdraw the claims in amount of EUR 118 million/year.

The Company has lost this claim, and on 8 February 2013, the Court has accepted the summon request, Transelectrica SA made an appeal, before the Court communicated its decision, based on art. 20 from Law 554/2004 suspending the execution as a result of the appeal.

The Company is involved in significant claims, as plaintiff, mainly for recovering of receivables (ex: Eco Energy, Petprod SRL, 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 ongoing disputes either by nature or by their value for which it is necessary to make the presentation of contingent assets or liabilities.

*(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 31,131 as of 31 December 2012.

*(v) Statutory revaluation reserves as at 31 December 2012*

As at 31 December 2012, Group statutory revaluation reserves are in amount of 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.

## 24. Group entities

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

| Entity | Country of Origin | 31 December 2012 % of total shares | 31 December 2011 % 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 at 1 November 2001. The share capital as of 31 December 2012 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 2012 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 2012 subscribed and fully paid by the Company was in amount of 1,083 subscribed and fully paid.

## 25. Related party transaction

*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. Electrica Furnizare SA, Electrica SA, Hidroelectrica SA, Complexul Energetic Oltenia, Electrocentrale Bucuresti, Nuclearelectrica SA etc ).

The transactions with other state owned companies in 2012 and 2011 are detailed below:

| | 2012 | 2011 |
|---|---|---|
| Sales | 1,180,563 | 1,486,496 |
| Purchases | 1,574,208 | 1,803,858 |

The balances with other state owned companies as at 31 December 2012 and 31 December 2011 are detailed below:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Trade receivables | 359,222 | 594,857 |
| Trade payables | 448,582 | 843,201 |

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 2012, the Company concluded 4 contracts for non reimbursable funds for four investment objectives. These contracts were concluded with ME, as Energy Intermediary Body in the name and for the Management Authority for the Sectoral Operational Programme "Increase of Economic Competitiveness". At 31 December 2012, the non reimbursable funds to be received amount to 65,083.

*ii) Compensation to key management personnel*

Compensation to key management personnel for their services is made up of a contractual salary and also termination and post employment benefits. These are detailed as follows:

| | 2012 | 2011 |
|---|---|---|
| Short-term employee benefits | 7,782 | 7,416 |
| Termination benefits | - | 148 |
| Post employment benefits | - | 31 |
| Other long-term benefits | 8 | - |
| **Total** | **7,780** | **7,595** |

## 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 income 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.

*Risk management framework*

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are audited.

The Company is considering managing the risk using an integrated risk management system in order to fulfil the legal requirements (OMFP 946/2005, OMFP 1389/2006) and other requirements related to BSE (Corporate Governance Code).

In 2011, the Company's risk management policy, the system and operational procedures regarding risk management were elaborated and the management was trained in risk management and internal control.

*Interest rate risk*

The Group's operating cash flows are impacted mainly by the changes in interest rates, due to the foreign long term borrowings the Group contracted. 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 interest rate profile of the Group's interest bearing financial instruments is:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Fixed rate instruments** | | |
| Financial liabilities | 312,346 | 326,569 |
| **Variable rate instruments** | | |
| Financial liabilities | 833,286 | 799,140 |

**Sensitivity analysis of interest rate**

An increase of 100 basis points in interest rates at the reporting date would have decreased the profit by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

| | Loss 31 December 2012 | Loss 31 December 2011 |
|---|---|---|
| RON | (462) | (652) |
| EUR | (7,374) | (6,566) |
| USD | (497) | (773) |
| **Total** | **(8,333)** | **(7,991)** |

A decrease of 100 basis points in interest rates at the reporting date would have increased the profit by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

| | Profit 31 December 2012 | Profit 31 December 2011 |
|---|---|---|
| RON | 462 | 652 |
| EUR | 7,374 | 6,566 |
| USD | 497 | 773 |
| **Total** | **8,333** | **7,991** |

*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 was as follows based on notional amounts:

| | Value | RON | EUR | USD | JPY |
|---|---|---|---|---|---|
| **31 December 2012** | | | | | |
| **Monetary assets** | 319,198 | 276,811 | 42,333 | 24 | 30 |
| Cash and cash equivalents | | | | | |
| **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)** |

| **31 December 2011** | **Value** | **RON** | **EUR** | **USD** | **JPY** |
|---|---|---|---|---|---|
| **Monetary assets** | | | | | |
| Cash and cash equivalents | 322,496 | 292,433 | 29,929 | 86 | 48 |
| **Gross balance sheet exposure** | **322,496** | **292,433** | **29,929** | **86** | **48** |
| **Monetary liabilities** | | | | | |
| Suppliers of fixed assets | (139,194) | (77,795) | (61,399) | - | - |
| Borrowings | (1,160,190) | (91,018) | (934,601) | (77,469) | (57,102) |
| **Gross balance sheet exposure** | **(1,299,384)** | **(168,813)** | **(996,000)** | **(77,469)** | **(57,102)** |

Trade receivables are denominated only in RON.

The Group has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposure.

The following significant exchange rates were used:

| | **Average rate** | | **Reporting date spot rate** | |
|---|---|---|---|---|
| | **31 December 2012** | **31 December 2011** | **31 December 2012** | **31 December 2011** |
| RON/ EURO | 4.4560 | 4.2377 | 4.4287 | 4.3197 |
| RON/ USD | 3.4682 | 3.0475 | 3.3575 | 3.3393 |
| RON/ 100 JPY | 4.3544 | 3.8283 | 3.8994 | 4.3178 |

**Sensitivity analysis of exchange rates**

A 10 percent strengthening of the RON against the following currencies at 31 December 2012 and 31 December 2011 would have increased profit by the amounts shown below. This analysis assumes that all other variables remain constant.

| | **Profit 31 December 2012** | **Profit 31 December 2011** |
|---|---|---|
| EUR | 98,721 | 96,576 |
| USD | 4,983 | 7,738 |
| JPY | 4,122 | 5,706 |
| **Total** | **107,826** | **110,020** |

A 10 percent weakening of the RON against the following currencies at 31 December 2012 and 31 December 2011 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 31 December 2012 | Loss 31 December 2011 |
|---|---|---|
| EUR | (98,721) | (96,576) |
| USD | (4,983) | (7,738) |
| JPY | (4,122) | (5,706) |
| **Total** | **(107,826)** | **(110,020)** |

*Credit risk*

The treatment of counterparty risk is based on internal and external success factors. The external success factors which contribute to the decrease of the risk in a systematic way are reorganisation of the energy market, privatisation of some of SC Electrica SA subsidiaries, liberalisation of the energy market and improving the market operation activity. The internal factors of success in managing the counterparty risk include diversifying of the clients' portfolio and diversifying the services portfolio.

Financial assets, which potentially subject this Group to credit risk, consist primarily of trade receivables and cash and cash equivalents. The Group has policies in place to ensure that sales of services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of impairment adjustment, represents the maximum amount exposed to credit risk.

Credit risk with respect to these receivables is limited, since these amounts are primarily due from state owned companies.

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

| | Carrying amount | |
|---|---|---|
| | 31 December 2012 | 31 December 2011 |
| **Financial assets** | | |
| Trade receivables | 717,264 | 1,143,738 |
| Cash and cash equivalents | 319,198 | 322,496 |
| Non reimbursable funds | 65,083 | - |
| Other receivables | 49,068 | 29,773 |
| | **1,150,613** | **1,496,007** |

The ageing of trade receivables at the reporting date was:

| | Gross 31 December 2012 | Impairment 31 December 2012 | Gross 31 December 2011 | Impairment 31 December 2011 |
|---|---|---|---|---|
| Neither past due nor impaired | 683,533 | - | 1,120,809 | - |
| Past due 1 – 30 days | 19,046 | - | 19,187 | - |
| Past due 31 – 90 days | 8,292 | - | 2,915 | 108 |
| Past due 90 – 180 days | 2,057 | 54 | 2,508 | 1,820 |
| Past due 180 –270 days | 4,420 | 3,337 | 2,665 | 2,530 |
| Past due 270 –365 days | 13,225 | 9,918 | 450 | 338 |
| More than one year | 63,427 | 63,427 | 45,948 | 45,948 |
| **Total** | **794,000** | **76,736** | **1,194,482** | **50,744** |

The ageing of other receivables at the reporting date was:

| | Gross 31 December 2012 | Impairment 31 December 2012 | Gross 31 December 2011 | Impairment 31 December 2011 |
|---|---|---|---|---|
| Neither past due nor impaired | 24,213 | - | 25,641 | - |
| Past due 1 – 30 days | 2,474 | 2,474 | 513 | - |
| Past due 31 – 90 days | 965 | 545 | 22,871 | 22,221 |
| Past due 90 – 180 days | 2,093 | 954 | 1,680 | - |
| Past due 180 –270 days | 848 | 224 | 590 | - |
| Past due 270 –365 days | 1,802 | 1,352 | 2,796 | 2,097 |
| More than one year | 65,222 | 43,000 | 15,882 | 15,882 |
| **Total** | **97,617** | **48,549** | **69,973** | **40,200** |

The Company recorded an allowance for bad debt for trade and other receivables, and for bankrupt clients. The biggest amounts recorded during 2012 were for Petprod SA (18,470) and for Complexul Energetic Hunedoara (4,970) (see Note 8). The movement in the allowance for doubtful debts in respect of trade receivables during the year is as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Balance at 1 January** | 50,774 | 48,504 |
| Impairment loss recognized | 26,543 | 7,070 |
| Amounts written off | (580) | (4,830) |
| **Balance at year end** | **76,737** | **50,744** |

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Balance at 1 January** | 40,200 | 11,002 |
| Impairment loss recognized | 8,387 | 29,198 |
| Amounts written off | (38) | - |
| **Balance at year end** | **48,549** | **40,200** |

The Group held cash and cash equivalents of 319,198 as at 31 December 2012 (31 December 2011: 322,496), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, mainly at BRD, Credite Europe Bank, BCR and Alpha Bank.

*Liquidity risk*

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Assets** | | |
| Monetary assets in RON | 1,091,544 | 1,465,924 |
| Monetary assets in foreign currency | 42,387 | 30,063 |
| | **1,133,931** | **1,496,007** |
| **Liabilities** | | |
| Monetary liabilities in RON | (808,387) | (1,216,097) |
| Monetary liabilities in foreign currency | (1,120,645) | (1,130,571) |
| | **(1,929,032)** | **(2,346,668)** |
| **Net monetary position in RON** | **2,83,157** | **249,847** |
| **Net monetary position in foreign currency** | **(1,078,258)** | **(1,100,508)** |

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

The following 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 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)** |
| | | | | | | |
| **31 December 2011** | | | | | | |
| **Financial liabilities** | | | | | | |
| Trade and other liabilities | (1,178,471) | (1,178,471) | (1,178,471) | - | - | - |
| Other tax and social security liabilities | (8,007) | (8,007) | (8,007) | - | - | - |
| Borrowings | (1,160,190) | (1,262,679) | (213,276) | (213,884) | (488,228) | (347,291) |
| **Total** | **(2,346,668)** | **(2,449,157)** | **(1,399,754)** | **(213,884)** | **(488,228)** | **(347,291)** |

As mentioned in Note 12, as at 31 December 2012, the Company did not meet certain financial indicators referring to loans EIB 20864 and EBRD 906. As at 31 December 2012, the long term portion of the loan EIB 20864 is of 64,551 and nil for loan EBRD 906. EIB may request by written notification the acceleration of repayment of this loan after a period of time during which the Group has the opportunity to remedy the matter. Loan EIB 20864 is guaranteed by the Romanian State. Please see in Note 12 the management's reasons for not reclassifying the long term liabilities as current liabilities for the loans mentioned earlier.

*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 2012, cash and cash equivalents, trade and other short term receivables. trade payables and other short term liabilities are close to their fair value due to their short due date. Management believes that the estimated fair values of these instruments approximate to their carrying amounts. The accounting value of the long term loans is an approximation of their fair value.

*Personnel risk and the salary scheme*

As at 31 December 2012, 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.

*Price risk related to the regulatory framework of NES*

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

- The regulatory framework is relatively new and prone to different changes. which may affect the Group's performance;
- ANRE decisions regarding future tariffs may affect the Group's operations;

*b) 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

*Extra taxation in the energy sector*

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 monopoly transmission activity. The tax should be applied during the period 1 February 2013 – 31 December 2014. The Company has to pay 0.1 lei/MWh for each MWh extracted from the transmission network and 0.85 lei/MWh for each MWh extracted from the transmission network and delivered to the final customer or to the export.

*Ownership structure*

On 21 March 2013, was published for consultation an emergency ordinance project which states that at the date it is effective, the shares held by the State in the Company will pass from the Ministry of Economy to the Ministry of Public Finance ("MFP"). This modification in the structure of the shareholders took into consideration the necessity for obeying the principles regarding the separation of 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 through Directive 2009/72/EC of the European Parliament and of the Council from 13 July 2009 regarding the common norms for the internal electricity market and for the repeal of the Directive 2003/54/EC, and at the level of the national legislation through provisions of the electricity and natural gas law no 123/2012.

Also, this draft ordinance authorizes MFP and ME to initiate and approve, as appropriate, all necessary steps to transfer the shares held by the Company in "Electricity Market Operator" SA - SC OPCOM and Formenerg SA in the state's ownership and management of ME, in compliance with legal provisions. As at 31 December 2012 the value of the Company's investment at historic cost in OPCOM amounts to 3.548 and in Formenerg 1.948.

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# Independent Auditors' Report
# (free translation[1])

To the Shareholders of
C.N.T.E.E. Transelectrica S.A.

## Report on the consolidated financial statements

1 We have audited the accompanying consolidated financial statements of C.N.T.E.E. Transelectrica S.A. ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

2 The management of the Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards as endorsed by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing as adopted by the Chamber of Financial Auditors of Romania. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatements.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

[1] TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version.

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Fiscal registration code
RO12997279
Trade Registry
no.J40/4439/2000
Share Capital 2,000 RON

5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

*Basis for Qualified Opinion*

6 As described in Note 12 to the accompanying consolidated financial statements, as at 31 December 2012 the Group has the long-term loan no. 20864 from the European Investment Bank. As at 31 December 2012 the Group did not comply with certain financial indicators stipulated in the loan agreement. The European Investment Bank may request by written notification the acceleration of repayment of this loan after a period of time during which the Group has the opportunity to remedy this matter. Therefore, long term liabilities of RON 64,551 thousand should be presented in the consolidated statement of financial position as at 31 December 2012 as short term liabilities in accordance with the International Accounting Standard ("IAS") 1 "Presentation of Financial Statements".

Our audit report on the consolidated financial statements as at and for the year ended 31 December 2011 was also qualified as a result of non-compliance as at that date with certain financial indicators related to long-term loans contracted from the European Bank for Reconstruction and Development and the International Bank for Reconstruction and Development. Accordingly, long term liabilities of RON 250,786 thousand should have been presented as short term liabilities as at 31 December 2011 in accordance with IAS 1 "Presentation of Financial Statements".

*Qualified Opinion*

7 In our opinion, except for the effects of the matters described in paragraph 6, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2012, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

*Emphasis of Matter*

8 Without further qualifying our opinion, we draw attention to:

a) Note 2 e) to the accompanying consolidated financial statements, which describes that during 2012 the Group changed its accounting policies regarding the transfer of revaluation reserve to retained earnings and revenue recognition of connection fees with retrospective application.

b) Note 27 to the accompanying consolidated financial statements, which describes that on 21 March 2013 an emergency ordinance project was published for consultation, which started to be effective on 1 April 2013, and which states that at the date it is effective, the management of the shares held by the State in the Company will pass from the Ministry of Economy ("ME") to the Ministry of Public Finance ("MFP"). Also, this ordinance authorizes MFP and ME to initiate and approve, as appropriate, all necessary steps to transfer the shares held by the Company in S.C. "Operatorul Pietei de Energie Electrica" S.A. - OPCOM and S.C. Formenerg S.A. in the State's ownership and management of ME, in compliance with legal provisions.

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*Other Matters*

9 This independent auditors' report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for the report on consolidated financial statements and the report on conformity of the Directorate's Report, or for the opinion we have formed.

**Report on conformity of the Directorate's Report with the Consolidated Financial Statements**

In accordance with the Order of the Minister of Public Finance no 1286/2012 and related amendments, article 30 letter c) of the accounting regulations in accordance with International Financial Reporting Standards applicable for listed entities on regulated markets, we have read the Directorate's Report attached to the consolidated financial statements. The Directorate's Report is not a part of the consolidated financial statements. In the Directorate's Report we have not identified any financial information which is not in accordance, in all material respects, with the information presented in the accompanying consolidated financial statements.

**Refer to the original signed Romanian version**

**For and on behalf of KPMG Audit SRL:**

**Razvan Mihai**

registered with the Chamber of Financial Auditors of Romania under no 2561/2008

registered with the Chamber of Financial Auditors of Romania under no 9/2001

Bucharest, 9 April 2013